EXPOBANK A.D. BELGRADE

Financial statements
for the year ended Decembar 31, 2017
and Independent Auditor's report

TABLE OF CONTENTS

Ernst & Young d.o.o. Beograd
Španskih boraca 3
11070 Beograd, Srbija

Tel: +381 11 2095 800
Fax: +381 11 2095 891
ey.com/rs

Building a better working world

This is an English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT
TO THE OWNERS OF EXPOBANK A.D. BEOGRAD

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Building a better working world

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Bank. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the financial statements of the Bank for the year ended 31 December 2017.

Other matter

The financial statements of the Bank for the year ended 31 December 2016 were audited by another auditor who expressed a qualified opinion due to valuation of investment properties on those statements on 4 April 2017.

Belgrade, 26 March 2018

Stephen Fish
For Ernst & Young d.o.o. Beograd

Jelena Čvorović
Jelena Čvorović
Authorised Auditor

INCOME STATEMENT
Year Ended December 31, 2017
(Thousands of RSD)

	Note	2017.	2016. Corrected*
Interest income	6	766.316	1.005.816
Interest expenses	6	(182.877)	(371.794)
Net interest income		**583.439**	**634.022**
Fee and commission income	7	166.542	199.627
Fee and commission expenses	7	(33.688)	(49.699)
Net fee and commission income		**132.854**	**149.928**
Net profit / (loss) based on risk protection	8	2.643	172
Net gain / (loss) on the financial assets available for sale	9	652	-
Net foreign exchange expense/income and negative currency clause effects	10	7.399	(4.778)
Other operating income	11	2.020.039	81.868
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	12	156.005	109.331
Total operating income		**2.903.031**	**970.543**
Staff costs	13	(414.569)	(469.003)
Depreciation and amortization charge	14	(76.912)	(88.394)
Other expenses	15, 3.1	(580.684)	(1.602.144)
Profit before taxes		**1.830.866**	**(1.188.998)**
Profit / (loss) on deferred taxes	16, 3.1	(22.981)	37.349
NET PROFIT / (LOSS) OF CURRENT YEAR		**1.807.885**	**(1.151.649)**
NET PROFIT / (LOSS) CURRENT YEAR		**1.807.885**	**(1.151.649)**
Earnings per share	17	**159**	**(104)**

Notes on the following pages
form an integral part of these financial statements.
* Certain amounts presented here do not match the amounts from the 2016 report and reflect the corrections entered (Note 3.1).
These financial statements were approved by the Executive Board of Expobank A.D, Belgrade on March 26, 2018.

Signed on behalf of Expobank A.D. Belgrade by:

Dragana Radaković
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2017
(Thousands of RSD)

	2017.	2016. Corrected*
PROFIT/(LOSS) FOR THE YEAR	**1.807.885**	**(1.151.649)**
Components of other results that can not be reclassified to profit or loss::		
Unrealized losses on the basis of equity interest in other financial organizations	-	(322)
The effect of changing the fair value of financial assets available for sale	58.098	-
Reduction of revaluation reserves based on selling fixed assets	(2.944)	-
Actuarial gains/ (losses)	(224)	93
Total positive/(negative) income for the year	54.930	(229)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1.862.815**	**(1.151.878)**

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

* Certain amounts presented here do not match the amounts from the 2016 report and reflect the corrections entered (Note 3.1).

These financial statements were approved by the Executive Board of Expobank A.D. Belgrade on March 26,2018.

Signed on behalf of Expobank A.D. Belgrade by:

Dragana Radaković
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

BALANCE SHEET
As of December 31, 2017
(Thousands of RSD)

	Note	2017.	2016. Corrected*
Assets			
Cash and cash funds held with the central bank	18	1.884.298	4.020.579
Financial assets available for sale	19	2.538.041	-
Loans and receivables due from banks and other financial institutions	20	64.562	3.778.752
Loans and receivables due from customers	21	9.529.386	10.071.784
Claims based on financial derivatives protection against risk		2.736	-
Intangible assets	22	51.688	89.574
Property, plant and equipment	23	309.536	393.019
Investment property	24, 3.1	201.636	648.757
Current tax assets		1.325	1.325
Deferred tax assets	3.1	-	10.263
Other Assets	25	415.923	463.822
TOTAL ASSETS		**14.999.131**	**19.477.875**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities based on financial derivatives protection against risk		134	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	26	4.556.647	7.188.174
Deposits and other liabilities due to customers	27	6.510.773	9.552.137
Treasury shares and other borrowed funds		-	123.053
Subordinated liabilities		-	622.506
Provisions	28	24.498	30.121
Deferred tax liabilities	29, 3.1	12.717	-
Other liabilities	30	101.323	154.712
TOTAL LIABILITIES		**11.206.092**	**17.670.703**
EQUITY			
Share capital	31	8.549.095	8.426.043
Gain/(Loss)	31	(5.226.959)	(7.036.431)
Reserves	31	470.903	417.560
TOTAL CAPITAL		**3.793.039**	**1.807.172**
TOTAL LIABILITIES AND EQUITY		**14.999.131**	**19.477.875**

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

* Certain amounts presented here do not match the amounts from the 2016 report and reflect the corrections entered (Note 3.1).

These financial statements were approved by the Executive Board of Expobank A.D., Belgrade on March 26, 2018.

Signed on behalf of Expobank A.D., Belgrade by:

Dragana Radaković
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 2017

	Share and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves and unrealized losses	(Loss)/Gain	**Total**
Opening balance at 1 January 2016	5.548.556	2.877.487	151.673	266.116	(5.884.782)	2.959.050
Current year loss	-	-	-	-	(957.175)	(957.175)
Neto korekcija investicionih nekretnina (napomena 3.1)Net correction of investment property (Note 31)	-	-	-	-	(194.474)	(194.474)
Corrected loss of current year (Note 3.1)	-	-	-	-	(1.151.649)	(1.151.649)
Other comprehensive income	-	-	-	-	-	-
Actuarial losses	-	-	-	93	-	93
Unrealised losses due to share in equity of other financial organizations	-	-	-	(322)	-	(322)
Other total result of the period	-	-	-	(229)	-	(229)
Balance as at December 31, 2016	-	-	-	(229)	(1.151.649)	(1.151.878)
Corrected balance as at December 31, 2016	**5.548.556**	**2.877.487**	**151.673**	**265.887**	**(7.036.431)**	**1.807.172**
Opening balance as at December 31, 2017	**5.548.556**	**2.877.487**	**151.673**	**265.887**	**(7.036.431)**	**1.807.172**
Profit of the current year	-	-	-	-	1.807.885	1.807.885
Other comprehensive income	-	-	-	-	-	-
Transfer from revaluation reserves based on sales of buildings	-	-	-	(2.944)	-	(2.944)
Effect of change in fair value based on financial assets available for sale	-	-	-	58.098	-	58.098
Actuarial losses	-	-	-	(224)	-	(224)
Other comprehensive income of the period	-	-	-	54.930	-	54.930
Total result of the period	-	-	-	54.930	1.807.885	1.862.815
Transfer from reserve to result due to cancellation of reseves	-	-	-	(1.587)	1.587	-
Transfer from preferential to ordinary shares	123.052	-	-	-	-	123.052
Balance as at December 31, 2017	**5.671.608**	**2.877.487**	**151.673**	**319.230**	**(5.226.959)**	**3.793.039**

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

* Certain amounts presented here do not match the amounts from the 2016 report and reflect the corrections entered (Note 3.1).

These financial statements were approved by the Executive Board of Expobank A.D., Belgrade on March 26, 2018.

Signed on behalf of Expobank A.D., Belgrade by:

Dragana Radaković
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

CASH FLOW STATEMENTS
For the period from 1 January to 31 December 2017
(Thousands of RSD)

	2017.	2016.
OPERATING ACTIVITIES		
Cash inflows from operating activities	**1.496.989**	**2.253.061**
Inflows from interests	746.472	1.267.764
Inflows from fees and commissions	166.569	235.594
Inflows from other operating activities	583.948	749.703
Cash outflows from operating activities	**(1.020.390)**	**(1.387.514)**
Outflows from interests	(201.325)	(358.221)
Outflows from fees and commissions	(33.940)	(49.820)
Outflows from gross salaries, wages and other personal expenses	(457.053)	(505.896)
Outflows from taxes, contributions and other duties charged	(110.134)	(155.490)
Outflows from other operating expenses	(217.938)	(318.087)
Net cash inflow / (outflow) from operating activities before increase or decrease in loans and deposits	**476.599**	**865.547**
Decrease in loans and increase in deposits and other liabilities	**4.971.870**	**1.283.766**
Decrease in loans and receivables from banks and other financial institutions, the central bank and customers	4.971.870	1.283.766
Increase in loans and decrease in deposits and other liabilities	**(3.655.196)**	**(969.694)**
Increase of assets initially recognized at fair value through IS, assets intended for trading and other HOVs not intended for financing	(1.514.673)	-
Decrease in deposits and other liabilities due to banks, other financial institutions, central banks and customers	(2.140.523)	(969.694)
Net cash inflow/outflow from operating activities before income tax	**1.793.273**	**1.179.619**
Paid income tax	-	-
Net cash inflow/outlow from operating activities	**1.793.273**	**1.179.619**
INVESTMENT ACTIVITIES		
Inflows/(outflows) from the sale/(purchase) of intangible assets, property, plant and equipment	107.061	(25.659)
Other outflows from investment activities	(1.170.453)	(59.691)
Net cash outflow from investment activities	**(1.063.392)**	**(85.350)**
FINANCING ACTIVITIES		
Inflows/(outflows) from borrowings, net	(2.180.228)	(781.933)
Net cash inflow/(outflow) from financing activities	**(2.180.228)**	**(781.933)**
TOTAL CASH INFLOWS	**6.575.919**	**3.536.827**
TOTAL CASH OUTFLOWS	**8.026.266**	**3.224.491**
NET CASH INCREASE/DECREASE	**(1.450.347)**	**312.336**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2.105.915	1.945.001
FOREIGN EXCHANGE LOSSES, NET	307.781	(151.422)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**963.349**	**2.105.915**

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

These financial statements were approved by the Executive Board of Expobank A.D., Belgrade on March 26, 2018.
Signed on behalf of Expobank A.D., Belgrade by:

Dragana Radaković
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

1. GENERAL BANK INFORMATION

Expobank A.D. Belgrade was founded on 28 December 1990. The Bank was registered according to the Law on Banks for performing payment transactions in the country and abroad and credit and deposit transactions in the country.

The Bank's headquarter is located in Belgrade, at 22 Dalmatinska Street, where the Main Office of the Bank is also located. The business network of branch offices, business units and cash desks as at 31 December 2017 is comprised of 7 organization units (31 December 2016: 18 organization units).

As at 31 December 2017, the Bank had 174 employees (31 December 2016: 288 employees), while the average number of employees in 2017 was 218 (in 2016: 287).

The Bank's company ID no. is 07534183, and the tax identification number 100003148.

With the Decision of the Business Registers Agency BD 75207/2014 dated 09 September 2014, Georgios Phiniotis was appointed as the member of the Bank's Executive Board. The aforementioned member of the Board performed at the function, until the decision of the Business Registers Agency BD 25736/2017 dated March 28, 2017 was obtained, by which Ernst Bekker was appointed a replacement member of the Executive Board of the Bank.

With the Decision of the Business Registers Agency BD 82147/2014 dated 02 October 2014, Borislav Strugarević was appointed as the Chairman of the Executive Board instead of Eleftherios Papaeracleous.

On December 31, 2017. the members of the Executive Board are: Borislav Strugarević and Ernst Bekker.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENT

2.1. Basis for preparation and presentation of financial statements

The Bank prepares financial statements in accordance with the accounting regulations relevant in the Republic of Serbia, as well as the legislature of the National Bank of Serbia. According to the Law on Accounting, the banks are oblidged to perform bookkeeping and prepare financial statements consistent with International Acounting Standards (IAS). The financial statements are presented in the form determined by the Deccision on forms and contents of positions in financial statements for the banks' forms. Financial statements are compiled in accordance with International Financial Reporting Standards (IFRS). The statements were prepared on a historical cost basis, modified by the revalorization of financial investments available for sale, financial assets and liabilities presented at fair value through income statement.

2.2. New and ammended standards and interpretations
Ammendments to IFRS obligatory in the current year

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of January 1, 2017:

- ***IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)***

The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments were not applicable for the Bank.

- ***IAS 7: Disclosure Initiative (Amendments)***

The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2. New and ammended standards and interpretations Ammendments to IFRS obligatory in the current year

The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Amendments were not applicable for the Bank.

- The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Bank's financial statements.
- IFRS 12 Disclosure of Interests in Other Entities: The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

2.3. Standards issued but not yet effective and not early adopted

- ***IFRS 9 Financial Instruments: Classification and Measurement***

The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The final version of IFRS 9 Financial Instruments: Recognition and measurement, combines all three aspects of financial instruments accounting: classification and measurment, impairment and hedge accounting and replaces IAS 39. In addition to hedge accounting, retroactive application is neccessarry , while disclosure of comparative data is not obligatory. In terms of hedge accounting, the requirements are generally applied prospectively, with some limited exemptions.

- ***IFRS 15 Revenue from Contracts with Customers***

The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- ***IFRS 15: Revenue from Contracts with Customers (Clarifications)***

The Clarifications apply for annual periods beginning on or after January 1, 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards issued but not yet effective and not early adopted (continued)

- ***IFRS 16: Leases***

The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

• Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

• IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

• IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

• IAS 40: Transfers to Investment Property (Amendments)

The Amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards issued but not yet effective and not early adopted (continued)

- ***IFRS 9: Prepayment features with negative compensation (Amendments)***

The Amendments are effective for annual reporting periods beginning on or after January 1,2019 with earlier application permitted. The Amendments allow financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (in a way that, from the perspective of the holder of the asset, there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- ***IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)***

The Amendments are effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRIC interpretation 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards issued but not yet effective and not early adopted (continued)

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

The Interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12.

The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that, when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. On the other hand, the amendments to IFRS 11 clarify that, when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.

- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits have been recognized.

- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard - when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

IFRS 9 „Financial instruments“

In July 2014, the International Accounting standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after January 1, 2018. In 2016 the Bank set up a project to implement IFRS, during which the Bank has analysed the effects of IFRS 9 on different processes, including accounting of financial instruments, risk evaluation, IT system, funds placement, development of new products and so on. Bank has engaged consultants to help IFRS 9 to be successfully implemented and the following phases have been conducted:
- Business model estimation;
- Classification and measurement;
- Impairment of financial assets and fair value calculation.

Classification and measurement

From a classification and measurement perspective, the new standard will require 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.

According to IFRS 9, financial assets will be measured in one off the following methods: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). The Standard eliminates existing categories under IAS 39, "Recognition and Measurement", held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Ownership instruments, in non-dependent entities that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards issued but not yet effective and not early adopted (continued)

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- the goal of a business model of holding a financial asset is the collection of contracted cash flows and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

- The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement.

IFRS requires that all financial assets, other than derivatives and equity instruments, be analyzed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

The Bank has started the analysis of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent only the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

Based on the conducted analysis, the Bank does not expect that the new classification requirements will materially impact the accounting recognition of receivables, loans, investments in debt securities and equity instruments. The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other Other comprehensive income.

Taking into account the nature of the Bank's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards issued but not yet effective and not early adopted (continued)

Impairement of financial assets

In accordance with IFRS 9, impairment methodology is significantly changing and replacing IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank defined the criteria for classifying financial instruments into levels 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments that are valued at fair value through other comprehensive income.

Segment 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Segment 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

Segment 2

All financial instruments in which credit risk exacerbation is realized are classified in Segment 2 and impairment allowance are calculated on the basis of expected losses for the entire life of the instrument.
The Bank is considering whether there is a significant increase in credit risk by comparing the lifetime probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be a delay of 31 to 90 days, customer restructuring, and clients on the watch list.
In the initial implementation phase, the Bank failed to develop a valid regression model that would confirm a stable relationship between the movement of loss rates and the macroeconomic variables. It is the intention of the Bank to develop a valid model in the following period, which will confirm a stable relationship between these variables.

Segment 3

As in accordance with IAS 39, financial instruments are included in Segment 3, where there is objective evidence of impairment and there is no change in the coverage of loans classified in that segment, with the introduction of multiple collection scenarios. The impairment calculation on an individual basis will continue on the same principle.

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9, performed with the help of a consultant. The preliminary effects of the impact of applying the new standard on the financial statements are calculated and their validation is in progress.

On the day of issuing these financial statements, the activities of completing the implementation of the standards in the Bank are still in progress. The Bank is in the process of improving internal documents and internal controls as well as a new system for calculation of provisions.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4. Comparative information

Comparative information in these financial statements represents information from the Bank's financial statements for the year 2016, which have been corrected in certain positons (note 3.1).

2.5. Use of estimates

Preparation of financial statements in accordance with IFRS requires the management to use the best possible estimates and reasonable assumptions, which have an effect on the implementation of accounting policies and on the presented amounts of assets and liabilities, as well as income and expense. The actual value of assets and liabilities may deviate from the value assessed in such a manner. 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 5.

2.6. Statement of compliance

The Bank's financial statements are compiled in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

In preparing these financial statements the Bank applied the accounting policies disclosed in Note 3.

2.7. Going concern

The Bank's financial statements have been prepared on a going concern basis, which means that the Bank will continue to operate in the foreseeable future, subject to the matters disclosed below and in Note 36, Events after the date of reporting period.

2.7.1 The Bank's position and environmental influence

During the reporting period, the Bank was confronted with dynamic changes in the business that led to substantial changes in terms of organization of the Bank's business and capital. Following the continuity of the events, the review of the significant changes is practically initiated by the submission of the Bank of the National Bank of the Republic of Serbia No. Nr. 5205 dated July 1, 2016, by which the NBS instructed the Bank to contact potential buyers in order to reach the latest by July 31, 2016. its majority shareholder has completed activities related to the conclusion of a contract for the sale of its participation in the Bank.

By acting on the said Decision at that time, the majority owner of the Bank signed the Memorandum of Understanding with the potential buyer on July 29, 2016, which resulted in the signing of the Sale and Purchase Agreement of the shares of Marfin Bank AD Beograd (hereinafter referred to as the Agreement for the Sale and Purchase of Shares in Marfin Bank JSC Belgrade - text: SPA) 09/30/2016. between the seller Cyprus Popular Bank Public CO LTD, Bank of Cyprus CO LTD and buyer Expobank CZ A.S.

Realization of the SPA (Purchase Agreement for Sale of Shares Out of Regulated Market No. UOP: 1144-2017 dated 28.02.2017) and the Subsidiary Agreements (Carve-out, Transfer Agreement, Discount Protocol), which regulate the transfer and coverage of risk on problem loans, and the status of the remaining sources of financing from the Bank of Cyprus, carried out on 28.02.2017. resulted in:

- Reducing the high concentration of financing sources by repaying a portion of Bank of Cyprus claims in the amount of 16,739,354.75 and writing off part of the same total claim in the amount of EUR 15,770,000 as a result of the execution of the concluded Discount Protocol.
- Reducing the high level of problem loans in the Bank's portfolio by transferring receivables in accordance with the Carve-out Sale Agreement in the amount of RSD 1.814.801.342,00, which is equivalent to EUR 14,645,841.27 as of 28.2.2017. Mr. as well as the sale of the acquired real estate in the amount of EUR 2.089.918,94.
- Changing the structure of the Bank's capital registered in the Central Securities Depository on 28.2.2017. Mr. ie the registration of EXPOBANK CZ A.S. as the owner of 100% of the Bank's issued financial instruments.
- By decision of the Shareholders Assembly of the Bank held on 28.2.2017. on the dismissal and appointment of the Chairman and members of the Board of Directors of the Bank, in accordance with the obtained approval of the NBS.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.7. Going concern (continued)

2.7.1 The Bank's position (continued)

The previous condition for the implementation of the SPA was the enforcement of the forced purchase of shares from minority shareholders, which was completed in February 2017, and by the acquisition of SPA, Expobank CZ A.S became the owner of 100% of the Bank's shares.

CHANGING ORGANIZATIONAL STRUCTURE - During April and May 2017, the organizational structure of the Bank was changed and a redundancy redundancy program was implemented, with the effect that the branch network of the Bank was reduced from 18 branches to 7 branches and the number of employees on 30.06.2017. reduced to 180 (previously 277 employees).

CHANGE OF THE NAME OF THE BANK - starting from 19.06.2017. The Bank operates under the name Expobank Joint Stock Company Belgrade (shortly: Expobank AD Belgrade) and after the adequate change of the Statute and the Decision on Establishment, as well as the registration with the Agency for Business Registers, which included the changes resulting from the realization of the SPA.

INCLUDING CURRENT PROFITS IN THE BASIC CAPITAL OF THE BANK - How the Bank is in the period 01.01.- 28.02.2017. The Bank's Shareholders Assembly made a decision to allocate the current profit in the amount of 1.500.000.000,00 RSD to the share capital of the Bank in accordance with point 11, paragraph 2 of the Decision on the capital adequacy of the Bank ("Official Gazette of RS "No. 72/2003, 55/2004 and 44/2010), and this decision of the Bank's Assembly shall enter into force upon the approval of the National Bank of Serbia.

INCLUDING REVALUATION RESERVES OF THE BANK ACCOUNT OF THE BASIC SHAREHOLDER CAPITAL - In accordance with paragraph 31, paragraph 10 of the Decision on the capital adequacy of the Bank ("Official Gazette of the Republic of Serbia" No. 103/2016) on June 20, At the end of the year, the decision of the Shareholders Assembly of Expobank ad Beograd was adopted to revalorize reserves, which on May 31, in the amount of RSD 266,530,637.63 and formed on the basis of the estimated estimates of fixed assets value from 2004 2005 and 2007, are included as an element in the calculation of the basic share capital of the Bank, starting from June 30, 2017. and after the expiration of 30 days from the date when the National Bank of Serbia was informed of this intention.

TRANSFER OF SUPPLEMENTARY CAPITAL IN THE BASIC SHAREHOLDER CAPITAL - In order that all the Bank's shares, which are 100% owned by one shareholder, would be included in the calculation of the basic share capital, which simultaneously improves the quality of that part of the capital without changing the value of capital, the Shareholders Assembly of the Bank, consultations with the Central Securities Depository, made a number of decisions that achieve this goal, or at the same time annulled 246,105 pieces of preferential shares (decrease in capital) in the amount of 123,052,500.00 dinars and issue 246,105 ordinary shares in an identical amount of 123,052,500, 00 dinar for the purpose of increasing the share capital.

Consequently, the above-mentioned mechanism for the replacement of preferential shares by ordinary shares of the bank, was adopted and the Decision on the exclusion of the right of overwriting, having in mind that the Bank issues shares without publishing a prospectus in accordance with Article 12 of the Capital Market Act, and that the controlling shareholder shares representing 100% of the share capital or 100% of the votes. Mutual obligatory relations regarding the withdrawal / cancellation of preferential shares and the issuance of ordinary shares in the same issue and value. The bank and the controlling shareholder (EXPOBANK CZ as, Vitezna 126/1, PSČ 150 00, Czech Republic) regulated through the "Agreement on the Conversion of Debt to Equity" by which the Bank's practically debt to the shareholder, resulting from the cancellation of preferential shares, settles through the same number of ordinary shares in the same value, that is, the transaction is without any cash flow. This process was completed in November 2017.

All amounts are expressed in thousands of RSD except if indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in Accounting Estimates and Errors

As a result of the correction of the error, the Bank changed the situation and the result for 2016 year and made corrections as in the table below:

Review of adjustments in balance sheet positions			In RSD '000
	Before correction	Correction in 2016	Corrected state
Investment property	877,550	228,793	648,757
Deferred tax assets	-	10,263	10,263
TOTAL ASSETS	19,696,404	218,529	19,477,875
Deferred tax liabilities	24,055	24,055	-
Gain / Loss of previous years	6,841,957	194,474	7,036,431
TOTAL LIABILITIES AND EQUITY	19,696,404	218,529	19,477,875

Review of adjustments in the balance sheet items			In RSD '000
	Before correction	Correction in 2016	Corrected state
Other expenses	1,373,351	228,793	1,602,144
Profit from deferred taxes	3,030	34,319	37,349
Net loss	957,175	194,474	1,151,649

Based on the requirements of IAS 40 Investment properties, IFRS 13 Fair value measurement and IAS 8- Accounting policies, changes in accounting estimates and errors, the Bank has amended the valuation of investment properties.

Previous methodology for valuation of investment properties and reasons for the change

As of 31 December 2016, the Bank engaged local external appraiser for the valuation of investment properties.
The methodology and approach applied by the appraiser was not adequate for the following reasons:

- Unclear application of a cost method that is incompatible with international assessment standards;
- Market value based on a comparative approach that is adequately presented, but for the comparisons used, no correction has been made to reconcile differences, or there is not enough information on comparatives, or inadequate comparatives used;
- A combination of a comparative, yield and cost method where in the calculation by a comparative approach no weighting of the percentage participation of characteristics has been performed, although they are comparatives of different characteristics;
- A low discount rate for the object being assessed and the unrealistic assumption of occupancy were used in the EAR calculation;
- Applied market approach with certain ambiguities and methodological errors, without the use of a yield approach that would have been a more adequate approach to the assessment of a particular business facility.

Amended methodology for valuation of investment properties

At the beginning of 2017, the Bank engaged experienced and renomed appraiser company to reperform the valuation of investment properties as of 31 December 2016.
The new appraiser applied methodology that was in line with the International valuation standards. The approaches used by the appraiser were based on adequate application of valuation techniques (mainly market approach and in particular instances, income approach) depending of the type and the use of the property.
The effects of changes in the methodology for calculating the fair value of investment properties has been accounted for both in the current year and retrospective adjustment has been applied and the effects on prior year has been disclosed in the Investment property (Note 24) and equity-retained earnings (Note 31).
By the correction of previous reporting period, the Bank has applied the requirmenets of the IAS 8 which refers to the retrospective restatements of data due to correction of prior year error and disclosure for each line item of the financial statements to which it applies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Changes in Accounting Estimates and Errors (continued)

3.2. Foreign currency translations

Assets and liabilities denominated in foreign currency at the reporting date are translated into dinars at the middle exchange rate of the National Bank of Serbia effective at that date. Gains or losses arising from the translation of receivables and liabilities are credited or charged to the income statement.

Transactions in foreign currency are translated into dinars according at official exchange rate on the date of transaction. Net positive or negative exchange rate differences arising upon the translation of transactions in foreign currency and during translation of the balance sheet positions in foreign currency are credited or charged to the income statement as foreign exchange gains or losses.

3.3. Interest income and expenses

Interest income and expenses for all financial instruments bearing interest are recognized in the income statement as part of “interest income” and “interest expenses” by using the effective interest rate method.

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

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

Loan origination fees are accrued and amortised as interest income on a straight-line basis over the loan period. The accrual of fees on a straight-line basis does not significantly differ from the effective interest approach.

3.4. Fee and commission income and expense

Fee income and expenses is recognised at the time when the invoice is paid or at the time when the service is provided. Fee and commission mainly comprise fees for payment operations services, issued guarantees and other banking services.

3.5. Income from dividends

Dividends are recognized in the income statement when the right to receive the dividend is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Financial assets

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

Regular purchase and sale of financial assets is recognized on the date of transaction, which is the day when the Bank undertook to purchase or sell the asset. Financial assets are initially recognized at fair value increased by transaction costs, except for financial assets intended for trade, whose initial measurment does not include transaction costs.

Financial assets available for sale and financial assets at fair value through profit and loss are measured at fair value after initial recognition.

(a) Financial at fair value through profit and loss

In category “Financial at fair value“ comprises financial assets held for trading and other financial assets classified in this category at initial recognition; including derivatives other than those used for hedging.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short-term, or for which there is a recent pattern of short-term profit taking. A derivative is also classified as held for trading where it is not designated to be used for hedging purposes.

(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.

All loans and borrowings are initially recognized at fair value when assets are transferred to the borrower. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

(c) Financial assets held to maturity

Held-to-maturity financial assets 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.

Held-to-maturity securities are carried at amortised cost using the effective interest method. Amortized cost is calculated by taking into consideration all purchase discounts or premium.

(d) Financial assets available for sale

Available for sale financial assets are those for which there is an intention to be held for an indefinite period, which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices, which do not satisfy the definition of loans and receivables, financial assets held to maturity and financial assets at fair value through profit and loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Financial assets (continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

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

3.7. Derivatives

For the purpose of protection against risk, the Bank uses financial derivatives. The change in the market value of derivatives is recognised through profit and loss. At December 31, 2017 the Bank has open positions of financial derivatives.

3.8. Sale and repurchase agreements

Sale-repurchase agreements ('Repos'), are securities sold subject to repurchase agreements (reverse repo) and as such are recorded as loans and advances to other banks. The difference between the sale and the repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

3.9. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term government securities.

3.10. Impairment of financial assets

Assets carried at amortised cost

Individual assessment

At every balance sheet date, the Bank identifies financial assets for which the calculation of the impairment shall be performed individually (individual assessment – individually significant exposures).

The criteria for the identification of receivables that have to be assessed at individual level are:
1. The classification of debtors
2. The amount receivables by the debtor

In accordance with these criteria, receivables that have to be assessed at individual level are those for debtors:

a) banks classified in categories V, G and D with the total exposure higher than EUR 200,000 on the day of assessment, which are always review and amounts of impairment and probable loss obtained on an individual basis,
b) legal entities and entrepreneurs classified into categories A, B and V with the total exposure by debtor higher than 40,000 EUR, on the day of calculation,
c) legal entities and entrepreneurs classified into categories G and D with the total exposure by debtor higher than 20,000 EUR, on the day of calculation,
d) Individuals with exposure over 30,000 EUR, on the day of calculation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Impairment of financial assets (continued)

Individually significant credit exposures - the Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.

The criteria that the Bank uses to determine whether there is objective evidence of an impairment loss include:

1. *The borrower's financial position indicating significant operational problems, such as change of debtor classification*; the debtor is late with settling obligations towards the state, other creditors or employees or settls its obligations irregularely for tax and contributions for social insurance of employees, in a significant amount, according to the Bank's assessment; significant and continuous reduction of operating income in the previous two years; the debtor's capital has been significantly reduced (more than 50%) due to losses during the previous two reporting periods; the current indicator of the debt servicing capacity is below the satisfactory level, i.e. <1.1; there is significant reduction (more than 50%) of property value, if the repayment depends on selling the property; or if there is a request of the debtor to change conditions for paying and/or for urgent financing;
2. *There is an evidence of non-settled obligations, of frequent delays in paying interests and/or the principle or failing to meet other contractual obligations*; at the latest when the debtor is late for 90 days based on any contract; the loan is non-performing in accordance with the Decision on classification of the balance sheet and off-balance sheet items.
3. *The Bank has significantly changed the terms of payment of loans due to financial problems of the debtor compared to those agreed initially*, i.e. clients with the NPE/RES status, in accordance with items 35a through 35đ of the Decision on classification of the balance sheet and off-balance sheet items for non-performing receivables of the bank;
4. *Initiation of bankruptcy proceedings over the debtor or initiation of another kind of financial reorganization is evident*, which may be identified based on the following: the debtor has been blocked for more than 60 days on the date of assessment; the debtor is undergoing liquidation proceedings; a court procedure (order for court procedure) has been initiated against the debtor; pre-bankruptcy proceedings have been initiated against the debtor or bankruptcy proceedings have been initiated against any strategically significant member of the group which the debtor belongs to; reasons for initiating bankruptcy proceedings against the debtor defined by the law regulating bankruptcy have been met; the debtor is undergoing the procedure of preparing the reorganization plan / the creditors have accepted the proposed reorganization plan / the debtor is conducting business according to the adopted reorganization plan; or the debtor is undergoing the procedure of financial restructure by mutual consent in accordance with the relevant regulation.
5. *Other objective evidence of impairment which classify receivables from clients into the category of suspicious and disputable receivables*

If the Bank determines that there is objective evidence of impairment for an individually significant financial asset, the amount of loss is measured as the difference between the carrying value of the asset and the present value of estimated future cash flows.

The expected cash flows are calculated by using the accepted mortgage value, and/or the amounts of deposits used as collateral for receivables and the expected period of their collection. The expected cash flows are discounted to their present value.

Depending on the type of collateral, its location, as well as the date of last valuation, the Bank is using the haircuts in the process of calculating impairment, as follows:

All amounts are expressed in thousands of RSD except if indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Impairment of financial assets (continued)

Residential property

Territory	Haircuts	Year of collection
Belgrade	20%	1-5
Novi Sad	20%	1-5
Other cities with a population over 50,000	30%	1-5
Cities with a population below 50,000	40%	1-5
Villages and small towns	45%	1-5

Business property

Territory	cuts	Year of collection
Belgrade	30%	1-5
Novi Sad	30%	1-5
Other cities with a population over 50,000	40%	1-5
Cities with a population below 50,000	45%	1-5

Industrial property

Type	Haircuts	Year of collection
Factories	35%	1-5
Warehouses	35%	1-5

Land

Vrsta	Haircuts	Godina naplate
Land Vojvodina	25%	1-5
Land other	30%	1-5

Other

Type	Haircuts	Year of collection
Equipment	80%	1-5
Vehicles	50%	1-3
Guarantee deposits	0%	-
Government bonds, securities guranted by the government	0%	-
State guarantees	0%	-
First-class guarantees	0%	-

In cases where the date of the valuation of collateral is older than 3 years, the above defined haircut is increased by 10%.

The expected cash flows must be discounted to their present value. As the Discount Factor, the Bank is using the effective interest rate (effective interest rate calculated on the date of concluding the loan agreement) in cases when the agreed interest rate with the client, when during the repayment process, the Bank approved a change in repayment terms, as well as for the reduced receivables, when we have restructured receivables, the bank uses the initial effective interest rate per restructured party. In the case of loans with a variable interest rate, the current effective interest rate on the day of settlement is used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Impairment of financial assets (continued)

For the purpose of determining the expected collateral collection period, the Sector for Network Management Operations and the Sector for Collection of Receivables take into consideration the following factors:

- Mortgage type (depending on the law under which the mortgage was established, i.e. whether it was established according to the Law on Mortgage or the Law on Execution);
- The validity of mortgage documentation (quality, i.e. completeness of the documentation in the Bank's possession);
- Type, intention, functionality and size of the real estate which is the subject of mortgage and its location;
- Offer and demand for real estate which is subject of collateral;
- The current phase of the mortgage collection process, i.e. whether collection was initiated via court or extra-judicial settlement proceedings or the collection is expected by acquiring rights from the bankruptcy proceedings;
- The client's cooperation with the Bank.

The minimum, i.e. maximum expected time for collection from collateral ranges from one to five years, and depending on prescribed legal deadlines, court practice and regulations of the Republic of Serbia which are complied with in processes of realization of each individual mortgage.

To that end, the estimated collection time is mostly influenced by the type of procedure through which execution is conducted (Law on Execution and Security, Law on Mortgage, Civil Procedure Code, bankruptcy proceedings, etc.).

The minimum expected period of collection in the procedure of mortgage realization is one year, and only if it was activated according to the extra-judicial manner of settlement of the currently valid Law on Mortgage, if the Real Estate Cadastre of the Republic of Serbia is complying with all legally prescribed deadlines for registering records on the right of sale and if the debtor is cooperating with the Bank.

In cases when payment is expected by realization of collateral by implementing any other court proceedings (Law on Execution and Security, Civil Procedure Code, bankruptcy proceedings, etc.), which cannot be influenced by the Bank, and which primarily depends on the actions of the court and court administrators, the expected collection period ranges from one to five years, and depends on the specificity of each individual security instrument. The maximum expected collection period of five years is implemented in cases when existence of an objective risk of impairment has just been identified and the Bank still has not started negotiations with the client and/or initiated a lawsuit against the client.

Collective impairment assessment

The Bank will assess the following receivables on collective basis:

- receivables for which individual assessment has shown that there is no objective evidence of impairment;
- receivables belonging to the group of small receivables and which are not assessed individually.

For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Impairment of financial assets (continued)

Assessment of impairment of group balance assets

Portfolio categorization is done by categorizing clients with similar characteristics in terms of credit risk into groups, based on the matrix, i.e. the following characteristics may be used:

a) Type of credit product in use
b) Age of portfolio
c) Delay
d) Client's credit rating
e) Type of collateral
f) Industry branch
g) Client type

The calculation of impairment for each category is done based on historial information, and it is calculated in the following manner:

Collective impairment = Non-secured exposure x PD*

*PD specially calculated for each client segment

- Loans with a delay of less than 90 days are considered to be in regular payment.
- For non-performing loans; for a delay longer than 90 days (default) PD of 100% applies.
- PD percentages apply to the non-secured part of exposure.
- The collectible part of the security is calculated by considering financial securities (guarantee deposits, guarantees, etc.) one hundred percent collectible, while market values after haircut are used with mortgages, identical to individual assessment.

In the process of calculation, the Bank is using different ways of calculating PD percentages for different types of clients, i.e. the manner of calculating PD percentage depends on the client groups for which it is calculated. Client groups are categorized as: Retail, Entrepreneurs and Legal Entities (client type). The "Retail" client group is categorized according to product, days of delay and age of portfolio.

3.11. Special reserve for estimated losses on financial assets in accordance with the National Bank of Serbia requirements

The special provision for estimated losses under the NBS requirements is calculated in accordance with the provisions of the Decision on the Classifications of Balance Sheet Assets and Off-balance sheet Items ("Official Gazette of RS", no. 94/11, 57/12, 123/12, 43/13, 113/13, 135/14, 25/15, 38/15, 61/2016, 69/2016 and 91/2016). The provisions of this decision prescribe the conditions under which the Bank is obligated to set up a special reserve fund from profit for estimated losses which is calculated as a sum of:

- 0 % of receivables classifed in category A;
- 2% of receivables classifed in category B;
- 15 % of receivables classifed in category V;
- 30% of receivables classifed in category G;
- 100 % of receivables classifed in category D.

The Bank is required to classify all receivables, which are under the above Decision considered as balance sheet assets, and off balance sheet items into categories A, B, V,G and D based on the debtors financial position and creditworthiness, his timeliness in settling obligations towards the Bank and the quality of instruments used as collateral.

The Bank is required to determine the level of required reserves for estimated losses which stands as the sum of the differences between the reserve for estimated losses calculated in accordance with the NBS Decision and the provision for balance sheet assets and off-balance sheet losses on debtor's level.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Intangible assets

Licences

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

3.13. Property, plant and equipment

Initial measurement of fixed assets is performed at cost or purchase price. The purchase price is the value according to the supplier's invoice, increased by acquisition related expenses and the costs directly attributable to bringing the asset into the state of functional readiness.

For subsequent measurement of the land and buildings, after initial recognition, the Bank is using the revaluation model in accordance with IAS 16 "Property, plant and equipment".

The Bank's equipment is measured at cost less accumulated depreciation and impairment losses, if any.

The buildings are subject to regular revaluation. The frequency of revaluation depends on the fair value movements of the assets subject to revaluation. The increase in the carrying values of buildings based on revaluation is credited to the revaluation reserve. Decrease that offsets previous increases of the same assets is charged against revaluation reserves directly, while all other decreases are charged to the income statement.

The revaluation reserve is transferred directly to retained earnings when the surplus is realized either on the retirement or disposal of the asset or when the asset is not used by the Bank. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost (optional).

Subsequent costs are included in the asset's carrying amount or recognised 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 the income statement during 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 or revalued amounts to their residual values over their estimated useful lives, as follows:

- buildings 1.3%
- computer equipment 20.0%
- vehicles 20.0%
- furniture and equipment 12.5%-20.0%
- leashold improvements 20.0%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within Other income/expenses, in the income statement.

The assets' residual value is the estimated amount that the Bank could obtain through disposal of asset, less any cost of sale, if the asset is old and in a condition expected at the end of its useful life. The assets' residual value is equal to zero if the Bank expects to use the asset until the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Impairment of non-financial assets

Assets with indefinite useful lifes are not subject to depreciation but are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.15. Investment properties

Investment property is a property held to earn rentals or for capital appreciation or both.
Investment property is held for long-term rental yields and is not occupied by the Bank.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are recognized as asset if and only if: it is probable that the Bank will realise future economic benefit from the properties and if the costs may be measured reliably. The investment property is initially measured at purchase price/cost. The costs of transaction are included in the initial measurement. The cost of the purchased investment property includes its purchase price and all costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value. The fair value of investment property reflects market conditions at the end of the reporting period. Gains or loss arising from the change of fair value of the investment property is recognized in the income statement of the period when realised.

Subsequent expenditure is capitalized only when it is probable that future economic benefits related to it will belong to the Bank and its cost may be measured reliably. All other current maintenance expenses and repair costs are expensed as incurred. If an investment property is used or occupied by its owner, it is reclassified to property and its carrying value on the date of reclassification becomes its deemed cost which will be further depreciated.

3.16 Inventories

Upon acquisition, inventories are measured at the lower of the historical cost and net realizable value. The historical cost means stating inventories at the cost of acquisition, while the net realizable value is the value at which inventories can be realized in a market sale transaction. Inventories include assets acquired in lieu of debt collection, which will further be subject to requirements of IAS 2.

3.17. Leasing

The Bank as the lessee

Leases entered into by the Bank are primarily operating leases in which the Bank is the lessee. The total payments made under operating leases are charged to expenses in the income statement on a straight-line basis over the period of the lease.

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

The Bank as the 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.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.
Lease income is recognised over the term of the lease on a straight-line basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income statement over the period of the borrowings using the straight-line method.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.19. Provisions

Provisions for restructuring costs and legal claims are recognized when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there is a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3.20. Employee benefits

(a) Employee benefits

Short-term employee benefits include wages and salaries and taxes and contributions for social insurance. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to pay taxes and social security contributions in accordance with applicable regulations. The Bank is not obliged to pay reimbursements to employees after retirement, which is the responsibility of the National Fund. The taxes and contributions on defined benefit obligations are expensed as incurred.

(b) Retirement benefits

Under the current regulations, the Bank is obliged to pay retirement benefits or termination benefits to employees in the event of loss of working ability amounting to three average salaries in the business sector in the Republic of Serbia, according to the latest information published by a competent statistical body. These payments are recognized in the balance sheet as liabilities (discounted) in accordance with the certified actuary's valuation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement over the employees' expected average remaining working lives.

The actuarial assumptions used when calculating retirement benefits were as follows:
- employee data, total length of service as at December 31, 2017, year of birth and sex, number of years to old or full pensions;
- demographic assumptions of the Republic of Serbia – mortality and fluctuation and invalidity rate,
- discount rate 5%,
- average gross salary in the Republic of Serbia for November 2017 – RSD 65,609 thousands,
- assumed annual salary geometric growth of 2% during the entire period for which assets are reserved.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Employee benefits (continued)

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

3.21. Current and deferred taxes

a) Current income tax

The current income tax charge is calculated and paid in accordance with the tax regulations applicable in the Republic of Serbia, based on the profit presented in the regulatory tax balance sheet. The Bank itself calculates its income tax, annual tax liability and tax prepayment for an upcoming year.

The 15 % income tax is paid based on the Bank's profit disclosed in the tax balance sheet, less certain investments during the year, as presented in the annual tax balance sheet - PDP form. In order to arrive at taxable profits, various adjustments to accounting profit are made. The Tax Balance Sheet is filed with tax authorities within 180 days after the end of the tax period for which the tax liability has been established.

b) Deferred taxes

Deferred taxes are calculated on all taxable temporary differences between tax base of assets and liabilities and their carrying amounts in the Bank's financial statements. Deferred tax liabilities are recognized for all taxable temporary differences arising between the tax base of assets and liabilities as at the balance sheet date and the amounts presented for reporting purposes, which will result in future period taxable amounts.

Deferred tax assets are calculated for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised.

Current and deferred taxes are recognized as income and expense and are included in the net profit for the period.

3.22. Share capital

Shares are classified as equity.

(a) Cost of the issue of shares

Incremental costs directly attributable to the issue of new shares or the acquisition of an entity are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on shares

Dividends from shares are recognized as liabilities in the period in which a decision on dividend distribution was made. Dividends for the year following the balance sheet date are disclosed in the note on the events after the balance sheet date.

3.23. Earnings per share

Basic earnings per share is calculated by dividing the net profit (loss) attributable to shareholders of the Bank, with the weighted average number of issued ordinary shares during the report period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with contractual terms and conditions. The Bank issues such financial guarantees to banks, financial institutions and other organisations on behalf of customers as collateral for loans, overdrafts and other banking services.

Financial guarantees are initially recognised at fair value at the date when they have been issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amount initially recognised less cumulative amortization, and the best estimate of the expenditure required to settle any financial obligation as of the balance sheet date. These estimates are determined based on experience with similar transactions and history of past losses, as well as the management's best estimate. Any increase in the liability relating to guarantees is recorded in the Income statement.

3.25. Segment reporting

An operating segment is a component of an entity:

(a) Involved in business activities by which it may earn income or make expenses (including income and expense related to transactions with other components of the same entity,
(b) Whose performance is regularly inspected by the main governing body in order to reach decisions on resources which are assigned to that segment and in order to assess their performaces, and
(c) For which separate financial information is available.

The Bank monitors activities and operations per operating segments, which include: the retail segment and the corporate segment.

The operating segments of the Bank are doing business in the Republic of Serbia, and accordingly, segmentation based on geographic area is irrelevant for the Bank.

4. FINANCIAL RISK MANAGEMENT

4.1 Introduction

The Bank's business is exposed to different financial risks and it requires identification, assessment, monitoring, mitigation and control of risk management, as well as placing an adequate system for risk management reporting. The Bank achieves risk management via a special organization unit for risk management. With its acts, the Bank prescribes procedures for identification, measurement, risk assessment, as well as risk management in accordance with regulations, standards and rules of profession.

With its risk management policy, the Bank defines a unique risk management system for risks to which the Bank is exposed in its business.

According to the nature of its activity, the Bank is exposed to various types of risk, such as:

1. liquidity risk;
2. credit risk;
3. market risk;
4. risks of the Bank's exposure towards an entity or a group of affiliated entities;
5. risks of the Bank's investments into other legal entities and fixed assets;
6. risks referring to the country of origin of the entity towards which the Bank is exposed;
7. operating risk (including legal risk).

4.2 Liquidity risk

The liquidity risk arises due to the Bank's inability to meet its due obligations, which may have a negative effect on the financial result and the Bank's capital.

The Bank manages the liquidity risk in accordance with the Policy on Liquidity Risk Management defining the liquidity risk management system, competence and responsibility of the participants of the system, controls taken for the purpose of as efficient functioning of the system as possible, the methodology used for monitoring this risk, but also the liquidity management plan in crisis situations.

Liquidity risk management includes managing all assets and liabilities positions of the Bank, which may influence the Bank's inability to meet its due obligations.

In its operations, the Bank complies with the basic principles of liquidity risk management:

a) liquidity management by major currencies and which include, apart from the domestic (RSD) currency, EUR, USD, and CHF as well;
b) providing stability and diversification of financing sources by determining different limits of source concentration, by regular monitoring of information on the largest depositors;
c) forming a stock of liquid assets and certain level of liquidity reserve;
d) solving temporary and long-term liquidity crises;
e) creating a Contingency Funding Plan;
f) conducting stress tests.

The Bank defines individual and commulative GAP limits of liquidity, which it views both on an aggregate level (consolidated view), and by the major currencies. The GAP liquidity report is prepared in accordance with the adopted Methodology for creation of GAP liquidity reports.

Liquidity is also monitored on the basis of liquidity ratios defined by NBS regulation.

The following table presents assets and liabilities grouped into categories according to the remaining agreed maturity date on the balance sheet date.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk (continued)

As of December 31, 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total ('000 RSD)
Assets						
Cash and cash funds held with the Central Bank	1.884.298	-	-	-	-	**1.884.298**
Financial assets available for sale	1.776.629	761.412	-	-	-	**2.538.041**
Loans and receivables due from banks and other financial institutions	58.639	5.923	-	-	-	**64.562**
Loans and receivables due from customers	224.109	306.130	1.886.575	5.051.011	2.061.562	**9.529.386**
Claims based on financial derivatives designed to protect against risk	1.835	901	-	-	-	**2.736**
Other Assets	(7.200)	22.458	719	(1.660)	2.245	**16.563**
TOTAL ASSETS	**3.938.309**	**1.096.824**	**1.887.294**	**5.049.351**	**2.063.807**	**14.035.586**
LIABILITIES						
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	134	-	-	-	-	**134**
Deposits and other liabilities due to customers	261.342	376.677	1.020.593	2.898.035	-	**4.556.647**
Treassury shares and other borrowed funds	2.876.966	340.808	2.427.386	808.192	57.421	**6.510.773**
Other liabilities	99.178	818	565	729	33	**101.323**
Total liabilities	**3.237.620**	**718.303**	**3.448.544**	**3.706.956**	**57.454**	**11.168.877**
Net Gap (Total Assets - Total Liabilities)	**700.689**	**378.521**	**(1.561.25)**	**1.342.395**	**2.006.353**	**2.866.709**

As of December 31, 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total ('000 RSD)
ASSETS						
Cash and cash funds held with the Central Bank	4.020.579	0	0	0	0	**4.020.579**
Loans and receivables due from banks and other financial institutions	3.772.578	6.174	0	0	0	**3.778.752**
Loans and receivables due from customers	496.373	364.959	1.662.004	4.243.903	3.304.545	**10.071.784**
Other assets	7.856	25.107	1.202	5.492	0	**39.657**
TOTAL ASSETS	**8.297.386**	**396.240**	**1.663.206**	**4.249.395**	**3.304.545**	**17.910.772**
LIABILITIES						
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	716.773	4.825.546	392.564	460.269	793.022	**7.188.174**
Deposits and other liabilities due to customers	3.809.808	679.995	4.008.140	1.031.979	22.215	**9.552.137**
Treassury shares and other borrowed funds	0	0	0	0	123.053	**123.053**
Subordinated liabilities	5.144	0	0	617.362	0	**622.506**
Other liabilities	152.520	570	710	865	47	**154.712**
Total liabilities	**4.684.245**	**5.506.111**	**4.401.414**	**2.110.475**	**938.337**	**17.640.582**
Net Gap (Total Assets - Total Liabilities)	**3.613.141**	**(5.109.871)**	**(2.738.208)**	**2.138.920**	**2.366.208**	**270.190**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk (continued)

The Bank conducted testing of the Liquidity Management Plan in crisis situations on 31 December 2017, where a stress test of a "hypothetical" scenario of the Bank's liquidity crisis with the following assumptions:

- worsening of warning indicators of a potential liquidity disorder monitored by the Treasury to medium risk level,
- drop of total deposits by over 20% and less than 40%,
- the Bank is having difficulties in obtaining funding.

The effect of the conducted scenario anticipates withdrawal of 30% of the deposit in the amount of RSD 2.504,4 million (EUR , 21,14 million), which the Bank may recover from:

- available funds (cash on hand and in the vault),
- available funds on the Bank's nostro account
- withdrawal of funds placed to other banks and with NBS.
- withdrawal of funds placed in Repo affairs and sale of securities from the portfolio of the bank.

The Bank may pay the withdrawn deposits in the amount of EUR 21.14 million within one month from the following available sources:

- cash on hand and balance on the bank's nostro account in the amount of EUR 4.8 million,
- funds placed with other banks and NBS in the amount of EUR 16.4 million.

As additional measures in order to improve the liquidity of the Bank, the following activities can be undertaken:

- slowdown and if it is necessary to completely suspend the granting of credit
- Accelerated and enhanced collection of receivables
- Intensifying the sale of the acquired real estate in the process of collection
- borrowing on the domestic interbank market
- collecting deposits with a manual structure over 12m.

Non-discounted cash flows

Amounts presented in the following table represent non-discounted cash flows of financial liabilities with the balance on 31 December 2017.

As of December 31, 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	723.551	4.838.188	412.946	530.747	811.107	**7.316.539**
Deposits and other liabilities due to customers	3.813.388	683.545	4.047.568	1.063.963	23.904	**9.632.368**
Subordinated liabilities	6.310	-	18.727	723.323	-	**748.360**
Total liabilities (contracted maturity dates)	**4.543.249**	**5.521.733**	**4.479.241**	**2.318.033**	**835.011**	**17.697.267**

As of December 31, 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	265.428	385.170	1.065.105	2.960.629	-	**4.676.332**
Deposits and other liabilities due to customers	2.878.014	341.383	2.452.623	825.301	58.747	**6.556.068**
Total liabilities (contracted maturity dates)	**3.143.442**	**726.553**	**3.517.728**	**3.785.930**	**58.747**	**11.232.400**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk

The Bank is exposed to credit risk and the possibility that the debtor fails to perform its obligations towards the Bank in the agreed amount and on the due date. Credit risk exposure primarily stems from crediting operations.

In order to maintain the credit risk on an acceptable level, the Bank:

- reviews the debtor's creditworthiness according to credits, guarantees and other products,
- determines limits of credit debt on the basis of risk assessment,
- does business with creditworthy clients and acquires appropriate security instruments.

Customers are under continuous supervision, and risk exposure limits are adjusted if necessary. Risk limits are determined depending on various types of security instruments.

Risk concentration according to economic activities is also constantly monitored, even though the limits have not been set.

Risk exposure towards one debtor, including banks, is under limits and it includes both the balance and the off-balance sheet risk exposure. Total risk exposure per individual client in terms of limits is considered before the occurrence of the transaction.

Total maximum credit exposure before reduction for collateral amounts:

	31.12.2017.	**31.12.2016.**
Loans and recevables due from banks – net	10.674	1.335.324
Allowance for impairment of loans and advances to banks	1	160.405
Total gross loans and advances to banks	10.675	**1.495.729**
Loans and advances to customers		
Loans and other retail placements	4.016.009	4.906.137
Loans and other corporate placements		
- Large enterprises	342.491	3.594.073
- Small and medium enterprises	5.108.134	1.613.813
Total net loans and advances to clients	**9.466.634**	**10.114.023**
Allowance for impairment of loans and advances to clients	272.283	1.363.263
Total gross loans and advances to clients	**9.738.917**	**11.477.286**
Total risk bearing assets - gross	**9.749.592**	**12.973.015**

Amounts of total risk bearing assets of RSD 9.749.592 thousand (31 December 2016: RSD 12.973.015 thousand) represent positions of the balance sheet assets subject to classification in accordance with the regulation of the National Bank of Serbia, except for foreclosed assets (RSD 347.410 thousand).

Financial assets (instruments), which, according to the Decision on Classification, represent the balance sheet assets which are not classified, and they refer to cash, the bank's current account and funds with NBS, in the amount of RSD 2.475.131 thousand (31 December 2016: RSD 6.136.867 thousand).

The position "Loans and advances to customers" includes repo loans, advances to customers, receivables on the basis of interests and fees, securities held to maturity, as well as the part of the remaining risk bearing assets (other risk assets).

Entrepreneurs are included in retail loans.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Off-balance sheet commitments

Guarantees and letters of credit represent irrevocable commitments of the Bank to make payments in case the client is unable to settle its liability towards a third party and they bear the same risk as loans.

Risk bearing off-balance assets – Off-balance sheet items subject to classification	**31.12.2017**	**31.12.2016**
Payable guarantees	111.657	23.240
Performance bonds	273.656	249.452
Avals and acceptances of bills of exchange	-	334
Unused commitments	734.812	610.156
Total	**1.120.125**	**883.182**

Retail loans by type of facility:

	31.12.2017			**31.12.2016**		
	Advances to customers	**Allowances for impairment**	**Net**	**Advances to customers**	**Allowances for impairment**	**Net**
Cards	29.780	2.020	27.760	80.271	41.999	38.272
Consumer loans	1.130.392	91.567	1.038.825	2.455.401	737.847	1.717.554
Housing loans	2.478.105	38.959	2.439.146	2.807.398	106.972	2.700.426
Current accounts overdrafts	22.272	4.063	18.209	59.533	22.727	36.806
	3.660.549	**136.609**	**3.523.940**	**5.402.603**	**909.545**	**4.493.058**
Entrepreneurs	533.738	41.669	492.069	523.071	109.992	413.079
Total retail placements:	**4.194.287**	**178.278**	**4.016.009**	**5.925.674**	**1.019.537**	**4.906.137**

The policy of determining allowances for impairment in accordance with the internal Bank methodology is described in Note 3.10, as well as the methodology prescribed by the National Bank of Serbia. The management is using the classification in accordance with the regulations of the National Bank of Serbia for determining and monitoring the internal rating of client loans and other financial assets, i.e. for monitoring the credit quality of the receivables.

Advances to clients and other risk bearing assets in the following table include total risk bearing assets, with the exception of advances to banks.

	31.12.2017		**31.12.2016**	
	Gross loans to clients	**Allowances for impairment**	**Gross loans to clients**	**Allowances for impairment**
Ranking:				
A	2.991.442	28.180	6.982.374	43.678
B	4.732.661	49.517	1.390.377	23.521
V	1.158.960	24.620	790.369	17.852
G	466.206	27.514	733.655	49.815
D	389.649	142.451	1.580.511	1.228.397
	9.738.917	**272.283**	**11.477.286**	**1.363.263**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Banks ranking:

	31.12.2017		31.12.2016	
	Gross loans to banks	**Allowances for impairment**	**Gross loans to banks**	**Allowances for impairment**
Ranking:				
A	4.739	-	1.087.111	-
B	5.924	-	248.213	-
V	0	-	-	-
G	0	-	-	-
D	12	1	160.405	160.405
	10.675	**1**	**1.495.729**	**160.405**

Credit quality of the portfolio (total balance sheet risk assets) – share in percentages:

	31.12.2017		31.12.2016	
	Share in the total portfolio	**Actual provision rate**	**Share in the total portfolio**	**Actual provision rate**
Ranking:				
A	30,72%%	0,94%	62,2%	0,54%
B	48,60%%	1,05%	12,6%	1,44%
V	11,90%%	2,12%	6,1%	2,26%
G	4,79%%	5,90%	5,7%	6,79%
D	4,00%%	36,56%	13,4%	79,77%
	100,0%		**100,0%**	

Loans and advances:

	31.12.2017		31.12.2016	
	Loans to customers	**Loans to banks**	**Loans to customers**	**Loans to banks**
Loans nether past due nor impaired ***1)**	3.883.562	10.675	3.506.714	1.314.845
Loans past due but not impaired ***2)**	614.469	-	2.318.841	20.479
Loans past due or not past due, collectively impaired ***3)**	4.882.765	-	4.863.596	-
Individually impaired loans ***4)**	358.121	0	788.135	160.405
Gross loans	**9.738.917**	**10.675**	**11.477.286**	**1.495.729**
Impairment	(272.283)	(1)	(1.363.263)	(160.405)
Allowances for Impairment	**9.466.634**	**10.674**	**10.114.023**	**1.335.324**

*** Category explanation:**
1) Loans that are not past due
2) Loans that are past due but collectible i.e. not impaired
3) Collective impairment is determined by applying the relevant probability of default rate to unsecured portion of loan
4) Loans considered uncollectible, i.e. impaired loans (loans that are more than 90 days past due and individually impaired loans)

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Loans neither past due nor impaired:

	31.12.2017				31.12.2016			
	Retail	Corporate	Total loans to clients	Banks	Retail	Corporate	Total loans to clients	Banks
Ranking								
A	812.815	455.492	1.268.307	4.739	1.324.861	1.280.373	2.605.234	1.066.632
B	383.175	1.675.576	2.058.751	5.924	71.784	304.003	375.787	248.213
V	42.577	285.208	327.785	-	56.791	203.564	260.355	-
G	110.361	108.567	218.928	-	2.462	262.729	265.191	-
D	8.206	1.583	9.789	12	-	147	147	-
Total	**1.357.134**	**2.526.427**	**3.883.561**	**10.675**	**1.455.898**	**2.050.816**	**3.506.714**	**1.314.845**

Loans past due but not impaired (100% secured loans):

	31.12.2017				31.12.2016			
	Retail	Corporate	Total loans to clients	Banks	Retail	Corporate	Total loans to clients	Banks
Days of delay up to 30 days	86.711	157.215	**243.926**	-	96.741	759.801	**856.542**	-
Days of delay 30-60 days	35.825	151.820	**187.645**	-	97.398	145.155	**242.553**	-
Days of delay 60-90 days	30.735	104.928	**135.663**	-	50.744	1.062.983	**1.113.727**	-
Days of delay over 90 days	28.065	19.170	**47.235**	-	30.687	75.332	**106.019**	20.479
Total	**181.336**	**433.133**	**616.469**	-	**275.570**	**2.043.271**	**2.318.841**	**20.479**
Fair value of collateral	**175.033**	**402.403**	**577.436**		**283.450**	**4.330.272**	**4.613.722**	-

Impaired loans subject to individual assessment:

	31.12.2017			31.12.2016			
	Retail	Corporate	Total	Retail	Corporate	Bank	Total
Loans subject to individual assessment	154.780	203.341	**358.121**	208.078	580.057	160.405	**948.540**
Fair value of collateral	39.494	115.257	**154.751**	101.705		4.294.961	**4.396.666**

The amounts shown in the table above represent individually impaired loans exceeding RSD 4,000 thousand for which an objective evidence of impairment was estimated. These amounts have been calculated based on the impairment test of future net cash flows.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Loans subject to individual assessment and impairment had the following structure of collaterals in 2017 and 2016:

	31.12.2017			31.12.2016		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Deposits	-	-	-	-	-	-
Mortgage	39.494	115.257	**154.751**	101.705	4.294.961	**4.396.666**
Fair value of collateral	**39.494**	**115.257**	**154.751**	**101.705**	**4.294.961**	**4.396.666**
Impairment	74.604	64.704	139.308	114.297	305.514	**419.811**
Unsecured loans	114.797	68.740	183.537	70.117	102.610	**172.727**
Secured loans	39.982	134.602	174.584	137.961	477.447	**615.408**
Total loans	**154.779**	**203.342**	**358.121**	**208.078**	**580.057**	**788.135**

The disclosed fair value of collateral was determined by a local certified appraiser and represents the value realizable by the legal owners of the assets. Provision for impairment reflects the likelihood that the Bank will not be able to exercise their rights and recover the collateral in case of unpaid loans. Despite difficulties the Bank may have in the process of enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

Impaired loans subject to collective assessment:

	31.12.2017			31.12.2016		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Loans subject to collective assessment:	2.523.204	2.359.562	4.882.765	3.986.328	877.268	4.863.596
Fair value of collaterals	767.129	809.817	1.576.946	3.337.934	678.748	4.016.682

For loans subject to collective assessment and impairment, the collateral structure was as follows:

	31.12.2017			31.12.2016		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Deposits	18.348	74.670	93.018	41.484	54.487	95.971
Mortgage	748.781	735.147	1.483.928	3.296.450	624.261	3.920.711
Fair collateral value	**767.129**	**809.817**	**1.576.946**	**3.337.934**	**678.748**	**4.016.682**
Impairment	103.674	29.301	132.975	905.440	42.112	947.552
Unsecured loans	1.654.700	1.336.962	2.991.662	2.834.801	555.352	3.390.153
Secured loans	879.177	1.011.926	1.891.103	1.151.527	321.916	1.473.443
Total loans	**2.533.877**	**2.348.888**	**4.882.765**	**3.986.328**	**877.268**	**4.863.596**

The sector concentration in the Bank’s loan portfolio is presented in Note 21.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Restructured loans

Loans that change the initially agreed terms are loans which are reprogrammed or restructured due to deterioration of the debtor's financial position, i.e. due to difficulties in settlement of liabilities within the initially agreed maturity dates.

The Bank performs financial analysis of debtors with difficulties in the settlement of liabilities, and if it estimates that the debtor will be able to settle its liabilities upon changed terms, the Bank decides to reschedule or restructure such loans.

Amount of loans that are restructured due to deterioration of the financial capability of the client, whereby such receivables would be past due or impaired, on 31 December 2017 amounts to RSD 107.999 (31 December 2016; RSD 1.842.694,68 thousand).

Collection of past due and impaired receivables by foreclosure of collateral

In accordance with the Bank's policies, foreclosed collateral is disposed in the regular course of the business. Amounts of uncollected receivables from clients are thus reduced or settled. Usually, the Bank does not use foreclosed property for business purposes.

4.4. Market risk

Market risk is the risk that the fair value or expected future cash flows of financial instruments will fluctuate because of changes in market variables such as interest rates and foreign exchange rates. Except for the concentration of foreign exchange risk, the Bank has no significant concentration of market risk for other items.

Risk of interest rate changes

The Bank is exposed to changes in the prevailing level of market interest rates that influence its financial position and cash flows. As a result of such changes, the interest margin may increase, decrease, and cause losses in the event of unexpected changes. Interest rates are based on market interest rates and they are constantly adjusted by the Bank.

Risk management activity is aimed at optimization of net interest income, maintenance of the market interest rate at a consistent level in accordance with the Bank's business strategy. Bank's management manages maturity compliance of assets and liabilities on the basis of macroeconomic and microeconomic projections, projection of requirements for reaching liquidity and projection of interest rate trends.

The Bank manages the interest rate risk in accordance with the Interest Rate Risk Management Policy, which defines the system and methodologies for the interest rate risk management, competencies and responsibilities of system participants, as well as controls carried out with the aim of creating the most efficient system possible.

The subject of interest rate risk management is represented by all those items contained in the banking book, which may cause a negative effect on the Bank's result and capital due to an interest rate change.

The Bank may be exposed to different forms of interest risk:

- Risk of time lags between the maturity and repricing, i.e. the repricing risk. This risk results from the discrepancy in the maturity date (for fixed rates) and the date of price change (for variable rates) for assets, liabilities and off-balance items of the Bank;
- Yield curve risk - risk which arises due to change of forms and slope of the yield curve, when unexpected movements of the curve negatively affect the income or the basic economic value.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

- Basis risk - due to different reference interest rates in interest-sensitive items with similar characteristics in terms of maturity, i.e. due to repricing.
- Optionality risk - due to options embedded in interest-sensitive items (loans with the possibility of early withdrawal, different types of securities or records containing options to buy or sell, different types of deposit instruments without maturity that allow depositors to withdraw funds at any moment, often without paying any penalties).

With the aim of managing the interest risk exposure, the Bank uses the GAP methodology for interest rates.

Analysis of interest risk exposures implies analysis of condition and changes of balance sheet assets, liabilities and off-balance items, and position of derivatives. The Bank identifies the interest risk exposure by establishing incompatibility of values in the relevant currencies (RSD, EUR, USD, CHF) and overall (on a consolidated basis) for all currencies with which it operates.

Analysis of items of balance sheet assets and liabilities involves establishment of interest-sensitive items classified according to the period of interest rate reformation, i.e. determining the expected schedule of future cash flows.

Analysis of off-balance items (swaps, forwards) implies determining potential item changes, resulting from interest rate changes on the market.

Interest rate analysis implies continuous monitoring and adjustment of affairs to the conditions of interest rate changes on the market.

As of 31/12/2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest-insensitive positions	Total
ASSETS							
Cash and cash funds held with the Central Bank	665.704	-	-	-	-	1.218.594	**1.884.298**
Financial assets available for sale	-	-	-	2.538.041	-	-	**2.538.041**
Loans and receivables due from banks and other financial institutions	4.739	-	-	-	-	59.823	**64.562**
Loans and receivables due from customers	2.027.759	2.953.971	4.014.540	233.126	44.065	255.925	**9.529.386**
Claims on financial derivatives intended for risk protection	-	-	-	-	-	2.736	**2.736**
Other assets	-	-	-	-	-	415.923	**415.923**
TOTAL ASSETS	**2.698.202**	**2.953.971**	**4.014.540**	**2.771.167**	**44.065**	**1.953.001**	**14.434.946**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	-	-	-	134	**134**
Deposits and other liabilities due to customers	3.137.116	376.273	1.020.055	2.140	-	21.063	**4.556.647**
Issued securities and other borrowed funds	966.507	332.775	2.249.646	664.994	8.329	2.288.523	**6.510.773**
Other liabilities	-	-	-	-	-	101.323	**101.323**
Total liabilities	**4.103.623**	**709.047**	**3.269.701**	**667.134**	**8.329**	**2.411.043**	**11.168.877**
Gap (Assets – Liabilities)	**(1.405.42)**	**2.244.924**	**744.839**	**2.104.033**	**35.736**	**(458.042)**	**3.266.069**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

As of 31/12/2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest-insensitive positions	Total
ASSETS							
Cash and cash funds held with the Central Bank	1.325.765	-	-	-	-	2.694.814	**4.020.579**
Loans and receivables due from banks and other financial institutions	3.458.995	-	-	-	-	319.757	**3.778.752**
Loans and receivables due from customers	3.348.740	2.692.696	3.238.479	430.767	86.000	275.102	**10.071.784**
Other assets	-	-	-	-	-	39.657	**39.657**
TOTAL ASSETS	**8.133.500**	**2.692.696**	**3.238.479**	**430.767**	**86.000**	**3.329.330**	**17.910.772**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	6.302.236	846.719	2.000	3.659	-	33.560	**7.188.174**
Deposits and other liabilities due to customers	2.507.696	592.772	3.696.325	915.786	9.597	1.829.960	**9.552.137**
Issued securities and other borrowed funds	-	-	-	-	-	123.053	**123.053**
Subordinated liabilities	617.362	-	-	-	-	5.144	**622.506**
Other liabilities	-	-	-	-	-	154.712	**154.712**
Total liabilities	**9.427.294**	**1.439.491**	**3.698.325**	**919.445**	**9.597**	**2.146.429**	**17.640.582**
Gap (Assets - Liabilities)	**(1.293.794)**	**1.253.205**	**(459.846)**	**(488.678)**	**76.403**	**1.182.901**	**270.190**

Interest rate GAP limits are defined by the Board of Directors Decision and are monitored and analysed on regular basis.

As an integral part of the interest rate risk assessment the Bank conducts stress tests of the effects of changes in interest rates. In determining exposure to interest rate risk in the banking book and interest rate risk limit, the Bank assesses the effects of IR changes on the financial result of the Bank (income statement), but also effects on the economic value of Bank capital, by applying a test - i.e. standard interest rate shock in accordance with the nature and level of risks that Bank is exposed to.

The standard interest rate shock presents positive and negative parallel shift of interest rate changes by 200 basis points (1BP = 0.01%).

In the existing IR GAP structure (observed on consolidated level which includes major currencies i.e. currencies EUR, RSD, CHF and USD) interest rate increase by 200bp would change the economic value of the Bank capital by 4.61% (2016: -1.23%), i.e. the value of capital would be reduced by RSD 132.367 thousand (2016: there was an increase of RSD 18.263 thousand).

Positions nominated in '000 RSD	**0-1m**	**1-3m**	**3-6m**	**6-12m**	**1-2y**	**2-3y**	**3-4y**	**4-5y**	**5-7y**	**7-10y**	**10-15y**	**15-20y**	**> 20y**	**TOTAL**
Sensitive Asset	3.504.346	3.313.312	3.869.776	145.276	320.397	1.370.697	93.980	988.027	34.253	11.098	0	0	0	13.651.162
Sensitive Liabilities	-3.392.787	-353.629	-920.518	-2.349.184	-595.044	-101.718	-5.050	-23.420	-1.380	-6.949	0	0	0	-7.749.678
GAP	111.560	2.959.683	2.949.259	-2.203.908	-274.648	1.268.978	88.930	964.607	32.874	4.148	0	0	0	5.901.484
Basel 2 sensitivity coefficients (200 bp interest rate changes)	0,08%	0,32%	0,72%	1,43%	2,77%	4,49%	6,14%	7,71%	10,15%	13,26%	17,84%	22,43%	26,03%	
Effects (in '000 RSD)	89	9.471	21.235	-31.516	-7.608	56.977	5.460	74.371	3.337	550	0	0	0	***132.367***
Regulatory capital														2.873.828
Total effects/Regulatory Capital (max 20%)														4,61%

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

Positions nominated in '000 RSD	0-1m	1-3m	3-6m	6-12m	1-2y	2-3y	3-4y	4-5y	5-7y	7-10y	10-15y	15-20y	> 20y	TOTAL
Sensitive Asset	8.197.735	2.693.662	3.099.665	150.738	235.408	104.839	91.555	43.872	59.146	26.274	580	0	0	14.703.474
Sensitive Liabilities	-9.427.293	-1.439.491	-741.488	-2.956.836	-851.698	-62.552	-3.872	-1.323	-1.489	-8.108	0	0	0	-15.494.151
GAP	-1.229.558	1.254.171	2.358.177	-2.806.098	-616.290	42.287	87.683	42.549	57.657	18.166	580	0	0	-790.677
Basel 2 sensitivity coefficients (200 bp interest rate changes)	0,08%	0,32%	0,72%	1,43%	2,77%	4,49%	6,14%	7,71%	10,15%	13,26%	17,84%	22,43%	26,03%	
Effects (in '000 RSD)	-984	4.013	16.979	-40.127	-17.071	1.899	5.384	3.281	5.852	2.409	103	0	0	***-18.263***
Regulatory capital														1.488.547
Total effects/Regulatory Capital (max 20%)														-1,23%

Foreign exchange risk

The Bank regularly monitors its exposure to foreign currency risk by complying with limits prescribed by the NBS, as well as internally prescribed limits. The Bank maintains its foreign currency position by granting loans with foreign currency clauses. In addition, the Bank actively manages foreign currency risk through prudent assessment of open foreign currency positions by applying foreign currency swaps and observing risk limitations prescribed by the NBS and contained in internal enactments adopted by the Bank's management.

On 31 December 2017 Bank is in compliance with the requirements of the National Bank of Serbia in terms of foreign exchange risk.

Table in the text below shows summarized exposure to foreign exchange risk on 31 December 2017. The table also includes assets and liabilities according to their carrying values denominated in relevant currencies.

As of December 31, 2017	**USD**	**EUR**	**CHF**	**Other currencies**	**TOTAL**	**RSD**	**TOTAL**
ASSETS							
Cash and cash funds held with the Central Bank	9.011	1.095.146	5.868	10.845	**1.120.871**	763.427	**1.884.298**
Financial assets available for sale	60.840	962.662	-	-	**1.023.502**	1.514.539	**2.538.041**
Loans and receivables due from banks and other financial institutions	32.232	27.436	4.208	687	**64.562**	-	**64.562**
Loans and receivables due from customers	930	7.140.444	466.936	-	**7.608.309**	1.921.077	**9.529.386**
Claims on financial derivatives intended for risk protection	-	-	-	-	**-**	2.736	**2.736**
Other assets	-	1.591	-	-	**1.591**	14.972	**16.563**
TOTAL ASSETS	**103.013**	**9.227.279**	**477.012**	**11.533**	**9.818.836**	**4.216.751**	**14.035.587**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	-	-	**-**	134	**134**
Deposits and other liabilities due to customers	-	4.117.897	427.549	-	**4.545.446**	11.201	**4.556.647**
Issued securities and other borrowed funds	98.569	4.357.340	52.389	4.101	**4.512.398**	1.998.375	**6.510.773**
Other liabilities	681	17.129	141	71	**18.023**	83.300	**101.323**
Total liabilities	**99.250**	**8.492.367**	**480.078**	**4.172**	**9.075.867**	**2.093.011**	**11.168.877**
Net foreign currency position	**3.763**	**734.912**	**(3.066)**	**7.360**	**742.969**	**2.123.740**	**2.866.709**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Foreign exchange risk (continued)

As of December 31, 2016	USD	EUR	CHF	Other currencies	TOTAL	RSD	TOTAL
ASSETS							
Cash and cash funds held with the Central Bank	40.827	2.413.958	29.767	30.969	**2.515.521**	1.505.058	**4.020.579**
Loans and receivables due from banks and other financial institutions	71.185	3.425.937	236.488	45.142	**3.778.752**	-	**3.778.752**
Loans and receivables due from customers	-	7.134.165	572.439	-	**7.706.604**	2.365.180	**10.071.784**
Other assets	-	4.202	-	-	**4.202**	**35.455**	**39.657**
TOTAL ASSETS	**112.012**	**12.978.262**	**838.694**	**76.111**	**14.005.079**	**3.905.693**	**17.910.772**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	6.414.286	742.616	-	**7.156.902**	31.272	**7.188.174**
Deposits and other liabilities due to customers	129.908	6.207.551	106.542	46.165	**6.490.166**	3.061.971	**9.552.137**
Treassury shares and other borrowed funds	-	-	-	-	-	123.053	**123.053**
Subordinated liabilities	-	622.506	-	-	**622.506**	-	**622.506**
Other liabilities	803	19.104	160	78	**20.145**	134.567	**154.712**
Total liabilities	**130.711**	**13.263.447**	**849.318**	**46.243**	**14.289.719**	**3.350.863**	**17.640.582**
Net foreign currency position	**(18.699)**	**(285.185)**	**(10.624)**	**29.868**	**(284.640)**	**554.830**	**270.190**

The effects of a decrease in foreign exchange rates on the Bank's results are presented below:

	Balance of open foreign currency position as of 31/12		RSD Depreciation effect of 10%	
	December, .2017	**2016.**	**December, 2017.**	**2016.**
EUR	190.606	(270.881)	16.202	(23.025)
CHF	3.764	(10.625)	320	(903)
USD	(2.685)	(18.699)	(228)	(1.589)
Other currencies (long position)	7.368	29.868	626	2.539
Other currencies (short postion)	(7)	-	(1)	-

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities

Fair value specified in financial statements is the amount for which an asset may be exchanged, or for which a liability may be settled, between informed, willing parties in an independent transaction.

Fair value is calculated by using market information available on the enforcement date, as well as individual method of Bank's assessment.

The fair value of a financial instrument is shown at its nominal value is approximately equal to its book value. This includes cash as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, expected future cash flows are discounted to their present value using current interest rates. Bearing in mind that the variable interest rate agreed for most financial assets and liabilities of the Bank, changes in prevailing interest rates lead to changes in the agreed rates.

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

The fair value of irrevocable credit commitments and contingent liabilities are the same as their book values.

Assessment of financial instruments

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

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

– Level 2: Valuation techniques based on observable inputs other than quoted prices included in level 1, either directly (ie, as prices) or indirectly (ie, derived from prices). This category includes instruments that are valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

– Level 3: Valuation techniques that use significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant impact on the valuation of the instrument. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Valuation techniques include net present value and discounted cash flow models, comparing to similar instruments for which there is no observable market price and other evaluation models. Assumptions and inputs used in valuation techniques include free from risk and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond prices and equity securities, foreign exchange rates, equity and equity-indexed prices and expected price fluctuations and correlations. The objective of valuation techniques to determine the fair value which reflects the price of the financial instrument at the reporting date, which would be defined by the market participants in the free and independent transactions.

The Bank uses widely accepted models of evaluation to determine the fair value of common and simpler financial instruments, including interest rate and currency swaps that use only observable market data and require little judgment and estimates by management. Quoted prices and inputs for the models are usually available in the market for listed debt and equity securities, derivatives traded and simple derivatives as interest rate swaps.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

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

Assessment of financial instruments (continued)

The availability of observable market prices and inputs the model reduces the need for estimates of management and reduces the uncertainty associated with the determination of fair value. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes caused by specific events and general conditions in future markets.

At the end of 2017 the Bank has measured the financial instruments at fair value at the end of the reporting period.

	31.12.2017		31.12.2016	
Financial (monetary) assets	**Bookkeeping value**	**Fair value**	**Bookkeeping value**	**Fair value**
Financial assets available for sale	2.479.943	2.538.041	-	-
Claims on financial derivatives intended for risk protection	2.736	2.736	-	-
Total	**2.482.679**	**2.540.777**	**-**	**-**
Financial (monetary) liabilities				
Liabilities based on financial derivatives for risk protection	134	134	-	-
Total	**134**	**134**	**-**	**-**

The following table shows the fair value of financial instruments not measured at fair value and analyzes them according to the level in the fair value hierarchy within the fair value measurement is placed:

	31.12.2017		31.12.2016	
Financial (monetary) assets	**Bookkeeping value**	**Fair value**	**Bookkeeping value**	**Fair value**
Cash and cash funds held with the Central Bank	1.884.298	1.884.298	4.020.579	4.020.579
Loans and receivables due from banks and other financial institutions	64.562	64.562	3.778.752	3.778.752
Loans and receivables due from customers	9.529.386	9.529.386	10.071.784	10.071.784
Other assets	415.923	415.923	39.657	39.657
Total	11.894.169	11.894.169	**17.910.772**	**17.910.772**
Financial (monetary) liabilities				
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	4.556.647	4.556.647	7.188.174	7.188.174
Deposits and other liabilities due to customers	6.510.773	6.510.773	9.552.137	9.552.137
Subordinated liabilities	-	-	622.506	622.506
Other liabilities	101.323	101.323	154.712	154.712
Total	**11.168.743**	**11.168.743**	**17.517.529**	**17.517.529**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

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

Assessment of financial instruments (continued)

	FAIR VALUE			
December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash funds held with the Central Bank	1.884.298	-	-	1.884.298
Loans and receivables due from banks and other financial institutions	-	-	64.562	64.562
Loans and receivables due from customers	-	-	9.529.386	9.529.386
Other assets	-	-	415.923	415.923
TOTAL	**1.884.298**	**-**	**10.009.871**	**11.894.169**
Liabilities				
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	4.556.647	4.556.647
Deposits and other liabilities due to customers	-	-	6.510.773	6.510.773
Subordinated liabilities	-	-	101.323	101.323
Other liabilities	**1.884.298**	**-**	**11.168.743**	**11.168.743**

	FAIR VALUE			
December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash funds held with the Central Bank	4.020.579	-	-	4.020.579
Loans and receivables due from banks and other financial institutions	-	-	3.778.752	3.778.752
Loans and receivables due from customers	-	-	10.071.784	10.071.784
Other assets	-	-	39.657	39.657
TOTAL	**4.020.579**	**-**	**13.890.193**	**17.910.772**
Liabilities				
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	7.188.174	7.188.174
Deposits and other liabilities due to customers	-	-	9.552.137	9.552.137
Subordinated liabilities	-	-	622.506	622.506
Other liabilities	-	-	154.712	154.712
TOTAL	**-**	**-**	**17.517.529**	**17.517.529**

The Bank's management believes that the fair value of financial assets and liabilities measured at other than fair value does not differ materially from their book value.

It is the policy of the Bank to disclose information on fair value of assets and liabilities for which there is official market information and when the fair value is significantly different from the book value.
There is no sufficient market experience in the Republic of Serbia, and there is also a lack of stability and liquidity in buying and selling receivables and other financial assets and liabilities, since official market information is not available at all times. Therefore, the fair value cannot be reliably determined in the absence of active market.

The Bank's management also assesses its overall risk exposure and in events when it is evaluated that the value at which a property is kept in books will not be realized, it corrects the value.
Fair value of cash and cash equivalents, short-term deposits, other loans and other receivables, transaction deposits, trade payables and other short-term liabilities correspond to their book value, primarily due to short-term maturity of these financial instruments.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

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

Assessment of financial instruments (continued)

The table below shows the Bank's classification for each class of financial assets and liabilities and their fair value as of 31 December 2017.

2017.	**Held to maturity**	**Available for sale**	**Other at amortised cost**	**Total value**	**Fair value**
Cash and cash funds held with the Central Bank	1.884.298	-	-	1.884.298	1.884.298
Loans and receivables due from banks and other financial institutions	64.562	-	-	64.562	64.562
Loans and receivables due from customers	9.529.386	-	-	9.529.386	9.529.386
Other assets	415.923	-	-	415.923	415.923
Total assets	**11.894.169**	-	-	**11.894.169**	**11.894.169**
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	4.556.647	4.556.647	4.556.647
Deposits and other liabilities due to customers	-	-	6.510.773	6.510.773	6.510.773
Subordinated liabilities	-	-	101.323	101.323	101.323
Other liabilities	-	-	**11.168.743**	**11.168.743**	**11.168.743**

The table below shows the Bank's classification for each class of financial assets and liabilities and their fair value as of 31 December 2016.

2016.	**Held to maturity**	**Available for sale**	**Other at amortised cost**	**Total value**	**Fair value**
Cash and cash funds held with the Central Bank	4.020.579	-	-	4.020.579	4.020.579
Loans and receivables due from banks and other financial institutions	3.778.752	-	-	3.778.752	3.778.752
Loans and receivables due from customers	10.071.784	-	-	10.071.784	10.071.784
Other assets	39.657	-	-	39.657	39.657
Total assets	**17.910.772**	-	-	**17.910.772**	**17.910.772**
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	7.188.174	7.188.174	7.188.174
Deposits and other liabilities due to customers	-	-	9.552.137	9.552.137	9.552.137
Subordinated liabilities	-	-	622.506	622.506	622.506
Other liabilities	-	-	154.712	154.712	154.712
Total liabilities	-	-	**17.517.529**	**17.517.529**	**17.517.529**

4. FINANCIAL RISK MANAGEMENT (continued)

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

Assessment of financial instruments (continued)

The following is a description of the methodology and assumptions used to determine fair values of financial instruments that have not been recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and liabilities that are liquid or have short-term maturities (less than one year) it is assumed that the book value approximates fair value. This assumption also applies to deposits on demand deposits, savings accounts without a specific maturity and financial instruments with variable rate.

Fixed-rate financial instruments

The fair value of financial assets and liabilities with fixed rates recorded at amortized cost are estimated by comparing market interest rates when they were initially recognized at current market rates offered for similar financial instruments.

The estimated fair value of deposits with a fixed rate based on the discounted cash flows using prevailing interest rates on the debt on the money market with similar credit risk and maturity.

4.6. The risks of exposure to a single party or a group of related parties

The Bank's exposure to a single party represents the total amount of receivables and off-balance sheet items relating to that party or a group of related parties (loans, investments in debt securities, equity shares, guarantees issued, avals, etc.).

The exposure risk, i.e. exposure concentration, is the Bank's exposure towards:

- One party or a group of related parties (two or more natural persons or legal entities related by shares);
- Two or more natural persons or legal entities related in the manner that deterioration or improvement of the financial position of one party affects the financial position of the other;
- A natural person who is an authorised representative of a legal entity;
- Two or more natural persons or legal entities related by their membership in legal entities' management bodies, including their respective family members;
- Family members of a natural person who are members of management bodies of two legal entities at the same time;
- A party related to the Bank (members of the Banking Group the member of which is the Bank, members of the management bodies of the Bank and of the Banking Group and their respective family members, parties with share in the capital of the Bank or the Banking Group and their respective family members, legal entities in which all the above mentioned parties own a control package).

The main goal of the exposure risk management is to eliminate the risk bearing exposure of the Bank's assets to one party, group of related parties or parties related to the Bank.

This goal can be achieved by strict compliance with and the application of the Bank's credit policy in relation to acceptance and approval of clients requests in order to identify related parties and monitor the Bank's exposure limits towards them.

<u>The Bank's exposure:</u>

- Large Bank's exposure is an exposure to a single party or a group of related parties amounting to no less than 10% of the Bank's capital
- Towards a single party or a group of related parties may not exceed 25% of the capital of the Bank

The total of all the Bank's large exposures may not exceed 400% of the Bank's capita.

4. FINANCIAL RISK MANAGEMENT (continued)

4.7. The risks of investing into other entities and fixed assets

The Bank's investment risk is the risk related to the Bank's investment in a single natural person/ legal entity operating outside the financial sector and the risk of the Bank's investment in fixed assets.

Managing this risk implies measuring, monitoring and controlling:

1. The amount of the Bank's investment (the Bank acquires the right to shares or share in capital) in any natural person/legal entity operating outside the financial sector that may not exceed 10% of the Bank's capital
2. The amount of the Bank's investment in its own fixed assets
3. The total amount of the Bank's investment (the total of items 1 and 2) that may not exceed 60% of the Bank's capital
4. Management Board quarterly reporting of movements in indicators of items 1 to 3
5. Management Board suggestions relating to corrective measures in order to maintain the investment risk within the prescribed limits

Limits of Bank's investments:

- The Bank's investments in a single entity operating outside the financial sector may not exceed 10% of the Bank's capital; the limit relates to the investment based on which the Bank acquires the right to shares or share in capital of the entity operating outside the financial sector.
- The total amount of the Bank's investments in entities operating outside the financial sector and in fixed assets may not exceed 60% of the Bank's capital.

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management and operates accordingly.

4.8. Risks related to the country of origin of the entity towards which the Bank is exposed

The risk related to the country of origin of the natural person/legal entity to which the Bank is exposed (country risk) is the risk of adverse effects on the Bank's financial results that may occur due to the Bank's inability to collect its receivables from natural person/legal entity domiciled in a foreign country due to political, economic and social conditions in that country.

The reasons that lead to country risk exposure are as follows:

- Political reasons – significant political changes in a country due to which a debtor is unable to fulfil its obligations to the Bank on a regular basis (change of government, significant political change, political turmoil, wars, catastrophes, etc.)
- Economic reasons – extremely negative economic events in a country due to which foreign debt repayment is seriously questioned or completely hindered

Country risk is reflected through:

- Risk of non-payment – relates to cases in which debtor is unable to fulfil its obligations to the Bank on a regular basis due to political and economic reasons
- Transfer risk – represents the possibility that solvent debtor from a foreign country is unable to pay its debt to the Bank in the specified currency due to certain irregularities in that country
- Guarantee risk – the risk that have occurred as a result of a guarantee issued to an entity in a foreign country for payment to be effected in a third country

The main goal of the country risk management is to protect the entire Bank's portfolio from possible risk bearing and uncollectible receivables from debtors from countries at risk.

4. FINANCIAL RISK MANAGEMENT (continued)

4.9. Operational risk (also including the legal risk, and the risk of inadequate management of information and other technologies significant for the Bank's business)

Operational risk is defined as the risk of negative effects on the Bank's financial results and share capital arising from the employee omission, illegal acts, inadequate internal procedures and processes, inadequate management of the Bank's information and other systems and unforeseeable external events.

The Bank is obliged to identify the existing sources of operational risk as well as the potential sources of such risk that may occur as a result of introducing new products, systems or activities.

The operational risk management methodology, in view of its identification and recording of losses arising from its effects, comprises:

I Defining business lines in the Bank where each organization part of the Bank must be clearly defined including all activities and specific actions.

II Defining causes leading to operational risk, which may include:

1. human factor
2. processes
3. system factor
4. external factor

III Identification of events which may cause operational risks and losses arising from such risk

1. internal errors and misuse of employees
2. external violation of regulations,
3. omission in the system for employment and protection at work,
4. customer relation problems,
5. external factors,
6. Bank organization and operation of its system,
7. implementation of business procedures and Decision in the Bank.

IV Loss category

1. loss,
2. potential loss,
3. avoided loss.

Information risks

Information system architecture has two functions:

- processing of Bank's transactions and
- reporting to the Bank's management and management bodies.

One of the most important points in risk management is the adequacy of the information system which should fulfil the following requirements:

- timeliness,
- accuracy,
- security and integrity,
- consistency,
- completeness,
- relevance.

Accounting systems contain reports of business operations, financing, risk management and approvals, which allows the management and its bodies to manage the Bank.

Communication systems connect information within the Bank and external users (legislatures, auditors, shareholders and clients).

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.10. Capital risk management

The Bank’s objectives when managing capital are to safeguard the Bank’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, issue new shares or convert portion of liabilities to subordinated debt.

Under the NBS regulations, the Bank is required to:

- Maintain the prescribed minimum monetary share capital in the amount of EUR 10 million in RSD counter value at the NBS middle exchange rate;

- Maintain the minimum capital adequacy ratio, against the risk bearing assets, of 12%.

The Bank's Financial Control Department performs the control of capital based on the capital adequacy ratio and to the end of 2017 it amounts:

	31.12 2017.
Nominal value of paid shares, other than preferential cumulative shares	5.671.609
Share premium	2.877.487
Reserves from profit	151.673
Losses from previous years	(7.034.843)
Profit from the current period that meets the requirements for inclusion in the basic capital	1.500.000
Intangible assets	(51.688)
Regulatory adjustments to the value of the elements of the basic share capital (additional value adjustments)	(2.603)
Revaluation reserves and other unrealized gains / losses	250.920
Required reserve for estimated losses for balance sheet assets and off-balance items of the Bank	(682.533)
Total basic capital	**2.680.020**
Additional share capital	-
Basic capital	**2.680.020**
Supplementary capital	-
Total capital, December 31, 2017	**2.680.020**
Risk assets	**8.633.321**
Credit risk	6.771.731
Foreign exchange risk	165.261
Operational risk	1.696.329
Capital adequacy ratio, as of 31 December	**31,04**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.10. Capital risk management

At the end of 2016, the capital adequacy ratio was as follows:

	31.12.2016.
Basic capital	
Nominal value of paid shares, other than preferential cumulative shares	5.671.609
Share premium	2.877.487
Reserves from profit	151.673
Losses/profits from previous years	(5.884.782)
Profit / (loss) of the current year	(957.175)
Intangible assets	(89.574)
Other net negative revaluation reserves	(2.231)
Required reserves for estimated losses for balance sheet assets and off-balance items of the Bank	(926.576)
Total basic capital	**840.431**
Supplementary capital	
Part of the Bank's revaluation reserves	227.901
Subordinated liabilities that meet the requirements for inclusion into capital	420.215
Total supplementary capital	**648.116**
Total regulatory capital as at 31 December	**1.488.547**
Capital requests	1.101.456
Credit risk	956.419
Foreign exchange risk	9.331
Operational risk	135.706
Capital adequacy ratio, as at 31 December	**16,22**

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under given the circumstances.

Deteriorating operating conditions for borrowers may have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, the Bank's management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The preparation of financial statements in accordance with IFRS requires management to use the best estimates and reasonable assumptions that affect the application of accounting policies, the presented amounts of assets and liabilities, as well as income and expenses.

Areas that demand the greatest degree of reasoning, which may significantly affect the amounts presented in the Bank's financial statements, are presented below.

(a) Impairment losses on loans and advances

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

(b) Impairment of available for sale equity investments

The Bank determines whether an available for sale equity instrument is impaired when there is a significant or prolonged decline of its fair value below cost. The decision whether it is significant or prolonged is judgemental. In making this judgement, the Bank evaluates, among other factors, regular movement in share price. The impairment may occur when there is an evidence of deterioration of the financial position of the borrower, industry performance, changes in technology and operational and financing cash flows.

(c) Provisions

Provisions are, to a large extent, a matter of judgement, particularly in terms of legal claims or other contingencies. The Bank estimates the probability of adverse events occurring as a result of past events. If the estimated probability of the event is more than 50%, the Bank makes provision for the full amount of the liability.

The Bank is rather conservative in its estimates, however due to the high degree of uncertainty, in some cases the estimate might not coincide with the possible outcome of the legal claims.

All amounts are expressed in thousands of RSD except if indicated otherwise

6. INTEREST INCOME AND EXPENSES

	2017.	2016.
Interest Incomes		
Loans	664.162	963.193
Deposits	31.165	37.283
Securities and REPO transactions	52.343	-
Based on other placements	38	37
Foreign currency loans	2.691	5.294
Foreign currency deposits	20	9
Foreign currency securities	15.897	
Total:	**766.316**	**1.005.816**
Interest expense		
Loans	230	83
Deposits	50.778	118.831
Securities and REPO transactions	70	694
Based on other placements	59.982	118.055
Foreign currency loans	65.027	134.131
Foreign currency deposits	237	
Other foreign currency liabilities	6.551	
Total:	**182.877**	**371.794**
Net interest income	**583.439**	**634.022**

Total interest income and expense accounted for using the effective interest method presented in the table relate to financial assets and liabilities that are not carried at fair value through profit and loss.
Interest income from loans in dinars in the amount of RSD 664.162 thousand (in 2016: RSD 963.193 thousand), includes the income from collected suspended interest in the amount of RSD 72.995 thousand (2016: RSD 108.808 thousand). Revenues from the securities interest in the amount of RSD 52.343 thousand (2016: RSD 0) relate to bonds purchased from RS.

Interest income

	2017.	2016.
Corporate	278.132	504.039
Retail	329.404	409.457
Foreign entities	2.840	1.970
National Bank of Serbia	30.463	25.619
Entrepreneurs	60.262	63.282
Banks and other financial institutions	4.488	1.449
Public sector	60.727	
Total	**766.316**	**1.005.816**

Interest expense

	2017.	2016.
Corporate	23.241	80.496
Retail	77.248	128.067
Entrepreneurs	0	24
Banks and other financial institutions	7.561	1.023
Public sector	100	3
Foreign entities	71.844	154.636
National Bank of Serbia	2.677	6.748
Other clients	206	797
Total	**182.877**	**371.794**
Net interest income	**583.439**	**634.022**

All amounts are expressed in thousands of RSD except if indicated otherwise

7. FEES AND COMMISSIONS INCOME AND EXPENSE

	2017.	2016.
Fees and commissions income		
Fees and commissions income	154.884	186.606
Fees and commissions income in foreign currency	11.658	13.021
Total:	**166.542**	**199.627**
Fees and commissions expense		
Fees and commissions expense	12.786	27.608
Fees and commissions expenses in foreign currency	20.902	22.091
Total:	**33.688**	**49.699**
Net fees and commissions income:	**132.854**	**149.928**

Fees and commissions income amounting to RSD 154.884 thousand (2016: RSD 186.606 thousand) are primarily related to corporate banking services relating to payment operations amounting to RSD 40.973 thousand (2016: RSD 49.282 thousand); retail banking services amounting to RSD 31.449 thousand (2016: RSD 44.494 thousand); foreign currencies purchases from other clients amounting to RSD 17.943 thousand (2016: RSD 18.542 thousand); fees for fees from legal entities for payment transactions operations in the amount of RSD 15.200 (2016: RSD 15.032).

Fees and commissions expense amounting to RSD 12.786 thousand (2016: RSD 27.608 thousand) are mostly related to domestic payments operations fee and commission expense amounting to RSD 9.218 thousand (2016: RSD 11.582 thousand).

FX fees and commissions expense equivalent to RSD 20.902 thousand (2016: RSD 22.091 thousand) are related to foreign currency operations expense with payment cards amounting to RSD 11.624 thousand (2016: RSD 13.199 thousand) as well as foreign payment operations fees of 8.769 thousand (2016: RSD 8.633 thousand).

Income from bank charges	2017.	2016.
- payment cards	23.490	27.302
- domestic payment operations (companies, banks, citizens)	57.606	65.907
- commissions for issued guarantees	10.240	11.978
- banking services	37.344	51.164
- foreign currency payment operations	9.154	8.915
- other fees and commissions	1.501	2.368
- exchange operations	250	437
- buying and selling of foreign currency	17.944	18.542
- early repayment	9.013	13.014
Total income	**166.542**	**199.627**
Expenses from bank charges		
- payment cards	13.981	27.768
- domestic payment operations	9.824	12.428
- foreign currency payment operations	8.774	8.633
- brokerage services	103	-
- other fees and commissions	502	611
- buying and selling of foreign currency	504	259
Total expenses:	**33.688**	**49.699**
Net fees and commissions income	**132.854**	**149.928**

All amounts are expressed in thousands of RSD except if indicated otherwise

8. NET PROFIT ON THE BASIS OF RISK PROTECTION

	2017.	2016.
Income from the change in the value of derivatives intended for protection from risk	2.954	-
Expenses on the basis of changes in the value of derivatives intended protection against risk	(353)	-
Income from changes in value of placements, receivables and securities of value	42	172
Net profit / (loss) based on risk protection	**2.643**	**172**

9. NET PROFIT ON THE BASIS OF FINANCIAL ASSETS AVAILABLE FOR SELL

	2017.	2016.
Gains from the sale of Eurobonds RS	9.821	-
Losses from the sale of Eurobonds RS	(9.169)	-
Net gain / (loss):	**652**	**-**

10. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

	2017.	2016.
Foreign exchange gains on:		
Foreign currency deposits and loans	822.143	315.202
Foreign currency accounts	26.748	70.826
Transactions with derivatives	17.069	4.959
Cash and deposits held with NBS	76.418	74.942
Payment card transactions	136.323	74.186
Other	322.552	185.303
Currency clause	59.440	279.820
Securities	4.255	
Total	**1.464.948**	**1.005.238**
Foreign exchange losses on:		
Foreign currency deposits and loans	427.884	551.287
Foreign currency accounts	45.327	29.328
Transactions with derivatives	6.783	6.515
Cash and deposits held NBS	125.591	39.736
Payment card transactions	135.466	72.696
Other	319.311	186.509
Currency clause	359.822	123.945
Securities	37.365	-
Total	**1.457.549**	**1.010.016**
Positive / (negative) exchange rate differences, net	**7.399**	**(4.778)**

All amounts are expressed in thousands of RSD except if indicated otherwise

11. OTHER OPERATING INCOME

	2017.	**2016.**
Other income from operations	37.745	36.793
Reversal of unrealised provisions for liabilities	4.928	15.000
Gains on sale of fixed and intangible assets	4.140	-
Income from reduction of liabilities	1.954.102	24.708
Income from changes in the value of BA, investment property and assets acquired	13.604	
Other income	5.520	5.367
Total	**2.020.039**	**81.868**

Other income from operations in the amount of RSD 37.745 thousand (2016: RSD 36.793 thousand) is mostly related to rental income in the amount of RSD 14.043 thousand (2016: RSD 22.726 thousand), while the rest in amount of RSD 23.517 thousand relates to sale of foreclosed assets (2016: RSD 14.066 thousand).

Incomes from the termination of unused reserves for liabilities, in the largest part, in the amount of RSD 4,775 thousand, relate to income from write-off of liabilities from profit for 2003, 2004, and 2005 due to obsolescence, and in relation to unpaid dividends per basis of priority actions.
Also, impairment losses in the amount of RSD 1,954,102 thousand (2016: 24,708 thousand) relate to income from one-off write-off of the Bank's obligations to the BoC, and based on the Discount Agreement in the amount of RSD 1,954. 099 thousand.
Income from changes in the value of BA, investment property and assets acquired in the amount of RSD 13.604 thousand refer to revenues from changes in the value of assets acquired through collection of receivables in the amount of RSD 12.662 thousand and income from the change in the value of investment properties in the amount of RSD 942 thousand.

12. NET GAINS/(LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS

	2017.	**2016.**
Impairment losses on loans and receivables	(1.017.188)	(984.688)
Reversal of impairment allowance of balance sheet assets	1.157.260	1.102.206
Provision for off-balance sheet items (Note 28)	(5.565)	(2.596)
Reversal of provisions for off-balance sheet items (Note 28)	4.031	3.945
Write-off on uncollectible receivables	(8.681)	(9.606)
Collected receivables previously written-off	26.148	70
Total	**156.005**	**109.331**

Movements on the accounts of impairment allowances of balance assets during 2017 were as follows:

	Loans to clients	**Other placements**	**Receivables for interest and fees**	**Other receivables**	**Total**
Balance at the beginning of the year	1.174.181	263	36.586	312.637	1.523.667
Charge for the year	923.481	106	29.571	64.030	1.017.188
Carve- out	(10.977)	-	(589)	-	(11.566)
Transfer to the off-balance sheet according to the NBS decision	(891.273)	-	(31.656)	(106.324)	(1.029.253)
Write-offs	(9.594)	-	-	-	(9.594)
Reversal of impairment allowances	(918.337)	(354)	(28.482)	(210.087)	(1.157.260)
Balance at the end of the year	**267.481**	**15**	**5.430**	**60.256**	**333.182**

All amounts are expressed in thousands of RSD except if indicated otherwise

12. NET GAINS/(LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS (continued)

Movements on the accounts of impairment allowances of balance assets during 2016 were as follows:

	Loans to clients	Other placements	Receivables for interest and fees	Other receivables	Total
Balance at the beginning of the year	3.388.888	787.178	240.516	385.148	4.801.730
Charge for the year	733.951	15.304	173.447	61.986	984.688
Currency differences	2.295	-	-	-	2.295
Sale of NPL	(2.150.329)	(600.243)	(260.543)	(110.510)	(3.121.625)
Write/offs	(41.215)	-	-	-	(41.215)
Reversal of impairment allowance	(759.409)	(201.976)	(116.834)	(23.987)	(1.102.206)
Balance at the end of the year	1.174.181	263	36.586	312.637	1.523.667

13. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

	2017.	2016.
Employee salaries	228.152	277.976
Employee wages	47.515	53.887
Taxes for salaries and wages	35.165	42.191
Contributions for salaries and wages	69.217	84.519
Other personal expenses	41.095	8.959
Provisions for retirement and other employee benefits	5.085	1.471
Reversal of provisions for retirement and other employee benefits	(11.660)	-
Total	**414.569**	**469.003**

14. DEPRECIATION

	2017.	2016.
Intangible assets	47.258	50.644
Fixed assets	29.654	37.750
Total	**76.912**	**88.394**

15. OTHER EXPENSES

	2017.	2016*.
Costs of materials	22.297	31.637
Costs of production services	76.462	93.503
Non-material costs (without taxes and contributions)	273.157	267.136
Taxes	20.874	47.383
Contributions	68.791	85.359
Provision for liabilities	0	4.523
Losses on sale of fixed assets and intangible assets	1.939	-
Losses on write-off of fixed assets and intangible assets	248	328
Shortages and damages	7	12
Losses on sale of other placements	57.840	790.854
Other expenses	4.668	36.316
Losses on the basis changes in value, fixed assets acquired by collecting receivables and investment prpoerty	54.401	245.093
Total (Note 24 and 3.1)	**580.684**	**1.602.144**

All amounts are expressed in thousands of RSD except if indicated otherwise

15. OTHER EXPENSES (continued)

Out of total cost of production services of RSD 76.462thousand (2016: RSD 93.503 thousand), amount of RSD 44.118 thousand (2016: RSD 62.015 thousand) represents rental cost for the business premises; the amount of RSD 15.097 thousand (2016: RSD 17.040 thousand) are the costs of electronic communications and automatic data processing.

Non-material costs in the amount of RSD 273.157 thousand (2016: RSD 267.136 thousand) primarily consist of the amount of RSD 46.890 thousand (2016: RSD 53.899) which is related to the costs of insurance premium for banks deposit; the amount of RSD 35.316 thousand (2016: RSD 47.338 thousand) which is related to software maintenance services; the amount of RSD 22.595 thousand (2016: RSD 22.110 thousand) which is related to maintenance of programme applications; the amount of RSD 21.327 thousand (2016: RSD 21.980 thousand) related to IT equipment maintenance services.

Losses on sale of other placements in the amount of RSD 57.840 thousand fully relate to losses incurred on the basis of the realization of the Sale and Transfer Agreement concluded between the Bank and Fortune Astrum LTD doo, (the result of a part of the Carve-out Agreement) as of February 28, 2017.
The effect of the correction of the comparative year in the part of the profit and loss account (Note 3.1) was reflected in the position Expenses on the basis of changes in value, basic, assets acquired by collection of receivables and investment real estate, in the way that in 2016 the expenditures increased by RSD 228.793 thousand, and in 2017 reduced by the same amount.

Expenses on the basis of changes in the value of fixed assets, investment property and assets acquired, in the amount of RSD 54.401 thousand, refer to the estimate of the valuation of certified appraisers in December 2017, and the expenses of new estimates of the bank's buildings in the amount of RSD 18.573 thousand, assets RSD 29.629 thousand and investment property RSD 6.200 thousand.

16. CURRENT INCOME TAX

Total tax expense/income consists of the following taxes:

	2017.	2016.
Income tax	-	-
Gain / (Loss) from deferred taxes (Note 29 and 3.1)	(22.981)	37.349
Total tax income/expense (Note 29 and 3.1)	**22.981**	**37.349**

Detailed data on deferred taxes is given in Note 29. Current income tax on the Bank's profit before tax differs from the theoretical amount that would result from the use of weighted average tax rate and would be as follows:

	2017.	2016.
Gain / (Loss) prior to taxation	1.830.885	(1.188.998)
Income tax credit per rate of 15%	(274.633)	178.350
Tax effects of income and expenses not recognized for tax purposes	(3.537)	(44.444)
Tax effect of unrecognised tax losses carried forward	-	(133.906)
Tax incentives based on losses transferred from previous years	287.470	-
Income tax presented in the income statement	**-**	**-**

The table below shows tax losses and the amount of unused tax credit per year:

Tax period of unused tax credit inception	Tax loss	Amount of unused tax credit	Last tax period in which unused tax credit may be used
2014- other	552.677	82.902	2019
2015	846.788	127.018	2020
2016	892.708	133.906	2021
TOTAL:	**2.292.173**	**343.826**	

All amounts are expressed in thousands of RSD except if indicated otherwise

17. EARNINGS PER SHARE

Earnings per share represent profit per unit of capital. For this reason, the earnings per share are determined from the ratio of net profit attribuatable to the Bank's shareholders and the weighted average number of shares outstanding during the period.

Earnings per share are given in the following table:

	2017.	2016.
Average weighted number of shares	11.343.217	11.097.112

Number	Description	2017.	2016.
1	Net gain / (loss) pertaining to owners of regular shares in RSD	1.807.885	(1.151.649)
2	Average weighted number of shares	11.343.217	11.097.112
3	**Income per share in RSD (1:2)**	**159,38**	**(103,78)**

During the year, the Bank issued a decision on the annulment of preferential shares, the owner of which was also Expobank ad CZ, and issued the Decision on issuing ordinary shares and thus increased the number of ordinary shares for 246.105.

18. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

	31.12.2017.	31.12.2016.
Bank account	665.704	1.325.765
Cash on hand in RSD	97.278	178.526
Receivables for calculated interest, fee and commission per cash funds held with the Central Bank	3	6
Cash on hand in foreign currency	146.467	287.961
Obligatory foreign currency reserve held with NBS	974.404	2.227.560
Prepayments per cash funds held with the Central Bank	442	761
Total	**1.884.298**	**4.020.579**

The Bank calculates and sets aside the mandatory reserve held with the National Bank of Serbia in the amount and in the manner prescribed by the NBS Decision on Banks' Required Reserves Held with the National Bank of Serbia (Official Gazette of RS No. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013), 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015).

The RSD mandatory reserve is set aside and placed on the Bank's gyro account and, therefore, it is accounted for separately. On 31 December 2017, the calculated required reserve in dinars amounted to RSD 609.395 thousand (31 December 2016: RSD 1.094.540 thousand).

The required reserve with the National Bank of Serbia represents the minimum reserve of dinar assets allocated in accordance with the Decision of the National Bank of Serbia and it may be used for liquidity if necessary. The Bank calculates the required reserve to the liabilities on dinar deposits, loans and securities, not including dinar deposits received for activities performed by the Bank on the behalf of third parties, and which do not exceed the amounts of placements provided by the Bank from those deposits.

The required reserve in the foreign currency is calculated by the Bank for the liabilities on foreign currency deposits, loans, securities and other foreign currency liabilities, as well as deposits, loans and other foreign currency assets received from abroad for activities performed by the Bank on the behalf of third parties.

Foreign currency basis for calculation of the required reserve is constituted by the daily balance of foreign currency funds in the previous month and the average daily balance of foreign currency liabilities and liabilities indexed by the foreign currency clause.

The Bank calculates the required reserve at a rate of 0% on the dinar base consisting of liabilities with the agreed maturity of over two years, i.e. 5% on the dinar base consisting of liabilities with the agreed maturity up to two years.

All amounts are expressed in thousands of RSD except if indicated otherwise

18. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK (continued)

The Bank calculates the mandatory reserve at a rate of 13% of the foreign currency base comprising of liabilities with the agreed maturity of over two years, and exceptionally at a rate of 100% of the part of the foreign currency base consisting of dinar liabilities indexed by foreign currency clause with the agreed maturity of over two years, i.e. 20% of the foreign currency base containing liabilities with the agreed maturity of up to two years, and exceptionally at a rate of 100% on the part of foreign currency base comprising of dinar liabilities indexed by foreign currency clause with the agreed maturity of up to two years.

19. Financial assets available for sale

Financial assets available for sale consist of:

	2017.	2016.
Securities available for sale in RSD	1.531.464	-
Securities available for sale in foreign currency	1.024.745	-
Premium / (discount)	(17.168)	-
Total	**2.538.041**	**-**

Securities available for sale in dinars and in currency relate to long-term RS bonds. The value of the bond is kept at fair value in the books of the bank.

20. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2017.	31.12.2016.
Bank's foreign currency account	53.474	313.662
The funds in the account with the domestic bank are intended for the purchase of the securities	242	-
The funds in the account of the foreign bank are intended for the purchase of the securities	183	-
Receivable for accrued interest on loans, deposits and other foreign currency placements	-	17
Other short-term loans given to domestic banks in foreign currency and overnight loans in foreign currency	-	987.778
Other general purpose foreign currency deposits	-	2.466.278
Other specific-purpose foreign currency deposits	10.663	11.017
Total	**64.562**	**3.778.752**

Decrease in other non-purpose deposits in relation to 2016. The year relates to the withdrawal of a deposit repurchase with the NBS in the equivalent of EUR 19.500.000 and USD 500.000.

All amounts are expressed in thousands of RSD except if indicated otherwise

21. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	31.12.2017.	31.12.2016.
Receivables in RSD		
Receivables for accrued interest on loans, deposits, and other receivables	27.477	80.973
Receivables for accrued fee and commission on loans, deposits and other receivables	4.235	4.689
Impairment allowance of receivables for accrued interest, fee and commission on loans, deposits and other receivables	(4.786)	(35.268)
Receivables for accrued interest on loans, deposits, and other foreign currency receivables	595	227
Impairment allowance of receivables for accrued interest, fee and commission on loans, deposits and other foreign currency receivables	-	-
Transaction accounts overdrafts	103.057	196.784
Consumer loans	3.845	175.812
Loans for liquidity and working capital	4.828.670	2.672.082
Investment loans	588.047	733.489
Housing loans	2.469.491	2.806.160
Cash loans	1.000.712	1.813.843
Other loans	696.248	2.769.207
Impairment allowance of loans in RSD	(266.880)	(1.172.920)
Receivables for discounted bills of exchange, acceptances and payments made for guarantees called on	-	254
Other loans and receivables	364	165
Impairment allowance of other loans and receivables in RSD	(15)	(262)
Accrued interest receivables on loans, deposits and other receivables	70.611	26.823
Impairment allowance of accrued receivables in RSD	(603)	(1.167)
Loans for payment of import of goods and services from abroad in foreign currency	33.251	41.174
Accrued interest receivables on loans, deposits and other foreign currency receivables	14.833	22
Deferred income from receivables measured at amortised cost using effective interest rate	(39.766)	(40.303)
Total	**9.529.386**	**10.071.784**

All amounts are expressed in thousands of RSD except if indicated otherwise

21. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

	Short-term loans		Long-term loans			
	In RSD	In foreign currency	In RSD	In foreign currency	Total 2017	Total 2016
On 1 January						
Receivables for interest and fees	8.531	17	77.130	227	85.905	381.217
Interest receivables for the year	86.177	160	528.343	2.543	617.222	969.197
Repayments	(91.666)	(177)	(576.803)	(2.175)	(670.821)	(1.264.525)
Impairment allowance of receivables for interest and fees	(492)	-	(4.294)	-	(4.786)	(35.268)
Accrued receivables for interest on loans, deposits and other receivables	10.480	-	60.132	14.833	85.444	26.845
Deferred income for receivables measured at amortised cost using effective interest rate	-	-	(39.766)	-	(39.766)	(40.303)
Impairment allowance of prepayments in RSD	(65)	-	(538)	-	(603)	(1.167)
Net interest and fee receivables 31 December	**12.964**	**-**	**44.203**	**15.428**	**72.595**	**35.996**
Loans due from customers on 1 January	421.758	-	10.746.038	41.174	11.208.970	17.552.691
New loans	4.556.336	-	9.834.172	10.270	14.400.778	8.616.859
Positive currency differences	-	-		-	-	-
Positive currency clause	2.594	-	56.846	-	59.440	279.820
Negative currency differences	-	-		-	-	-
Negative currency clause	(16.773)	-	(343.050)	-	(359.822)	(123.945)
Write-offs	-	-	(15.932)	-	(15.932)	(49.948)
Repayments	(4.246.629)	-	(11.304.926)	(18.193)	(15.569.747)	(15.066.507)
Impairment allowances	(30.002)	-	(236.893)		(266.895)	(1.173.182)
Net loans 31 December	**687.284**	**-**	**8.736.255**	**33.251**	**9.456.790**	**10.035.788**
Loans and receivables due from customers 31 December	**700.248**	**-**	**8.780.459**	**48.679**	**9.529.386**	**10.071.784**

Changes in loans and receivables from customers during the year are as follows:

	Enterprises	Entrepreneurs	Retail	Foreign entities	Other clients	Total 2017	Total 2016
Receivables for interest in RSD	14.604	3.234	9.442	198	0	**27.477**	**80.973**
Receivables for fees in RSD	72	27	3.636	64	435	**4.235**	**4.689**
Impaiment allowance of receivables for interest and fee in RSD	(1.621)	(833)	(2.310)	(4)	(18)	**(4.786)**	**(35.268)**
Receivables for interest in foreign currency	595	-	-	-	-	**595**	**227**
Impaiment allowance of receivables for foreign currency interest	-	-	-	-	-	-	-
Accrued receivables for interest calculated on the basis of loans, deposits and other placements	1.261	1.460	10.498	262	71.963	**85.444**	**26.846**
Imoairment of accrued receivables in RSD	(26)	(73)	(461)	(4)	(39)	**(603)**	**(1.168)**
Accrued income for income given by depreciated value using effective interest rate	(28.951)	(5.427)	(5.325)	(64)	-	**(39.766)**	**(40.302)**
Short-term loans							
- in RSD	687.795	6.222	22.925	-	-	**716.941**	**421.347**
Long-term loans		-					
- in RSD	4.825.735	528.792	3.586.533	32.069		**8.973.130**	**10.746.029**
- in foreign currency	33.251	-	-	-	-	**33.251**	**41.174**
Correction of loan value	(91.952)	(41.085)	(133.386)	(457)	-	**(266.880)**	**(1.172.920)**
Deposits given	-	-	-	-	-	-	-
- in RSD	-	-	-	-	-	-	-
Other placements	-	-	-	-	-	-	-
- in RSD	-	-	364	-	-	**364**	**419**
- in foreign currency	-	-	-	-	-	-	-
Correction of value of other placements	-	-	(15)	-	-	**(15)**	**(262)**
Total gross	**5.440.763**	**492.317**	**3.491.901**	**32.063**	**72.341**	**9.529.386**	**10.071.784**

All amounts are expressed in thousands of RSD except if indicated otherwise

21. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

Distribution of loans and receivables due from customers by sectors during the year was as follows:

Maturity structure of loans and receivables is as follows:

	31.12.2017.	31.12.2016.
Overdue loans	299.408	1.446.782
Up to 30 days	144.633	1.155.140
1-3 months	352.683	383.013
3-12 months	1.978.908	1.734.190
1-5 years	4.933.934	4.914.517
Over 5 years	2.040.026	3.339.373
Loans and receivables, gross	**9.749.592**	**12.973.015**

Overdue loans and receivables:

	31.12.2017.	31.12.2016.
Up to two months	299.408	1.432.169
Between two and six months	-	-
Between six months and one year	-	-
Over one year		14.613
Total loans due	**299.408**	**1.446.782**

The concentration of exposure to credit risk (including total loans and receivables due from customers, and risk-weighted off-balance sheet items) by industry is given in the table below:

	31.12.2017.	31.12.2016.
Accommodation and catering	74.951	387.864
Administrative and support service activities	144.814	99.169
Agriculture, forestry and fishing	401.807	237.769
Art, entertainment and recreation	10.337	129.932
Construction	809.721	963.924
Financial and insurance activities	10.675	186.772
Information and communication	14.663	14.909
Manufacturing industry	2.258.900	1.850.918
Professional, scientific, innovation and technical activities	217.652	324.172
Real estate	17.752	466.664
Transportation and storage	152.093	215.153
Wholesale and retail, repair of motor vehicle and motorbikes	1.852.242	1.998.769
Other	3.783.985	7.478.067
Loans and receivables - gross	**9.749.592**	**14.354.082**

Short-term loans were granted to citizens for a period of 6 months to 1 year, with interest rates at an annual level in the range between 12% and 17% for placements in dinars, and 10%-15% for placements with currency clause indexed in EUR. The interest rate for current account overdrafts on retail ranged between 21%-24% annually. Nominal interest rate for receivables on the basis of use of credit cards during 2017 was in the range between 19.56% and 29.84% annually.

Long-term dinar loans were granted to citizens for a period of 13-120 months with an annual interest rate of 6M BELIBOR+3% to 17%.

Long-term loans with a currency clause indexed in euros were granted to citizens for a period of 13-360 months with annual interest rate of 6M EURIBOR+2.9% to 15%.

All amounts are expressed in thousands of RSD except if indicated otherwise

21. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

Short-term loans in dinars and foreign currency were granted to legal entities and sole proprietors for a period of 1-12 months for financing business activities with interest rates in the range of:
- annual interest rates in the amount of 6M BELIBOR+3% to 15% for dinar loans
- 6M EURIBOR + 4,5% to 10% annually for placements with currency clause indexed in Euros;

Long-term loans in dinars and foreign currency were granted to legal entities and sole proprietors for a maximum period of 8 years with interest rates in the range of:
- 3M BELIBOR+4% to 17% for dinar loans annually;
- 6M EURIBOR+4.5% to 12% annually for placements with currency clause indexed in Euros;

In September 2017, a product modification was made for all placements for individuals other than housing loans, which terminated the status of "Other clients of the Bank", ie, the interest rate is the same for clients who receive and who do not receive income in the Bank (it remained at the level that was for the clients who receive the profit).

As for legal entities and entrepreneurs, in October 2017 certain products were abolished, including a revolving credit line for short-term loans (within this line was the interest rate of 3% + 6M Belibor). It was introduced that the interest rate depends on the amount (up to and up to EUR 100,000) and from security, while the previous interest rate depended on the amount only for loans secured by a mortgage (from and up to EUR 50.000).

22. INTANGIBLE ASSETS

Cost	
Balance on 1 January 2016	**274.364**
Additions	12.096
Disposals	(11.377)
Balance on 31 December 2016	**275.083**
Accumulated amortization	
Balance on 1 January 2016	**146.151**
Depreciation	50.644
Disposals	(11.286)
Balance on 31 December 2016	**185.509**
Cost	
Balance on 1 January 2017	**275.083**
Additions	16.048
Disposals	(9.439)
Balance on 31 December 2017	**281.692**
Accumulated amortization	
Balance on 1 January 2017	**185.509**
Depreciation	47.258
Disposals	(2.763)
Balance on 31 December 2017	**230.004**
Net book value on 1 January 2017	**89.574**
Net book value on 31 December 2017	**51.688**

All amounts are expressed in thousands of RSD except if indicated otherwise

23. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipment and other fixed assets	Fixed assets in progress	Leashold improvements	Total
Cost					
Balance on 1 January 2016	608.562	440.929	-	45.352	**1.094.843**
Additions	-	396	-	-	**396**
Reclassification from foreclosed assets	(95.730)	-	-	-	**(95.730)**
Transfers	-	-	-	-	**-**
Disposals (sale)	-	-	-	-	**-**
Write off	-	(37.821)	-	-	**(37.821)**
Balance on 31 December 2016	**512.832**	**403.504**	**-**	**45.352**	**961.688**
Accumulated depreciation					
Balance on 1 January 2016	169.944	360.572	-	40.475	**570.991**
Charge for the year	7.704	28.003	-	2.043	**37.750**
Disposals (sale)	(2.489)	-	-	-	**(2.489)**
Write off	-	(37.583)	-	-	**(37.583)**
Balance on 31 December 2016	**175.159**	**350.992**	**-**	**42.518**	**568.669**
Net book value on 1 January 2016	**438.618**	**80.357**	**-**	**4.877**	**523.852**
Net book value on 31 December 2016	**337.673**	**52.512**	**-**	**2.834**	**393.019**

	Buildings	Equipment and other fixed assets	Fixed assets in progress	Leashold improvements	Total
Cost					
Balance on 1 January 2017	512.832	403.504	-	45.352	**961.688**
Additions	-	3.313	-	-	**3.313**
Reclassification to foreclosed assets	(21.517)	-	-	-	**(21.517)**
Transfers	(31.365)	-	-	-	**(31.365)**
Disposals (sale)	-	-	-	-	**-**
Write off	(3.193)	(107.776)	-	-	**(110.969)**
Balance on 31 December 2017	-	(19.579)	-	(29.341)	**(48.920)**
Accumulated depreciation	**456.757**	**279.462**	**-**	**16.011**	**752.230**
Balance on 1 January 2017	175.159	350.992	-	42.518	**568.669**
Depreciation	6.585	22.137	-	931	**29.653**
Reclassification	(1.299)	-	-	-	**(1.299)**
Disposal (sale)	(1.185)	(104.473)	-	-	**(105.658)**
Write off	-	(19.330)	-	(29.341)	**(48.671)**
Balance on 31 December 2017	**179.260**	**249.326**	**-**	**14.108**	**442.694**
Net book value on 1 January 2017	**337.673**	**52.512**	**-**	**2.834**	**393.019**
Net book value on 31 December 2017	**277.497**	**30.136**	**-**	**1.903**	**309.536**

All amounts are expressed in thousands of RSD except if indicated otherwise

23. PROPERTY, PLANT AND EQUIPMENT (continued)

The reconciliation of market value and carrying value of construction objects was posted on December 21, 2017, based on estimates made in October 2017 by independent appraisers (CBR). The estimate was made on the basis of market prices. The estimate is the reduced purchase value of construction objects in the net amount of RSD 21.517 thousand, which was reflected in the decrease in the revaluation reserve for RSD 2.944 thousand, while RSD 18.573 thousand was credited to the Bank's expense.

In 2017, the Bank stopped using the building in Kraljevo (this real estate, acquired by collection of receivables and registered in the Bank's books in the amount of RSD 49.938 thousand, was put into use on November 30, 2015) and after impairment based on estimates for the amount of RSD 18.573 thousand, December 21, 2017 was put in use on December 21, 2017 and returned to the position of the preoceds of collecting receivables.

Fair value of construction facilities as of 31 December 2017 is presented in the following table:

	Level 1	Level 2	Level 3	Total
Construction facilities	-	-	277.497	277.497
Total	**-**	**-**	**277.497**	**277.497**

Fair value of construction facilities on 31 December 2016 is presented in the following table:

	Nivo 1	Nivo 2	Nivo 3	Ukupno
Construction facilities	-	-	337.673	337.673
Total	**-**	**-**	**337.673**	**337.673**

Rental costs in the amount of RSD 44.118 thousand (2016: RSD 62.015 thousand) related to the rental of real estate are included in the income statement.

Buildings are not encumbered by mortgages as a collateral for loan repayment.

24. INVESTMENT PROPERTY

	31.12.2017.	31.12.2016*.
Investment property	201.636	648.757
Total (Note 3.1)	**201.636**	**648.757**

At the end of 2017, the value of all investment property that was in the condition was reduced to the value estimated by the authorized assessors of CBRE Serbia.

Below is a comparative overview of the value of investment property, where the value decreased, as of January 1,2017 (Note 3.1) and December 31, 2017.

	Book value before valuation	Value-assessment / investment correction	Reclassification	Book value 31.12.2017.
Residential building and land Stepojevac	57.000	-	Transferred to 304	
Property at 15 Kralja Petra St., 15	123.912	-	Transferred to 304	
Apartment with gallery, Admirala Vukovića 66., Belgrade	31.379	(1.432)	-	29.947
Business facility for storing and keeping fruit and vegetables with packaging and processing in Šimanovci	165.093	1.942	-	167.035
Business space No. 1 in 70 Milutina Milankovića St.	9.421	(4.767)	-	4.654
Gas station "EUROLUXPETROL"	198.261	-	Sold	
Food industry facility and production of pizza Nova Varoš	63.691	-	Transferred to 304	
Total	**648.757**	**(4.257)**		**201.636**

All amounts are expressed in thousands of RSD except if indicated otherwise

24. INVESTMENT PROPERTY (continued)

The Bank had a subsequent investment in investment property in the amount of RSD 1.000 thousand, and related to the business building in Simanovac and increased its value for that amount. All operating costs are borne by the lessee. The costs of property tax as well as the costs of the tax on the transfer of absolute rights are at the expense of the Bank. Net income from lease for 2017 is RSD 10.317 thousand.

During 2017, three real properties were transferred in the amount of RSD 244.603 thousand, to the position of the asset acquired through collection of receivables, as well as the sale of an investment property in the total amount of RSD 202.530 thousand, resulting in income from this sale in the amount of RSD 4.270 one thousand. The sale of the real estate is a petrol pump acquired in 2012, from the debtor ELP Bagrdan doo Belgrade and at the time of sale its book value was RSD 198.261 thousand.

The net income from investment property in 2017 is shown in the table below.

	Book value 31.12.2017.		**Total cost**	**Realized income from lease**	**Net income**
Residential building and land Stepojevac		Annex II 15.04.2016	286	353	67
Property at 15 Kralja Petra St., 15		Annex II 17.04.2016	939	2.441	1.502
Apartment with gallery, Admirala Vukovića 66, Belgrade	29.947	Annex I 20.05.2016	126	730	604
Business facility for storing and keeping fruit and vegetables with packaging and processing in Šimanovci	167.035	Annex 25.09.2014.	660	7.200	6.540
Business space No. 1 in 70 Milutina Milankovića St.	4.654	Annex 03.11.2014.	38	175	137
Gas station "EUROLUXPETROL"		Annex I 15.07.2013. Annex II 26.09.2013.	763	2.202	1.439
Food industry facility and production of pizza Nova Varos		19.12.2012. 14.07.2014. Annex I 03.09.2015. Annex II 23.06.2016.	343	371	28
Total	**201.636**		**3.155**	**13.472**	**10.317**

Real estate transferred to assets acquired through collection of receivables are:

	Book value at the time of transfer	Date of transfer	Decision on transfer
Residential building and land Stepojevac	57.000	31.03.2017.	br.96a/17
Property at 15 Kralja Petra St., 15 Stari Grad, Belgrade	123.912	31.03.2017.	br.96a/17
Food industry facility and production of pizza Nova Varos	63.691	31.07.2017.	Br.200/17
Total	**244.603**		

All amounts are expressed in thousands of RSD except if indicated otherwise

24. INVESTMENT PROPERTY (continued)

The book value of investment property at the beginning and at the end of the period:

Balance as of January 1, 2016	**1.039.983**
Correction (Note 3.1)	(228.793)
Sale	(87.396)
Transfer from funds acquired through collecting receivables	(75.037)
Balance at December 31, 2016	**648.757**
Balance as of January 1, 2017	**648.757**
Value-valuation / investment correction	(4.257)
Sale	(198.261)
Transfer from funds acquired through collecting receivables	(244.603)
Balance at December 31, 2017	**201.636**

25. OTHER ASSETS

	31.12.2017.	31.12.2016.
Fee and commission receivables	1.689	1.861
Impairment allowance of receivables for fee and commission, receivables on sale and other receivables in RSD	(642)	(1.318)
Advances paid for working capital	11.104	10.170
Receivables from employees	3.798	4.204
Receivables on the basis of prepaid taxes and contributions	32	8
Other operating receivables	56.592	165.938
Suspense and temporary accounts	729	(1.343)
Receivables in settlement	713	5.003
Impairment allowance of other receivables	(52.954)	(147.665)
Foreign currency advances paid for working capital	5.859	14.305
Receivables from employees in foreign currency	7.306	7.627
Other receivables from business in foreign currency	222	157.838
Receivables in settlement in foreign currency	1.365	2.329
Impairment allowance of other receivables in foreign currency	(7.302)	(164.973)
Other investments	476	476
Other deferred expenses	3.432	15.219
Other prepayments	15.143	16.301
Foreclosed assets	368.360	377.841
Total	**415.923**	**463.821**

Within other operating receivables of RSD 56.592 thousand (31 December 2016: RSD 165.938 thousand) the largest part is mainly related to receivables on the basis of initiation and conduct of legal proceedings in the amount of RSD 28.685 (31 December 2016: RSD 28.685), receivables for leases and reinvoiced expenses on the basis of disputed activities in the amount of RSD 17.964 (31 December 2016: RSD 17.526), and receivables for leases and receivables on the basis of disputed in the amount of RSD 4.678 (31 December 2016: RSD 95.969).

Receivables on the basis of advance payments provided for working assets in foreign currency in the amount of RSD 5.859 thousand (31 December 2016: RSD 14.305 thousand) are related to the advance payment with Banca Intesa for the use of Visa and Master cards.

Also, the amount of funds acquired through collection of receivables amounting to 368.360 thousand at the end of 2017 (as of December 31, 2011: RSD 377.841 thousand) and the balance does not reflect any significant changes in this account.
However, during the year, a new acquisition of RSD 19.229 thousand was made, reclassification from the position of investment property and fixed assets in the total amount of RSD 274.670 thousand, sale in the amount of RSD 286.412 thousand, as well as a decrease in value due to estimation for RSD 16.967 thousand.

All amounts are expressed in thousands of RSD except if indicated otherwise

25. OTHER ASSETS (continued)

Below we give an overview of the property that was on 31.12.2017. recorded as an asset acquired through collecting receivables.

Date of acquisition	DESCRIPTION OF PROPERTY	Posting date	Impact of estimates	31.12.17	Note
17.3.2016.	Valjevo, apartment number 3, within the family residential building number 1, cad. 3319/1, LN 7228, KO Valjevo, atreet Prešernova 23	17.03.2016.	89	3.102	
01.07.2016	Residential and commercial building, KO Cacak, kat.parc. 4554/2 – THREE FACILITIES	01.07.2016	4.435	9.306	
08.05.2016	LN 4425, KO Padina, plot 2873/79, street Sportska 13/B	08.05.2016	920	1.432	
01.09.2016	Two bedroom apartment, measuring 77 m2, street Prokop 3 sokače 1a, first floor	01.09.2016	(262)	7.350	
10.01.2016	Parc. 584, building nu,ber in street Milošev put 57, KO Novi Bečej, LN 13393, land under building 67m2, 35 m2,, 8m2,	10.01.2016	448	597	
12.03.2012	Residential building in street Zelena Gora br 9, second floor, apartment 10, Kraljevo	12.03.2012	288	2.625	
30.05.2013.	Business premises, Svetozara Markovića no. 49 (MANJEŽ), Beograd	30.05.2013.	(3.500)	69.200	
12.07.2016	1/2 Family buildings. street Ivo Lola Ribar no. 47,in the town of Lok near Titela, 83 m2 with a garden 520 m2; 1/2 Filed category 3 520 m2; 1/2 Arable land under orchard category 2 2011 m2	12.07.2016	625	859	
18.01.2017	Three bedroom apartment 78 M2 in Novi Sad, on the second floor,street Narodnog Fronta b. 16	18.01.2017	1.807	7.397	
29.11.2013	Real estate, street Kralja Petra no.15, Stari grad, Belgrade –business premises bb in the attic in a business building (bulding no.1 k.p. 1902 KO Stari Grad –bookkeeping of estimates - 28.02.2017.-110.884.100	31.03.2017	(16.532)	107.380	Transferred from investment
30.04.2013.	Residential building and land, Stepojevac	31.03.2017	(9.275)	47.724	Transferred from investment
31.3.2017	Family building 84 M2 Grocka street Dimitrija Tucovića 11	31.03.2017	883	2.983	
31.3.2017	Land 5,78 ari Ko Valjevo	31.03.2017	(60)	799	
11.4.2017	Two bedroom apartment Braće Jerković 134a Belgrade 46m2	11.04.2017	250	5.250	
19.4.2017	Family residential building-zmajevo 128 m2+parcela 604 m2	19.04.2017	319	954	
21.12.2012	HYLA/Agreement on the sale of movable and immovable items since 26.12.2011. OV3 br.267/2011	31.7.2017	1.930	65.621	Transferred from investment
4.8.2017	Family residential building, Bore Atanackovića 20 Valjevo	04.08.2017	669	1.969	
6.11.2017	Family residential building, street Rada Končara 36	06.11.2017		3.745	
19.11.2014	Business premises, Kraljevo, Omladinska bb	21.12.2017		30.066	Transferred from fixed assets
	TOTAL:		**(16.967)**	**368.360**	

All amounts are expressed in thousands of RSD except if indicated otherwise

26. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

	31.12.2017.	31.12.2016.
Transaction deposits	4.271	24.207
Other deposits	3.330	3.190
Other financial liabilities	2.884	2.848
Liabilities from fees and commissions on borrowings, deposits and other financial liabilities	586	839
Other liabilities on bonds	3	
Accrued interest payable on borrowings, deposits and other financial liabilities	127	188
Transaction deposits in foreign currency	9.068	265
Deposits related to given loans in foreign currency	0	1.191.572
Other deposits in foreign currency	1.587.064	687.534
Borrowings in foreign currency	2.945.191	5.271.693
Accrued interest payable on borrowings deposits and other financial liabilities in foreign currency	4.123	5.839
Total	**4.556.647**	**7.188.174**

Deposits related to given loans in foreign currency, the amount of RSD 1.587.064 thousand (December 31, 2016: RSD 687.534 thousand), the largest part in the amount of RSD 1.039.720 thousand relates to deposits Expobank CZ (CHF 3.715 thousand and EUR 5.600 thousand). The rest is mainly made up of Raiffeisen's deposit of EUR 3.000 thousand, Serbian Bank of EUR 1.600 thousand with the following structure and terms:

Date of Agreement	Currency	Amount in the currency	Amount in 000 RSD	Maturity	Fixed-time deposit	Interest rate %
30.11.2017	CHF	3.715.000	376.273	28.2.2018	3M	1,2480
22.01.2017	EUR	5.600.000	663.447	05.1.2018	6M	1,0000
29.12.2017	EUR	1.600.000	189.556	05.1.2018	7D	0,1000
14.12.2017	EUR	3.000.000	355.418	14.12.2018	1G	1,5000
Total CHF	**CHF**	**3.715.000**				
Total EUR	**EUR**	**10.200.000**				
Total in 000 RSD			**1.584.694**			

Loans received in foreign currency in the amount of RSD 2.945.191 thousand (December 31, 2016: RSD 5.271.693 thousand) relate to loans received from EXPOBANK CZ in the amount of EUR 24.432 thousand and CHF 500 thousand, with the following structure and conditions:

Date of Agreement	Currency	Amount in the currency	Amount in 000 RSD	Maturity	Fixed-time deposit	Interest rate %
14.8.2009	EUR	24.432.196	2.894.548	21.4.2020	1M	1,6290
7.11.2012	CHF	500.000	50.642	9.1.2018	6M	1,3150
Total in 000 RSD			**2.945.191**			

All amounts are expressed in thousands of RSD except if indicated otherwise

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

The decrease in the position of loans received in foreign currency is the consequence of the repayment of part of the liabilities to the Bank of Cyprus in the amount of EUR 16.739 thousand as a result of the execution of the concluded Discount Protocol.

The original contracts on long-term loans were signed as of 14/08/2009 and 07/11/2012 with Cyprus Popular Bank Ltd. Later, the lenders changed on various bases, but the original long-term loan that was declared as such by the NBS has not changed, only the data on the creditor and the annexed amounts changed. The last creditor is Expobank CZ a.s, which on the basis of the purchase agreement of the bank took over claims on long-term loans from the previous creditor, which was Bank of Cyprus.

27. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

	31.12.2017.	31.12.2016.
Transaction deposits	1.169.016	1.628.878
Savings deposits	595.740	881.333
Deposits related to given loans	12.417	20.536
Specific purpose deposits	4.396	7.544
Other deposits	206.878	519.013
Other financial liabilities	1.235	1.235
Liabilities from interests on borrowings, deposits and other fin. liabitilies	472	3
Accrued interest payable on borrowings, deposits and other financial liabilities	8.221	3.428
Transaction deposits in foreign currency	977.193	1.192.008
Savings deposits in foreign currency	3.138.589	4.823.052
Deposits related to given loans in foreign currency	169.123	167.822
Specific purpose deposits in foreign currency	65.691	11.004
Other deposits in foreign currency	118.922	239.017
Other financial liabilities in foreign currency	15.646	7.403
Accrued interest payable on borrowings, deposits and other financial liabilities in foreign currency	27.234	49.861
Total	**6.510.773**	**9.552.137**

All amounts are expressed in thousands of RSD except if indicated otherwise

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

	Enterprises	Entrepreneurs	Public sector	Retail	Foreign entities	Other clients	Total 2017	Total 2016
Transaction deposits								
- in RSD	798.925	136.759	76	136.840	4.793	91.622	**1.169.015**	**1.628.878**
- in foreign currency	191.489	13.986	-	660.913	110.150	655	**977.193**	**1.192.008**
Savings deposits								
Short-term deposits:								
- in RSD	-	-	-	461.752	-	-	**461.752**	**750.218**
- in foreign currency	-	-	-	1.882.830	15.672	-	**1.898.502**	**3.010.459**
Long-term deposits:								
- in RSD	-	-	-	133.989	-	-	**133.989**	**131.115**
- in foreign currency	-	-	-	1.199.096	40.992	-	**1.240.088**	**1.812.593**
Deposits based on granted loans								
Short-term deposits:								
- in RSD	-	-	-	-	-	-	**-**	**136**
- in foreign currency	-	-	-	19.337	-	-	**19.337**	**30.026**
Long-term deposits:								**-**
- in RSD	12.000	-	-	417	-	-	**12.417**	**20.400**
- in foreign currency	41.753	-	-	107.767	266	-	**149.786**	**137.795**
Specific-purpose deposit								
Short-term deposits:								
- in RSD	460	-	-	211	-	-	**671**	**1.245**
- in foreign currency	429	-	-	-	225	47	**702**	**6.435**
Long-term deposits:								
- in RSD	3.725	-	-	-	-	-	**3.725**	**6.299**
- in foreign currency	64.989	-	-	-	-	-	**64.989**	**4.568**
Other deposits								
Short-term deposits:								
- in RSD	192.428	-	1	-	-	3.309	**195.738**	**519.013**
- in foreign currency	81.775	-	-	-	-	6.012	**87.787**	**232.844**
Long-term deposits:								
- in RSD	11.140	-	-	-	-	-	**11.140**	**-**
- in foreign currency	31.135	-	-	-	-	-	**31.135**	**6.174**
Total	**1.430.248**	**150.745**	**77**	**4.603.152**	**172.098**	**101.645**	**6.457.965**	**9.490.206**
Other financial liabilities								
- in RSD	-	-	-	1.235	-	-	**1.235**	**1.235**
- in foreign currency	15.647	-	-		-	-	**15.647**	**7.402**
Interest liabilities								
- in RSD	453	-	-	-	-	19	**472**	**3**
- in foreign currency	-	-	-	-	-	-	**-**	**-**
Fee liabilities								
- in RSD	-	-	-	-	-	-	-	-
Accrued interest payable on borrowings, deposits and other financial liabilities								
- in RSD	539	-	-	7.629	-	52	**8.220**	**3.430**
- in foreign currency	420	-	-	26.561	209	44	**27.234**	**49.861**
Total	**17.059**	**-**	**-**	**35.425**	**209**	**115**	**52.808**	**61.931**
Total deposits and other liabilities	**1.447.307**	**150.745**	**77**	**4.638.577**	**172.306**	**101.761**	**6.510.773**	**9.552.137**

Transaction deposits are non-interest bearing.

The interest rate for short-term deposits in RSD ranged from 2% - 4%.
The interest rate for short-term deposits in EUR ranged from 0.25% - 1%.
The interest rate for long-term deposits in EUR ranged from 0.65% - 1,5%.

Short-term retail savings deposits in foreign currency refer to: avista savings deposits of natural persons in foreign currency in the amount of RSD 26.287 thousand (on 31 December 2016: RSD 40.606 thousand), up to one month in the amount of RSD 635 thousand (on 31 December 2016: RSD 719 thousand), up to three months in the amount of RSD 33.543 thousand (on 31 December 2016: RSD 47.496 thousand), up to four months in the amount of RSD 3.550 thousand (on 31 December 2016: RSD 9.531 thousand;), up to six months in the amount of RSD 81.068 thousand (on 31 December 2016: RSD 164.154 thousand), at nine months in the amount of RSD 2.041 thousand (on 31 December 2016: RSD 14.645 thousand) and up to one year in the amount of RSD 1.735.706 thousand (on 31 December 2016: RSD 2.696.840 thousand).

All amounts are expressed in thousands of RSD except if indicated otherwise

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

Long-term retail savings deposits in foreign currency at 13 months amount to RSD 34.069 thousand (on 31 December 2016: RSD 136.688 thousand), at 15 months they amount to RSD 76.837 thousand (on 31 December 2016: RSD 215.770 thousand) and at 25 months they amount to RSD 1.088.190 thousand (on 31 December 2016: RSD 1.459.395 thousand).

Interest rates for long-term deposits in RSD (25 months) ranged from 4%, while interest rates for long-term deposits in EUR ranged from 0,6-1,5%, and in USD, CHF, GBP from 0,1%.

Short-term savings deposits of foreign entities in foreign currency refer to avista savings deposits in the amount of RSD 108 thousand (on 31 December 2016: RSD 12.471 thousand), up to three months in the amount of RSD 2.554 thousand (on 31 December 2016: RSD 2.656 thousand), up to six months in the amount of RSD 306 thousand (on 31 December 2016: RSD 361 thousand) and up to nine months in the amount of RSD 12.703 thousand (on 31 December 2016: RSD 20.974 thousand) and long-term deposits for 25 months amount to RSD 40,992 thousand (December 31, 2016: RSD 741 thousand).

28. PROVISIONS

	31.12.2017.	31.12.2016.
Provisions for court litigations	8.179	8.332
Provisions for losses per off-balance sheet items	3.362	1.828
Provisions for pensions	3.484	8.794
Provisions for vacations	9.473	11.167
Total	**24.498**	**30.121**

Provisions for court litigations in the amount of RSD 8.179 thousand (on 31 December 2016: RSD 8.332 thousand) refer to provisions for potential liabilities arising due to the possibility of losing the Bank's litigations. Provisions were formed based on the assessment of litigations by the Bank's legal department and external attorneys. The formed amount of provisions represents the best possible assessment of the Bank's management regarding expected loss for court litigations, where a negative outcome for the Bank was estimated.

As of 31 December 2017, provisions for pensions in the amount of RSD 3.484 thousand (on 31 December 2016: RSD 8.794 thousand) were determined in accordance with IAS 19.

Provisions for vacation in the amount of RSD 9.473 thousand (December 31, 2016: RSD 11.167 thousand) were reduced due to a significant reduction in the number of employees.

Movement in provisions during 2017:

	Provisions for pensions	Other provisions for employees	Provision for other liabilities	Provision for unidentified shareholders
Balance on 01.01.2017.	8.794	11.167	8.332	1.828
Charge for the year	-	5.085	-	5.565
Reversal	(5.310)	(6.779)	(153)	(4.031)
Balance on 31 December 2017	**3.484**	**9.473**	**8.179**	**3.362**

Movement in provisions during 2016:

	Provisions for pensions	Provisions for other long-term earnings of employees	Other provisions for employees	Provision for other liabilities	Provision for unidentified shareholders
Balance on 01/01/2016	7.801	10.782	3.809	15.000	3.177
Provisions during the year	993	385	4.523	-	2.596
Used reservations	-	-	-	(15.000)	(3.945)
Balance on 31/12/2016	**8.794**	**11.167**	**8.332**	**-**	**1.828**

All amounts are expressed in thousands of RSD except if indicated otherwise

29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes are calculated on temporary differences under the liability method using the effective 15% tax rate (31.12.2016: 15%).

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 relate to the same fiscal authority.

The reported deferred tax assets for 2016 are the result of correction (note 3.1), reflecting the deferred tax result for 2016 and 2017.

	31.12.2017.	**31.12.2016*.**
Deferred tax assets	1.749	10.263
Deferred tax liabilities	(14.466)	-
Net deferred tax liabilities (Note 3.1)	**(12.717)**	**10.263**

Movement in deferred tax assets and liabilities are presented in the following table:

	Tax credits- provision for court litigations	**Tax credits – provision on the basis of IAS 19**	**Tax depreciation**	**Total**
Balance on 01/01/2016	**-**	**1.170**	**(28.255)**	**(27.085)**
Charged (credited) to income statement	678	149	2.203	3.030
Correction (Note 3.1)	-	-	34.319	34.319
Balance on 31/12/2016	**678**	**1.319**	**8.267**	**10.264**
Charged (credited) to income statement	549	(797)	(22.733)	(22.981)
Balance on 31/12/2017	**1.227**	**522**	**(14.466)**	**(12.717)**

All amounts are expressed in thousands of RSD except if indicated otherwise

30. OTHER LIABILITIES

	31.12.2017.	31.12.2016.
Other liabilities in RSD		
Liabilities towards suppliers	16.400	61.301
Liabilities on the basis of received advances	-	-
Liabilities from profit	233	5.009
Other operating liabilities	32.454	30.118
Liabilities in settlement	21.039	21.611
Transfer and temporary accounts	-	12
Liabilities on the basis of temporary and seasonal employees	888	926
Other liabilities towards employees	421	693
Liabilities for value added tax	1.306	2.153
Liabilities for other taxes and contributions	4.160	6.077
Deferred interest income	3.463	3.468
Deferred other income	2.583	3.074
Other accruals and deferred revenues	354	124
Liabilities towards suppliers in foreign currency	861	1.247
Other operating liabilities in foreign currency	16.696	18.221
Liabilities in settlment in foreign currency	-	678
Other accruals in foreign currency	464	-
Total	**101.323**	**154.712**

Other operating liabilities in the amount of RSD 32.454 thousand (on 31 December 2016: RSD 30.118 thousand) mostly refer to liabilities on the basis of accrued expenses in the amount of RSD 14.814 (on 31 December 2016: RSD 15.401) and to the transfer of funds of natural persons from the closed accounts in the amount of RSD 11.073 thousand (on 31 December 2016: RSD 9.673 thousand).

Liabilities in settlment in the amount of RSD 21.039 thousand (on 31 December 2016: RSD 21.611 thousand) mostly refer to advance payments related to retail loans in the amount of RSD 16.126 thousand (on 31 December 2016: RSD 11.656 thousand) and payments per corporate loans in the amount of RSD 2.564 thousand (on 31 December 2016: RSD 3.155 thousand).

Other operating liabilities in foreign currency in the amount of RSD 16.696 thousand (on 31 December 2016: 18.221 thousand) mostly refer to the transfer of funds from closed accounts in foreign currency in the amount of RSD 15.482 thousand (on 31 December 2016: RSD 16.842 thousand).

31. EQUITY

The Bank presents within Equity its share capital, share premium, current year profit/loss, prior periods profit/loss, reserves created from profit, other reserves, revaluation reserves, and unrealised loss on available-for-sale securities.

	31.12.2017.	31.12.2016.
Share capital – ordinary shares	5.671.608	5.548.557
Share premium	2.877.487	2.877.486
Gain/(Loss) from the current year	1.807.885	(1.151.649)
Loss from the previous years	(7.034.843)	(5.884.782)
Reserves from profit	103.228	103.228
Other reserves	48.445	48.445
Revaluation reserves from valuation of properties	263.586	268.118
Actuary losses/gains per defined benefit plans	(2.455)	(2.231)
Revaluation reserves valuation of securities available for sale	68.309	-
Unrealized losses on securities available for sale	(10.211)	-
Total	**3.793.039**	**1.807.172**

All amounts are expressed in thousands of RSD except if indicated otherwise

31. EQUITY (continued)

	31.12.2017.		31.12.2016.	
	Share capital	**% of capital**	**Share capital**	**%Capital**
Cyprus Popular Bank	-	-	5.497.130	99,07
Expobank CZ	5.671.608	100,00		
Total	**5.671.608**	**100,00**	**5.497.130**	**99,07**
Other	-	-	51.427	0,93
Total share capital	**5.671.608**	100.00	**5.548.557**	100.00

a) Share capital and the Share premium

Expobank CZ Bank is the owner of 100% of the Bank's capital. The total value of share capital with the share premium as at 31 December 2017 amounts to RSD 8.549.095 thousand (31 December 2016: RSD 8.426.043 thousand.

b) Revaluation reserves

Revaluation reserves comprise the effects of changes in fair value of properties.

c) Reserves from profit

Reserves from profit were created for estimated losses, general banking risks and other reserves from profit in accordance with legal regulations, the Bank's Statute and other internal rules and regulations.

The difference between provisions calculated under NBS regulations and those calculated in accordance with the Bank's internal calculation methodology are stated as the missing reserve in accordance with item 3, paragraph 2, provision 4 of the Decision on the Capital Adequacy of Banks.

Total special reserves for estimated losses on balance sheet assets and off-balance sheet items amount to RSD 929.393 thousand (31 December 2016: RSD 2.367.888 thousand). Provision for balance sheet assets and off-balance sheet items classified under the Bank's internal rules and regulations amounts to RSD 272.283 thousand (31 December 2016: 1.525.496 thousand). Total special reserves from profit for estimated losses on balance sheet assets and off-balance sheet items amount to RSD 683.208 thousand (31 December 2016: 926.576 thousand), whereby a total of RSD 679.306 thousand (on 31 December 2016: RSD 923.220 thousand) refers to balance assets; and RSD 3.902 thousand (on 31 December 2016: RSD 3.356 thousand) refers to off-balance sheet assets.

d) Profit from the current period

Profit from the current year in the amount of RSD 1.807.884 thousand (in 2016: loss in RSD 1.151.649 thousand) represents the negative difference between income and expenses of the accounting period, reduced by the income from deductions of deferred tax liabilities, in the amount of RSD 22.733 thousand and reduced by the income from the increase of deferred tax assets, in the amount of RSD 248 thousand. Prior years' loss is covered in accordance with the Law, the Statute and the Founding Agreement of the Bank stipulating that the loss in the Bank's operations shall be covered in the following order:

1. From the current operating income;
2. From the Bank's reserves; and
3. From the Bank's share capital, i.e. the shareholder interest, where funds from items 1 and 2 are not sufficient.

All amounts are expressed in thousands of RSD except if indicated otherwise

32. COMPLIANCE WITH INDICATORS PRESCRIBED BY THE NATIONAL BANK OF SERBIA

The Bank is obliged to perform its business activities in accordance with provisions of the Law on Banks and other regulations of the National Bank of Serbia. According to the annual accounts for 2017, the Bank achieved the following indicators:

Business indicators	Prescribed	Achieved in 2017
Capital	Min. EUR 10.000.000	22.621.414
Capital adequacy ratio	Min. 12%	31,04%
The Bank's investments	Maks. 60%	19,09%
The sum of large exposures of the Bank, as follows:	Maks 400%	0,52%
The sum of large exposures to a single entity or a group of related entities		-
The sum of exposures to entities related to the Bank		0,52%
Average monthly liquidity ratio:		
- in the first month of the period	Min. 1,00	3,04
- in the second month of the period	Min. 1,00	2,30
- in the third month of the period	Min. 1,00	3,10
Foreign currency risk ratio	Max 20%	6,17

As of 31 December 2017, the Bank had achieved compliance of all indicators,

33. RELATED PARTY TRANSACTIONS

	31.12.2017.		31.12.2016	
Assets	**Parent entity – Expobank LLC**	**Other related parties**	**Parent entity - Cyprus Popular**	**Other related parties**
Foreign currency accounts	5.843	26.368	-	1.251
Interest receivables	-	-	-	1
Receivables for compensation according to credits and deposits	-	9	-	9
Other operating receivables	-	-	-	18
Other foreign currency operating receivables	-	-	157.350	-
Housing loans	-	22.724	-	18.968
Cash loans	-	1.587	-	1.352
Other loans	-	149	-	81
Accrued interest receivables on loans, deposits and other receivables	-	-	-	16
Total assets	**5.843**	**50.837**	**157.350**	**21.696**

A foreign currency account with a value of RSD 26.368 thousand relates to funds on the account opened by the Bank with Expobank LLC in Moscow for the purchase of securities.

Housing loans in the amount of RSD 22.724 thousand (31 December 2016: RSD 18.968 thousand) are loans given to employees that are considered as the Bank's related parties according to the effective Law on Banks. The approved loans were granted at market conditions. No impairment allowance was made for these loans.

All amounts are expressed in thousands of RSD except if indicated otherwise

33. RELATED PARTY TRANSACTIONS (continued)

	31.12.2017.		31.12.2016.	
	Parent entity – Expobank LLC	Other related parties	Parent entity - Cyprus Popular	Other related parties
Liabilities				
Transaction deposits in RSD	57	1.369	22.346	7.558
Transaction deposits in foreign currency	9.069	2.047	264	4.770
Savings deposits in RSD	-	692	-	561
Other deposits in RSD	-	-	-	-
Savings deposits in foreign currency	-	20.882	-	21.592
Deposits on the basis of granted loans in foreign currency	1.039.720	-	-	1.191.572
Other deposits in foreign currency	-	-	-	902.576
Borrowings in foreign currency	2.945.191	-	-	5.271.693
Subordinated liabilities in foreign currency	-	-	-	617.362
Accrued liabilities for interest and other expenses per subordinated liabilities in foreign currency	2.110	-	-	5.145
Total liabilities	**3.996.146**	**24.990**	**22.610**	**8.022.829**

A deposit in the amount of RSD 1.039.720 thousand and received a loan in the amount of RSD 2.945.191 thousand are explained in more detail in note 26.

Income and expense arising from related parties transactions:

	31.12.2017.		31.12.2016.	
	Parent entity – Expobank LLC	Other related parties	Parent entity - Cyprus Popular	Other related parties
Expenses				
Interest expenses on the basis of credits from foreign banks in foreign currency	55.628	-	-	97.998
Interest expenses on the basis of deposits in foreign currency	9.164	-	-	32.298
Interest expenses on the basis of subordinated liabilities in foreign currency	-	-	-	20.057
	64.792	**-**		**150.353**

Foreign exchange losses	31.12.2017.		31.12.2016.	
	Parent entity – Expobank LLC	Other related parties	Parent entity - Cyprus Popular	Other related parties
Foreign exchange losses per deposits from foreign banks in foreign currency	71.034	-	-	82.440
Foreign exchange losses per borrowings from foreign banks in foreign currency	33.808	-	-	162.506
Foreign exchange losses - others	1.528	4.405	-	-
	106.370	**4.405**		**244.946**

All amounts are expressed in thousands of RSD except if indicated otherwise

33. RELATED PARTY TRANSACTIONS (continued)

	31.12.2017.		31.12.2016.	
	Parent entity – Expobank LLC	Other related parties	Parent entity - Cyprus Popular	Other related parties
Income				
Gains on the sale of loans and receivables	-	1.619	-	1.519
	-	**1.619**		**1.519**

Foreign exchange gains	31.12.2017.		31.12.2016.	
	Parent entity Expobank LLC	Other related parties	Parent entity Cyprus Popular	Other related parties
Foreign exchange gains - others	1.222	-	-	-
Foreign exchange gains per loans placed to the parent bank in foreign currency	152.841	-	-	61.707
Foreign exchange gains per deposits from foreign banks in foreign currency	129.839	-	-	-
	283.482	**-**	**-**	**61.707**

The tables above present balance sheet assets and liabilities and income and expenses arising from other related party transactions with: Expobank LLC, Moskva including and management of the bank.

As of 31 December 2017, the Bank approved credits to directors and members of the Board of Directors and the Executive Board:

	31.12.2017.	31.12.2016.
Credits to directors and the management		
At the beginning of the year	64.024	63.078
Credits approved during the year	8.891	3.915
Payments during the year and placement revalorization	(8.485)	(3.694)
Interest income	1.619	1.519
Collected interest	(1.619)	(1.519)
At the end of the year	**64.430**	**63.299**

During the year 2017 and 2016, there was no need for provisions on loans granted to directors.

Information on management remuneration

During the year 2017, the members of the Executive Board achieved gross salaries in the amount of RSD 28.965 thousand (in 2016: RSD 28.796 thousand).

All amounts are expressed in thousands of RSD except if indicated otherwise

34. RECONCILIATION OF RECEIVABLES AND LIABILITIES

The provisions of Article 18 of the Law on Accounting ("Official Gazette of the Republic of Serbia" no. 62/13) prescribe an obligation of reconciliation of mutual receivables and liabilities with customers. Reconciliation is to be performed at least once a year, before compiling financial statements. In accordance with the Bank's internal procedures, 31 October of the current year has been determined as the date for reconciliation of receivables and liabilities with customers.

As of 31 October 2017, there were no materially significant disagreements on liabilities and receivables. The amount of RSD 112 thousand related to the Bank's claims and the amount of RSD 146 thousand related to the liabilities of the Bank is inconsistent. Also, 265 IOS returned as undeclared, so the amount of unrecognized customer receivables was RSD 12.486 thousand, and the amount of uncertified liabilities of clients amounted to RSD 8.855 thousand, of which the largest part, in the amount of RSD 2.459 thousand, relates to Easy Facilites Management Ltd., which is the client who regularly servises his / her obligations.

35. OPERATING SEGMENTS

The Bank monitors the movements of its assets and liabilities and generates income and expenses from activities in the following operating segments:

- Corporate Banking (sector for corporate operations) which includes business with government entities and companies,
- Retail Banking which includes business with natural persons and entrepreneurs,
- Interbank operations includes business with banks and
- Other activities of the Bank refer to services and activities which do not represent a separate operating segment for reporting purposes (all other segments that are not branch offices, corporate banking and interbank relations).

The basis for segmentation is the strict internal structure of the Bank according to the above mentioned cash generating units.
There were no income and expense transfers between the segments.

The resuts of segments for the year ended 31 December 2017 are as follows:

	Corporate Banking	Retail Banking	Interbank operations	Other	Total
Total segment revenue/(expense)	**2.479.545**	**244.321**	**23.160**	**-**	**2.747.026**
Revenue from external clients	2.415.993	206.048	23.160	-	2.645.201
Revenue from other segments	63.552	38.273	-	-	101.825
Allowances for impairment	131.331	3.302	-	21.372	156.005
Administrative expenses	(48.331)	(363.500)	(17)	(525.566)	(937.413)
Loss from sell of NPLs	(57.840)		-	-	(57.840)
Depreciation	(4.705)	(22.814)	-	(49.393)	(76.912)
Profit/(loss) before taxation	**2.500.001**	**(138.691)**	**23.143**	**(553.587)**	**1.830.866**
Deferred tax profit	-	-	-	(22.981)	(22.981)
Net income/(expense) for the year	**2.500.001**	**(138.691)**	**23.143**	**(576.568)**	**1.807.885**
Assets	**5.941.719**	**3.524.927**	**2.602.603**	**2.929.882**	**14.999.131**
Liabilities	**1.772.542**	**4.738.232**	**4.556.647**	**138.670**	**11.206.090**

All amounts are expressed in thousands of RSD except if indicated otherwise

35. OPERATING SEGMENTS (continued)

The resuts of segments for the year ended 31 December 2016:

	Corporate Banking	Retail Banking	Interbank operations	Other	Total
Total segment revenue/(expense)	**554.214**	**496.831**	**(205.788)**	**15.943**	**861.200**
Revenue from external clients	549.160	485.840	(205.788)	-	829.212
Revenue from other segments	5.054	10.991	-	15.943	31.988
Allowances for impairment	(42.724)	149.065	-	2.990	109.331
Administrative expenses	(24.634)	(436.176)	(16.757)	(573.920)	(1.051.487)
Depreciation	(790.855)	-	-	-	(790.855)
Total segment revenue/(expense)	(36)	(12.388)	(27)	(75.943)	(88.394)
Correction (Note 3.1)				(228.793)	(228.793)
Profit/(loss) before taxation	**(304.035)**	**197.332**	**(222.572)**	**(859.723)**	**(1.188.998)**
Deferred tax profit	-	-	-	37.349	37.349
Net income/(expense) for the year	**(532.828)**	**197.332**	**(222.572)**	**(822.374)**	**(1.151.649)**
Assets	3.378.861	6.692.922	3.778.752	5.845.869	19.696.404
Liabilities	701.286	8.850.851	7.188.174	954.447	17.694.758

36. FOREIGN CURRENCY EXCHANGE RATES

Exchange rates of the major currencies used in translation of balance sheet positions include:

	31.12.2017.	31.12.2016.
EUR	118,4727	123,4723
USD	99,1155	117,1353
CHF	101,2847	114,8473

37. EVENTS AFTER THE DATE OF THE REPORTING PERIOD

After the date of the reporting period, there were no other events after the date of the reporting period which would require disclosure in notes with the Bank's financial statements with the balance on the date and for the year ending on 31 December 2017.

Dragana Radaković
Financial Control Manager

"Expobank" akcionarsko društvo Beograd
Expobank

Borislav Strugarević
Chairman of the Executive Board