Addiko Bank

Annual Report 2017

Addiko Bank

Key Data

Results Of Operation Of The Bank

Addiko Bank a,d, Beograd

	2017	2016
PROFIT AND LOSS ACCOUNT (mil RSD)	**1.1.-31.12.**	**1.1.-31.12.**
Net interest income	3,209	2,980
Net fee and commission income	1,141	819
Impairment or reversal of impairment on loans and receivables	-84	-1,562
Operating expenses	-4,508	-4,532
Operating result - prior to risk provisions on loans and receivables	1,303	285
Operating result - after risk provisions on loans and receivables	1,219	-1,277
The result of the period after taxation	**1,218**	**-1,278**
BALANCE SHEET (mil RSD)	**31.12.2017.**	**31.12.2016.**
Loans and Receivables to customers	64,468	65,053
Customer deposits	67,302	71,046
Equity	21,945	20,713
Total assets	**94,116**	**97,355**
Risk weighted assets (Banking book)	65,495	62,088
KEY FIGURES	**2017**	**2016**
Net interest income / Total assets	3.41%	3.06%
Cost-Income ratio (CIR)	77.58%	94.09%
Indicator of core capital adequacy	18.69%	18.51%
Indicator of total capital adequacy	21.84%	23.03%
Employees at closing date	595	639
Number of locations	38	41

Annual Business Report is prepared in accordance with Article 29 of the Law on Accounting of the Republic of Serbia (Official Gazette of RS no. 62/13) and contains the following:

Letter of Executive Board

Dear Sir/Madam,

After successfully returning to the market, the Bank took up the ensuing big challenge – to re-establish profitable operations. The solution to the challenge was in the straightforward banking concept which implied focusing on clients and their needs by delivering clear, simple and efficient products and services. The process of streamlining through digitalization was a driver to achieving this goal.

We made substantial progress in improving efficiency of our retail business. The project, which covered the whole year, had immediate effects on operation and performance of the Bank's branches. There were also positive changes in the corporate segment business, in loan application process, which had excellent results.

Clients recognized that they were in our focus. Addiko Bank was granted a distinguished international certificate 'Customers' Friend' awarded by the international organization ICERTIAS exclusively to organizations which satisfy extremely high quality standards of operation and relationships with their clients and employees.

One of the greatest achievements of 2017 was the intense process of digitalization, i.e., digital transformation of the entire Addiko Group. We are especially proud of the fact that the Digital Banking Centre is located in Serbia and that all the segments already recognized by our clients as high-quality e-banking and m-banking have been designed at our Bank.

The digital transformation makes one of the key pillars of the banking that we wish to offer to our clients – straightforward banking. Guided by these principles, we initiated a partnership with one of the most popular communication platforms – Viber - and presented our unique service Addiko Chat Banking to our clients. We strive to be closer to clients in the environment which is natural to them and where they tend to spend most of their time. This service is only a part of the unified ecosystem which we designed for our clients in order to fulfil their needs for everyday banking services as simply as possible.

One of the key values of Addiko Bank is 'six countries – one winning team' and it showed to be very important and highly adequate. Our Serbian team was faced with a large number of challenges and most of these challenges were already overcome. We all gave our best and acted united in achieving our goals. This is simple, but also very demanding. What this team is now facing are even greater tasks that we, all together once again, will resolve and carry on down the path of profitability and successfully resolved challenges.

All of these initiatives yielded a positive financial result after a number of years. We are very satisfied to announce that we accomplished our key goal by returning to the profitability zone.

Sincerely,

Executive Board Addiko Bank a.d. Beograd

Members of the Executive Board

Vojislav Lazarević, Executive Board Chairperson

Vojislav Lazarević

Mirko Španović, Deputy of Executive Board Chairperson

Vladimir Stanisavljević, Executive Board Member

Mirko Španović

Vladimir Stanisavljević

Annual Business Report Addiko Bank a.d. Beograd

2. About Addiko Bank

Addiko Bank a.d. Beograd ("Addiko Bank") is a member of an international financial group headquartered in Vienna, Austria. Addiko Group operates in five markets: Serbia, Croatia, Bosnia and Herzegovina, Slovenia and Montenegro, having over one million clients. The strategy of Addiko Group is to concentrate on the markets of South-Eastern Europe countries, with clients and their needs as the focus. There is also the service of making online deposits in Austria and Germany.

Holding Al Lake (Luxembourg) S.à r.l. is the direct owner of the Addiko Group. Its beneficial owners are the Investment Fund Advent International and the European Bank for Reconstruction and Development (EBRD).

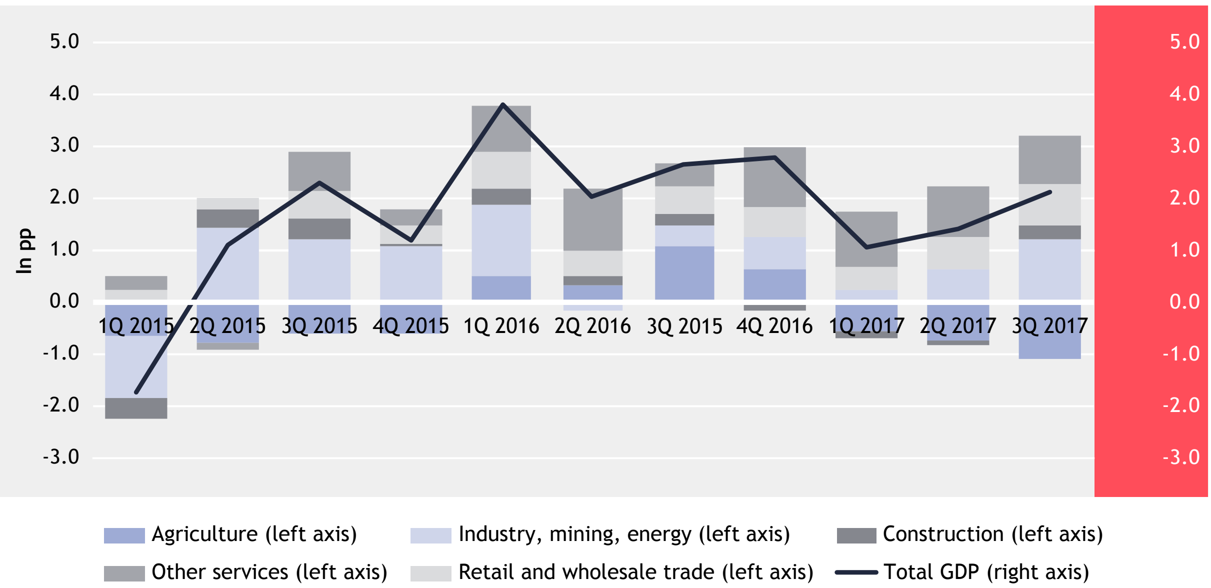
Addiko Bank has been operating under the present name since July 11, 2016, after successful rebranding of the entire Group and its strategic positioning through offering straightforward banking to the retail and SME segments. Addiko Bank delivers core banking products efficiently, making them simple for understanding from the client viewpoint. In the course of 2017, Addiko Bank was recognized, both locally and at the group level, as an innovative bank offering services in the digital banking segment. Relying on a number of partnerships, Addiko Bank created an ecosystem which is different, innovative and ground-breaking for the traditional banking market. On one side, Addiko Bank delivers innovative digital services such as payments from mobile phone contacts via Viber banking, and on the other side, its employees are organized in a manner different from other regionally present banks, which was achieved with the help of the Target Operating Model (TOM) Project, providing balance to activities which do not fall into core banking business.

3. Macroeconomics Environment

a) Economic activity

The year 2017 featured weaker economic growth in comparison to 2016, standing at 1.5% yoy in the period Q1-Q3 2017, while it was 2.8% in 2016. The slowdown was predominantly caused by the smaller volume of agricultural production due to relatively adverse weather. On the other side, a relatively favorable impact was exerted by the industry segment, followed by trade and other services.

Chart 1 Serbian economic growth contributions (production principle)

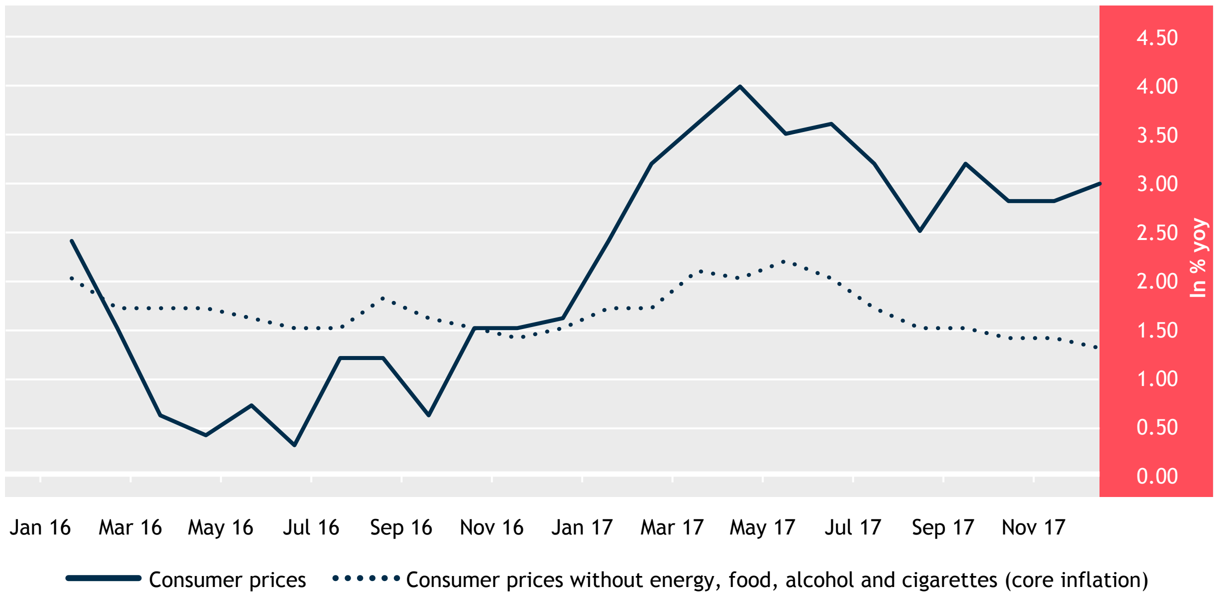


Source: Serbian Statistical Office, calculations of ABSE

b) Prices

In 2017, the annual inflation accelerated when compared to 2016, apparently due to an increase in prices of energy and food. Thus, the annual inflation reached 3.0% by 2017-end, while the price increase in 2016 was 1.6%. Further, the target inflation rate was lowered from 4%+/-1.5pp to 3%+/-1.5% pp from the beginning of 2017, so that 2017 featured movements of the yoy inflation within the target band.

Chart 2 Annual inflation (core and total)

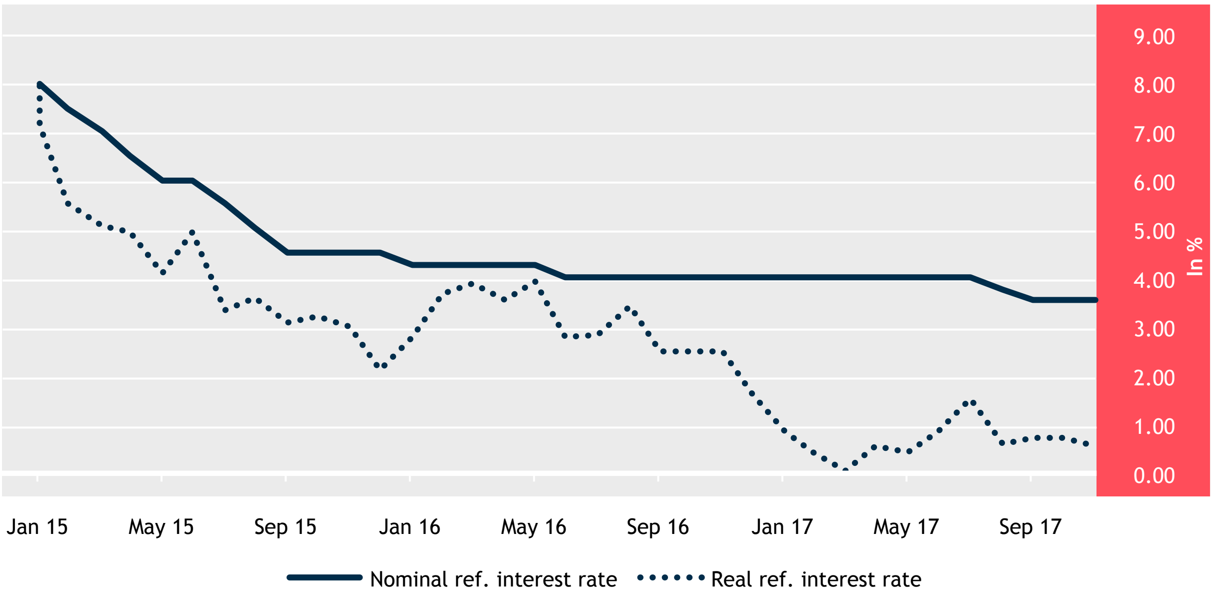


Izvor: NBS

c) Monetary policy

In the environment of still relatively low inflationary pressures, relative deceleration of economic activity and RSD appreciation, the National Bank of Serbia decreased restrictiveness of its monetary policy in 2017 by lowering the key policy rate by the total of 0.5 pp, to 3.5% after the December session of the Executive Board of the National Bank of Serbia.

Chart 3 Real and nominal interest rate of the National Bank of Serbia



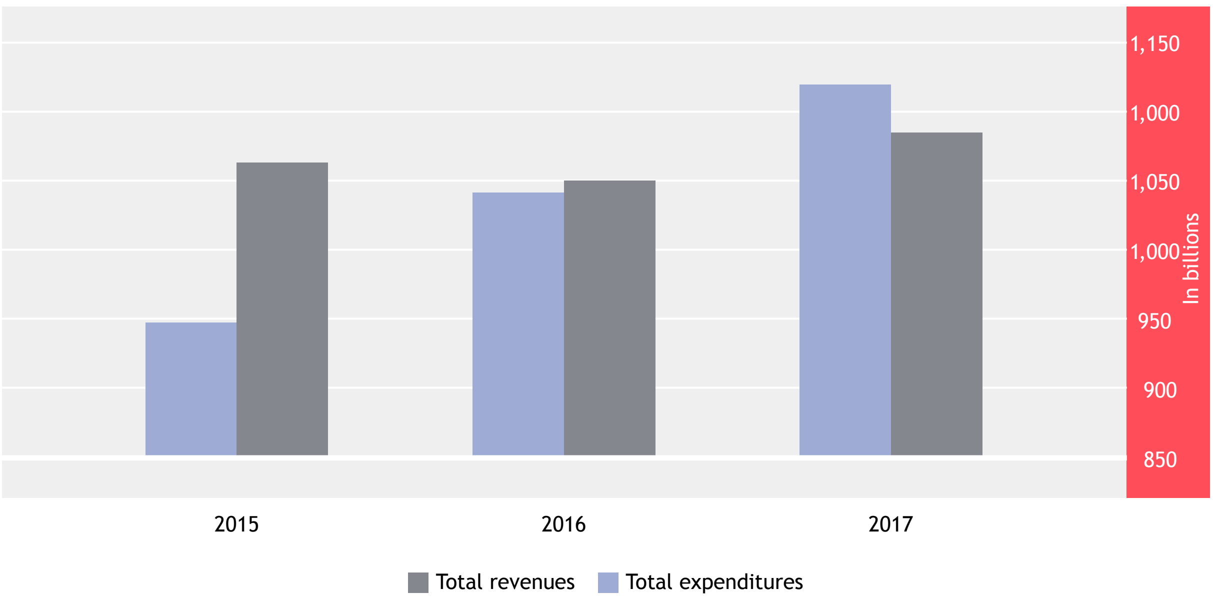
Source: National Bank of Serbia, calculations of ABSE

d) Fiscal Policy and Public Debt

In 2017, the budget surplus at the consolidated level was reached at RSD 52 billion or 1.2% of GDP against the 2016 fiscal deficit of RSD 43 billion or 1.3% of the GDP. This result was driven by the revenue growth of 7.1% yoy in the same period, being higher than the expense growth of 1.3%.

The government's needs for financing of the maturity of the previously issued debt were mostly satisfied through debt issues in 2017, the issues encompassing app. EUR 4 billion in the said period.

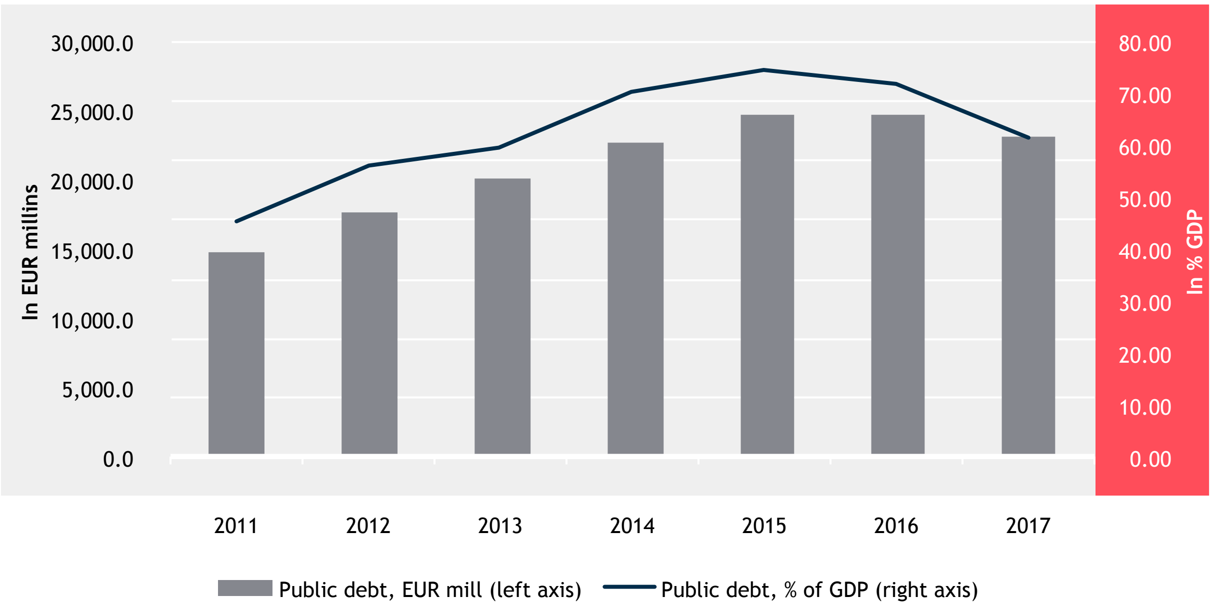
Chart 4 Consolidated state revenues and expenses



Source: Ministry of Finance

In view of the decreased government's needs for financing, the public debt share in GDP was decreased to app. 62% compared to the 2016-end figure of app. 72% of GDP.

Chart 5 Republic of Serbia public debt and its share in GDP

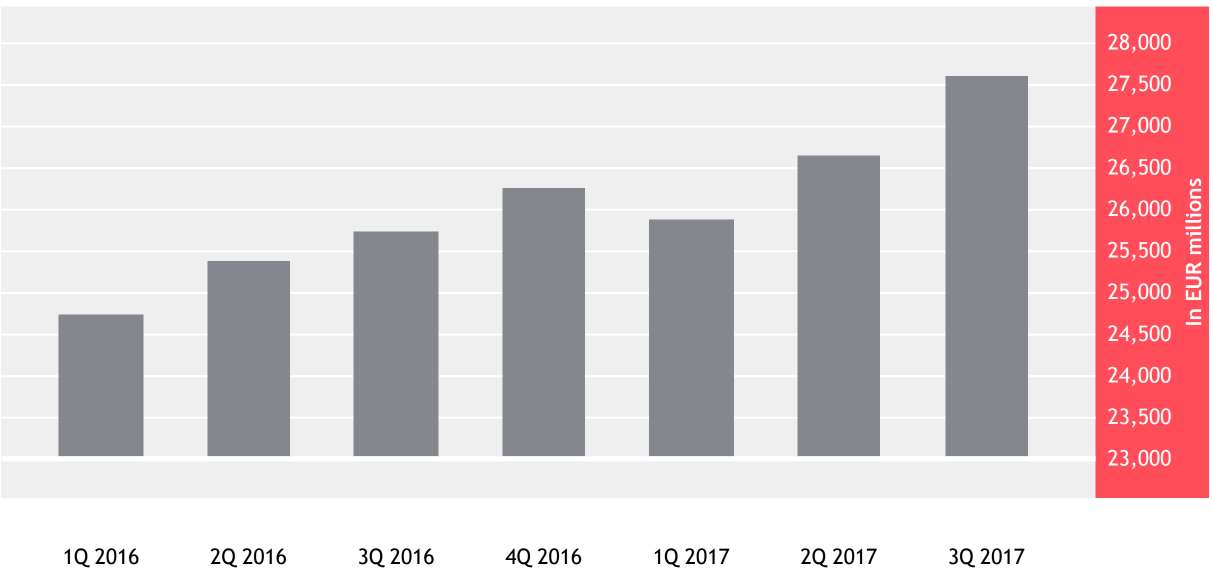


Source: Ministry of Finance

e) Banking Sector

The local banking sector activity accelerated in 2017, reflecting on the increase of the total sector balance sheet assets. Thus, by September 2017, the balance sheet assets of the local banking sector reached EUR 27.6 billion, being app. EUR 1.3 billion higher in comparison to the 2016-end.

Chart 6 Banking sector balance sheet assets



Source: National Bank of Serbia

Measured by the total balance sheet assets, Addiko Bank was ranked 13th by size by the end of Q3 2017, one down compared to the 2016 end result, while the market share in the total assets of the banking sector remained unchanged at app. 2.9%.

In parallel with the relatively modest growth of the balance sheet assets, interest rates in the local banking market were stabilized at historically low levels.

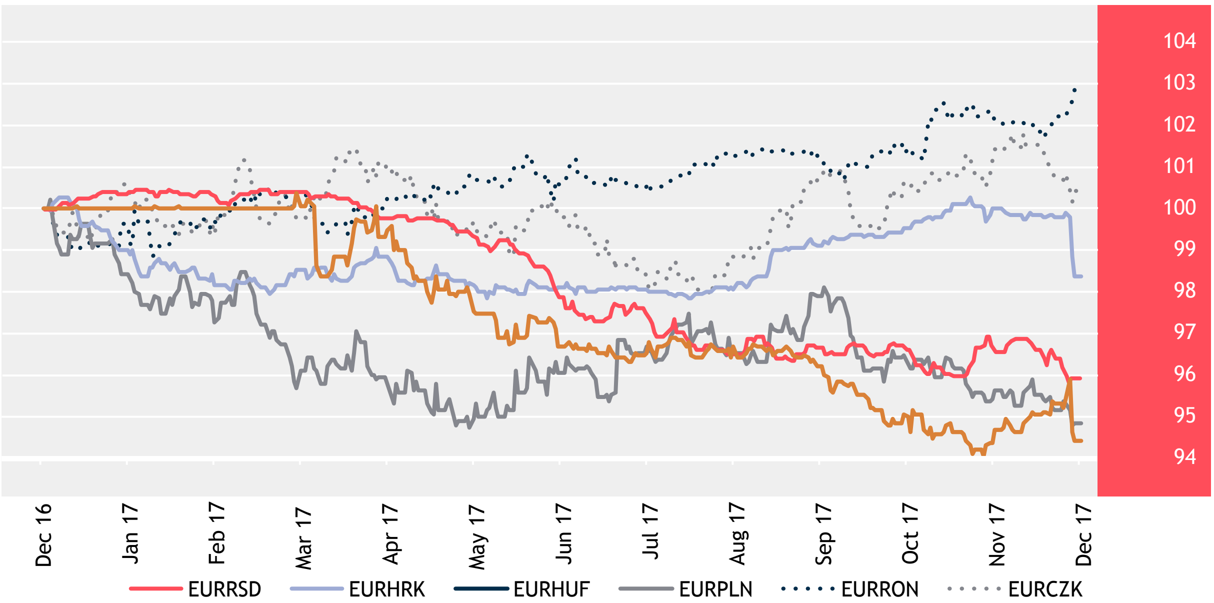
In these circumstances, the net income from banking sector taxation reached app. EUR 440 million in the period Q1-Q3. Therefore, the banking sector profitability (measured by ROE) increased to 10.8% compared to 6.7% at Q3 end 2016 and 3.4% at 2016 end.

f) The Bank's Position

In 2017, Addiko Bank retained its stable position in the Serbian financial and interbank market.

During 2017 RSD movements implied appreciation against EUR, so that in the said period, EUR/RSD ranged from 124,0174 (EUR/RSD maximum value reached on February 13, 2017) to 118,2934 (minimum value reached on December 27, 2017).

Chart 7 Movements of FX rates of Central and East Europe currencies, index (31-Dec-2016=100)

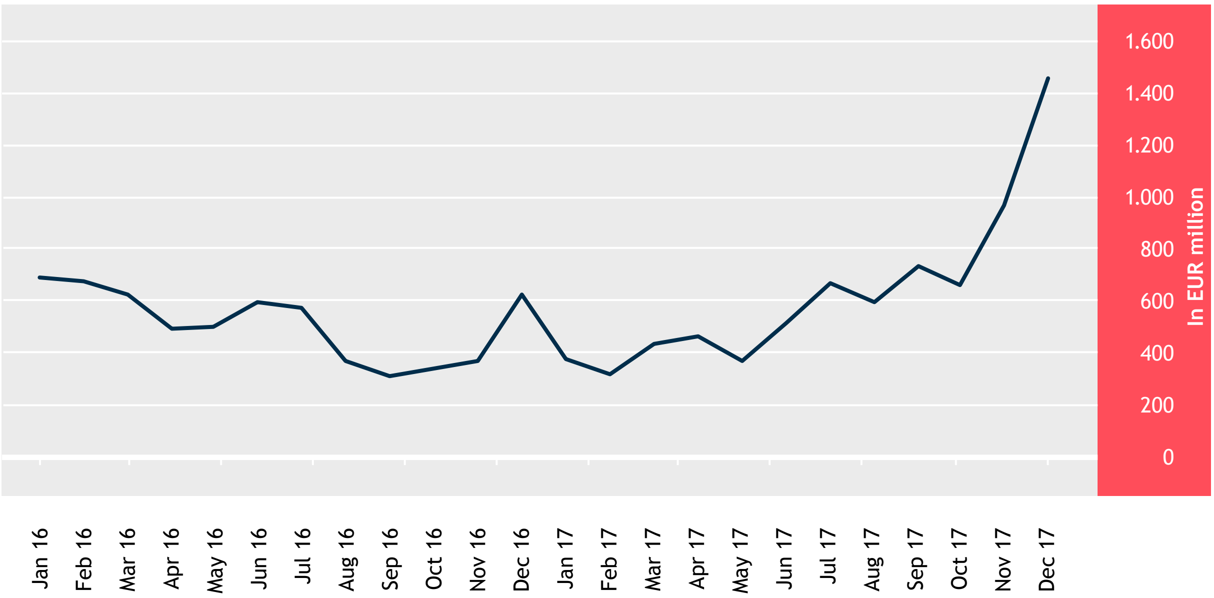


Source: : Bloomberg, calculations of ABSE Treasury and Balance Sheet Management Department

In order to alleviate excess daily exchange rate oscillations, the National Bank of Serbia intervened by buying net EUR 725 million in 2017.

At the same time, the volume of trade in the interbank market was larger in 2017 compared to the 2016 figure, reaching app. EUR 7.5 billion in 2017, which is app. 23% higher yoy.

Chart 8 Volume of trading in the interbank FX market



Source: National Bank of Serbia

4. Significant Events in 2017

a) Improved Financial Indicators

In 2017, Addiko Bank a.d. Beograd generated a positive operating result of RSD 1.2 billion after taxes, virtually meaning that the Bank's main goal – regaining of profitability - was achieved. As expected, 2017 growth drivers were loan products in the retail and SME segments. At the same time, there was a substantial growth in the corporate segment.

The growth of business indicators is best shown by comparative data for 2016 and 2017. The retail loan portfolio increased by 5% (cash loans grew by EUR 38 million or 69%) and the corporate loan portfolio increased by 17%. Cost reduction was also continued. In fact, savings in 2017 amounted to RSD 23 million against 2016, which was another indicator that the strategic direction taken by Addiko Group was adequate and effective.

The volume and share of NPLs in the total portfolio was considerably decreased. At 2017 end, the total volume was 39% lower yoy.

b) Changes in the Executive Board

The major change occurred at the position of the Executive Board Chairman. In November 2017, Mr. Mirko Španović succeeded Mr. Ivan Radojčić, as an interim Chairman and at 2018 beginning; Mr. Vojislav Lazarević was appointed the Executive Board Chairman.

Further, in mid-2017, Mr. Rade Vojnović left the position of the CFO. After 14 years spent at Addiko Bank a.d. Beograd, Mr. Vojnović decided to continue his career outside of Addiko Group.

c) Digitalization

The operation of the Digital Banking Centre of the Addiko Group located in Belgrade and a large number of its initiatives continued to improve the capacity of the Bank in this segment in 2017. Moreover, a number of partnerships of Addiko Bank enabled the Bank to be recognized in the Serbian and regional banking markets as the leader in digital banking innovations.

In 2017, we also used innovative solutions in the segment of digital marketing and sale, resulting in improved sales results. At 2017 end, the Bank presented a unique concept of account opening via the m-banking application in a simple way and without visiting a branch. The possibility of full account opening and its immediate activation was introduced for the first time in the Serbian market. Another significant innovation presented to the public in 2017 was Addiko Viber Chat Banking, a service unique worldwide. Soon after that, we presented the innovative functionality of P2P payment, which offers fast transfers of funds via Viber to mobile phone contacts.

All improvements in the digital banking segment resulted in an increase of the number of digital users, most significant being the surge of activation of over 8 times yoy, making digital channels the primary channels of daily operations of clients with the Bank, which represents, on the other side, a solid basis for future growth and further improvements in the digital banking segment.

d) Corporate Social Responsibility

We are especially proud of initiating the project Addiko Cares in 2017, both at the Group and local levels. It is a project of corporate volunteering during which Addiko Bank employees spent a day with children with special needs at their schools. That day the employees made company and read to the children covered by the activities. The project was carried out in Belgrade, Niš and Novi Sad and as it was very well accepted, we plan to extend it to other cities and towns where Addiko branches are located in the forthcoming period.

Further, we continued cooperation with the National Para-Athletic Association through supporting it in preparations for the World Championship. Another big campaign where Addiko took part was the support to the Women's Basketball Movement of Ms. Marina Maljković, which provides free trainings to primary school children along with presenting them real life values.

The campaign of fixed asset donations to Serbian schools was also continued in 2017.

e) Values and Behaviors

In 2017, within the Project of the Implementation of the Target Operating Model (TOM), we initiated the project Values and Behaviors aimed at defining behaviors characterizing each Addiko value and cascading and communicating the values across the Bank, with the implementation of the values in HR processes.

Our values (Communicate simplicity, Focus on the essentials, Deliver on efficiency, Six countries – one winning team) are our core features which help us achieve our strategic goals and provide banking services which comply with the straight-forward banking principle. They make the key basis for the manner we work with our clients and each other on daily level.

Based on interactive workshops attended by 58 employees and questionnaires filled by 69% of employees, we defined typical behaviors (both positive and negative) and created the Compass for Values and Behaviors. The Compass was intended to be a tool for work performance, development and shaping of the corporate culture of giving feedback. It describes each value in terms of positive and negative work-related behaviors (3 positive ad 3 negative behaviors per value) and helps us better understand each value through typical everyday behaviors.

The Compass was designed to be used for self-observance and development, establishment of the feedback culture and value-based performance management.

f) Implementation of IFRS 9

In the course of 2017, the Bank performed the SPPI test for classification of financial assets as a precondition for implementing the new financial reporting standard. Moreover, the Bank developed new models for calculating credit risk parameters which will be implemented from early 2018. Additionally, the Bank prepared amendments to its internal bylaws and enactments regulating the segment of credit risk provisioning and obtained necessary tools, thus fulfilling all preconditions for IFRS 9 implementation from early 2018.

5. The Bank's Performance

The Bank's balance sheet structure as of December 31, 2017 and comparative data for 2017 are presented in the table below:

Balance Sheet RSD '000

	2017	2016	Variance
ASSETS	**Jan 1. – Dec 31.**	**Jan 1. – Dec 31.**	
Cash and balances held with the central bank	10,575,958	12,290,116	(1,714,158)
Financial assets held for trading	258,495	1,208,490	(949,995)
Financial assets available for sale	16,779,382	16,781,879	(2,497)
Loans and receivables due from banks and other financial institutions	2,828,041	4,625,091	(1,797,050)
Loans and receivables due from customers	61,639,577	60,428,102	(1,211,475)
Intangible assets	680,945	545,150	135,795
Property, plant and equipment	615,354	776,702	(161,348)
Current tax assets	–	78,242	(78,242)
Non-current assets held for sale	119,826	149,267	(29,441)
Other assets	618,232	471,669	146,563
Total assets	**94,115,810**	**97,354,708**	**(3,238,898)**
LIABILITIES AND EQUITY			
Financial labilities at fair value through profit and loss, held for trading	32,347	16,716	15,631
Deposits and other liabilities due to banks, other financial institutions and the central bank	5,382,756	3,514,208	1,868,548
Deposits and other liabilities due to customers	61,919,011	67,531,881	(5,612,870)
Subordinated liabilities	3,774,141	4,322,188	(548,047)
Provisions	283,395	604,830	(321,435)
Current tax liabilities	**1,156**	–	**1,156**
Deferred tax liabilities	32,100	29,661	2,439
Other liabilities	745,461	621,853	123,608
Total liabilities	**72,170,367**	**76,641,337**	**(4,470,970)**
Share capital and share premium	20,545,294	21,823,802	(1,278,508)
Retained earnings	1,218,248	–	–
Accumulated losses	–	(1,278,508)	1,278,508
Reserves	181,901	168,077	13,824
Total equity	**21,945,443**	**20,713,371**	**1,232,072**
Total liabilities and equity	**94,115,810**	**97,354,708**	**(3,238,898)**

The Bank's total balance sheet assets decreased by 3% in 2017 compared to the 2016 figure.

Financial assets decreased due to a decreased volume of reverse repo transactions with the National Bank of Serbia (EUR 17.5 million).

Loans and receivables due from customers increased in the net amount by RSD 1.2 billion at the end of 2017 with a changed structure: the share of performing loan portfolio increased and NPLs decreased by 39%. Cash loans increased by 61%, whereas housing loan exposure decreased by 26% (out of which CHF loans shrunk by 28%).

Deposits due to public sector companies, collected predominantly at the end of 2016, were partially withdrawn in the course of 2017 (EUR 13 million).

Deposits due to banks increased in 2017 due to additional financing obtained from the EBRD in the amount of EUR 10 million.

The structure of the Bank's income statement for the year ended December 31, 2017 with comparative data for the year 2016 is presented below:

Income Statement RSD '000

	2017	2016	Variance
Interest income	4,161,983	4,047,443	114,540
Interest expenses	(952,923)	(1,067,772)	114,849
Net interest income	**3,209,060**	**2,979,671**	**229,389**
Fee and commission income	1,265,885	934,579	331,306
Fee and commission expenses	(125,196)	(115,828)	(9,368)
Net fees and commission income	**1,140,689**	**818,751**	**321,938**
Net gains on the financial assets held for trad-ing	516,813	590,140	(73,327)
Net gains on the financial assets available for sale	154,399	56,667	97,732
Net foreign exchange gains and positive cur-rency clause effects	–	202,096	(202,096)
Net foreign exchange losses and negative currency clause effects	(92,039)	–	(92,039)
Other operating income	882,406	168,731	713,675
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet items	(83,573)	(1,561,744)	1,478,171
Total net operating income	**5,727,755**	**3,254,312**	**2,473,443**
Staff costs	(1,458,199)	(1,527,511)	69,312
Amortization/depreciation charge	(207,233)	(231,027)	23,794
Other expenses	(2,842,919)	(2,772,999)	(69,920)
Profit before taxes	**1,219,404**	–	
Loss before taxes	–	**(1,277,225)**	
Income tax expenses	(1,156)	(1,283)	127
Net profit/(loss) for the year	**1,218,248**	**(1,278,508)**	**2,496,756**

Total net operating income after taxes increased by RSD 2.5 billion as a result of a substantial decrease of provisioning charges amounting to RSD 1.5 billion and an increase in net interest, fee and commission income by RSD 0.5 billion.

Net interest income grew by RSD 229 million with a change in its structure – in 2017, interest income from loans was predominant unlike interest income in 2016, when most of it was generated from unwinding and securities.

Net fee and commission income recorded and increase of RSD 322 million due to increased number of transactions and introduction of new fees and commissions.

Other operating income grew by RSD 714 million, primarily on account of income from the sales of loans and receivables (RSD 1.4 billion of the balance sheet exposure) and income from reversal of provisions.

Total operating expenses for 2017 decreased by RSD 23 million, caused by consumption optimization, i.e., cost cutting strategy.

6. Operation of the Bank's Key Segments

a) Retail Business

In 2017, the focus was on process improvement aimed at branch operation optimization and advancement. This segment also experienced maximum implementation of digital transformation principles, implying process streamlining, decreasing of time and necessary documentation and consequently more comfort for clients when working with the Bank.

In particular, we implemented the PIPO application for retail current account opening, which shortened the time from 30 minutes to 5 minutes, the APS application replaced the SRC application for loan approval and resulted in the process optimization and shortening of the loan approval time from 45 minutes to 10 minutes.

In 2017, we implemented the Project of sales capacity improvement which was aimed at better understanding of client needs and consequently increased sale and productivity. The project was successfully implemented at the branch network level by October 2018. We also successfully implemented the Bank@Work concept, which entails successful cooperation of the retail and corporate segments, yielding excellent results. Furthermore, we started the new concept of micromarketing, which entails presentation of values, products and services of the Bank at companies which do not use Bank services or during public events.

We continued product optimization in accordance with the values of the Addiko brand, i.e. straightforward banking – clear, simple and direct. Therefore, the focus in 2017 was also on cash loans with the offer of three loan types whose main advantages are simplified communication with clients and speed of application processing.

b) Corporate Business

In spite of the extremely challenging business environment characterized by the continued pressure on lending interest rates and high liquidity of the Serbian banking sector, Addiko Bank adequately responded to demands presented in the course of 2017. A double-digit increase of fee and commission income and transactions and a decrease of NPLs were the major drivers for achieving profitability in this segment. On the other end, the loan portfolio increase was not followed by a proportionate increase of the net interest income due to high pressure exerted on the margin.

In the corporate segment, Addiko Bank initiated and implemented several projects aimed at increasing efficiency and profitability, such as launching of a new e-banking platform and introduction of new sales channels.

7. Risk Management Policies

a) Report on the adequacy of risk management and internal control for the year 2017

In the course of 2017, the Board of Directors and the Executive Board, as well as advisory bodies and responsible heads of Addiko bank a.d. Beograd (hereinafter: the Bank), worked actively on the timely identification, measurement, control and mitigation of materially significant risks.

Integration of automatic controls in the Bank's information system and in operating tools used for the processing of loans and account opening were the main direction of improvement of the Internal control system (hereinafter: ICS) in order to minimize risks. Simplification of the processes with clearly defined responsibilities and control points is ongoing process in the bank.

b) Credit Risk

Credit risk monitoring and assessment at the level of individual clients and groups of borrowers are performed in accordance with the adopted policies and procedures governing the rules and criteria for new loan approvals, define activities to be undertaken, as well as tasks and responsibilities of persons involved in the process of credit risk monitoring.

The Bank's Executive Board dedicated special attention to the management and control of credit risk through establishment of the following advisory bodies:

- Risk Control Advisory Body – it analyses the Bank's exposure to credit risk at the overall level and per business segments
- Watchlist Advisory Body – it monitors individual cases of performing clients, within their competences, with a special view on those in arrears in liability settlement or with detected early warning signals

The procedure for calculation of impairment allowance of on balance sheet assets and provisions for off balance sheet items is based on a model in line with IFRS. In the course of 2017, the Bank improved its Risk Provisioning Methodology, specifically changing LGD parameter, which will also be used during 2018 under IFRS 9.

During 2017 the Bank also developed models for PD parameter that will be used as of January 1, 2018 with the first-time adoption of IFRS 9.

During 2017 the Bank fully implemented the regulatory changes in respect of the capital adequacy and complied fully with Basel III Standard as of June 30, 2017. Total capital requirements for credit risk as of December 31, 2017 amounted EUR 37 million. The Bank's capital adequacy ratio (CAR) as of December 31, 2017 was 21.84%.

c) Liquidity Risk and Interest Rate Risk

In line with responsibilities and competences defined in regulations and enactments of the National Bank of Serbia, the Bank's Board of Directors defined a strategy and objectives of the Bank, while the Executive Board had the overall responsibility for the Bank's operations and implementation of the risk management strategy and policies and capital management strategy.

The Risk Control Department performed comprehensive analysis, measurement, assessment, control and reporting on the liquidity risk (through the funding spread risk) and implemented an adequate limiting system and early warning procedures, aligned with the ICAAP and ILAAP framework as well as monitoring of the regulatory required liquidity ratios, (liquidity ratio and rigid liquidity ratio) and internally defined liquidity ratios.

In compliance with the regulatory changes, the Bank developed a tool for LCR calculation locally. As of December 31, 2017 the LCR stands at 165%.

d) Foreign Exchange Risk and Other Market Risks

The Bank's FX position was managed daily by the BSM & Treasury Department.

Control of the exposure to FX risk based on the regulatory required FX risk ratio was performed by the Risk Control Department.

Monitoring of FX risk ratio, including the usage rate of internal limits for net open FX positions per major currencies (EUR, USD, CHF) individually and other currencies summarized, were delivered to ALCO on a monthly level, which then proposed to the Executive Board necessary measures to manage the FX risk and other market risks strategically, and they were also a part of the standard quarterly report presented to the Board of Directors through the Audit Committee.

e) Exposure Risk

Risk of exposure to a single entity or a group of related entities was controlled and monitored through creation of a unique database of related parties, their active monitoring as well as within the process of regulatory reporting.

In 2017, the Bank did not register breaches of the regulatory prescribed exposure limits toward a single entity or a group of related entities.

f) Operational Risk

For the purpose of comprehensive and integral monitoring of the operational risk exposure, the Operational Risk Advisory Body monitors operational risk events, focusing on the analysis of causes and proposing of measures for minimizing the operational risk exposure of the Bank.

During the year, the Bank continued to perform detailed assessments of operational risks for new products introduced in line with the strategy and the policies of the Bank.

g) Other Risks

The Bank's risk of investment in other legal entities and in fixed assets was managed by the Executive Board.

The country risk was measured within the Risk Control Department by monitoring of the set limits' utilization levels.

h) The Adequacy of Risk Management System

In the course of 2017 the Bank achieved the following:

- Reduced the share of NPLs in the Bank's portfolio from 17.1% at the end of 2016 to 11.3% at the end of 2017;
- Set the basis for introduction and implementation of IFRS 9 by amending the methodology for calculation of impairment allowance of on-balance sheet assets and provisions for off-balance sheet items by applying new LGD parameters as well as developed new models for PD parameter;
- Fully implemented Basel III Standard;
- Regular monitoring of regulatory required ratios and maintaining them within the prescribed values;

- Implementation and regular reporting of the Recovery Plan indicator values to the Audit Committee and the Board of Directors. All of the stipulated ratios were below the set warning signal limits;
- Regular monitoring of the set limits' utilizations for various risk types.

Based on the foregoing, the Bank considers that risk management system in place is adequate.

8. Organizational Structure of the Bank

The Bank's Board of Directors defines the internal organization, i.e., organizational structure of the Bank, which enables assignment of duties, competences and responsibilities of the employees in the manner that prevents conflicts of interest and ensures transparent and documented process of making and implementing decisions.

a) Human Resources

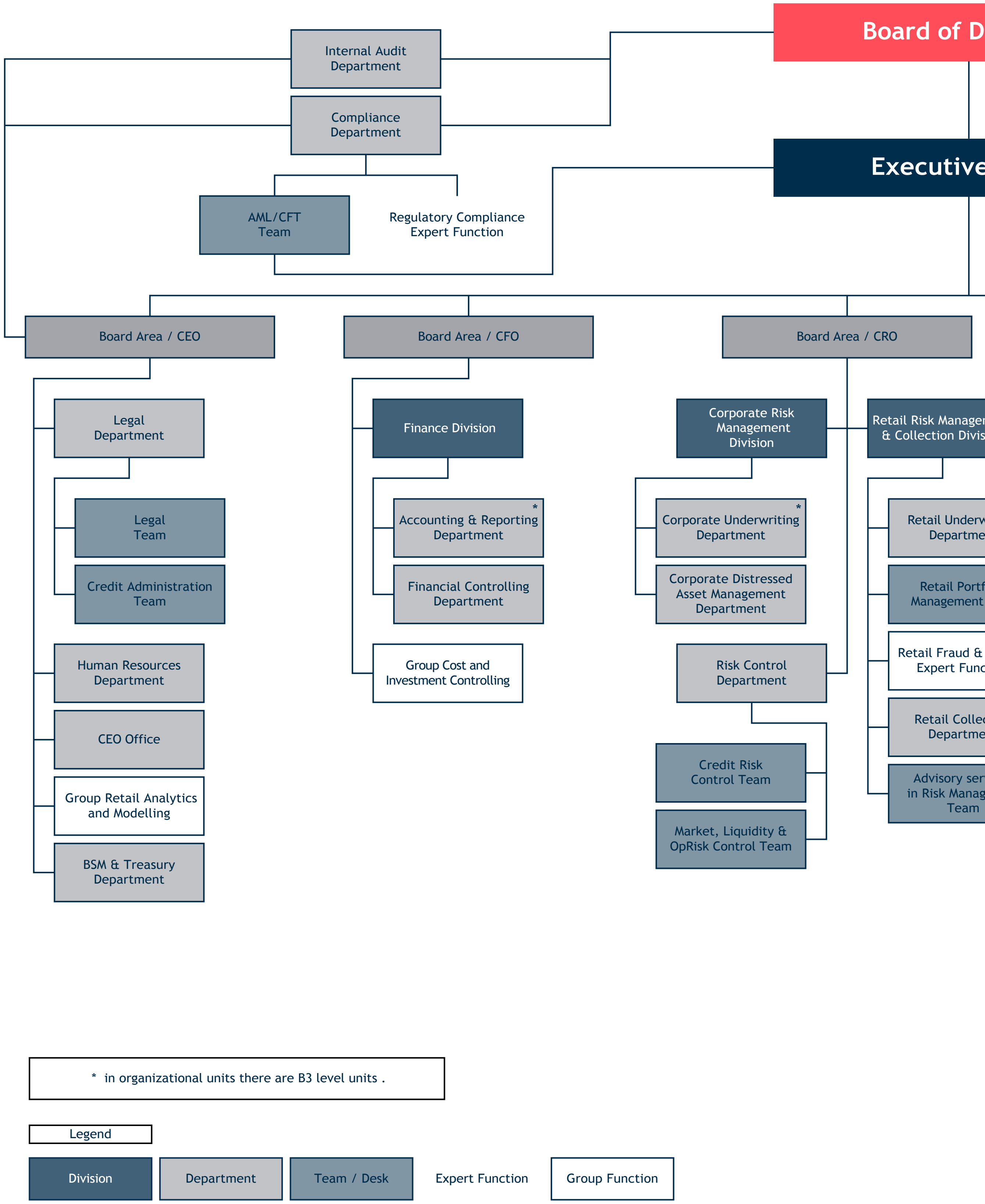
As of December 31, 2017 the Bank had 595 employees (December 31, 2016: 639 employees). The structure of the Bank's employees per professional qualifications:

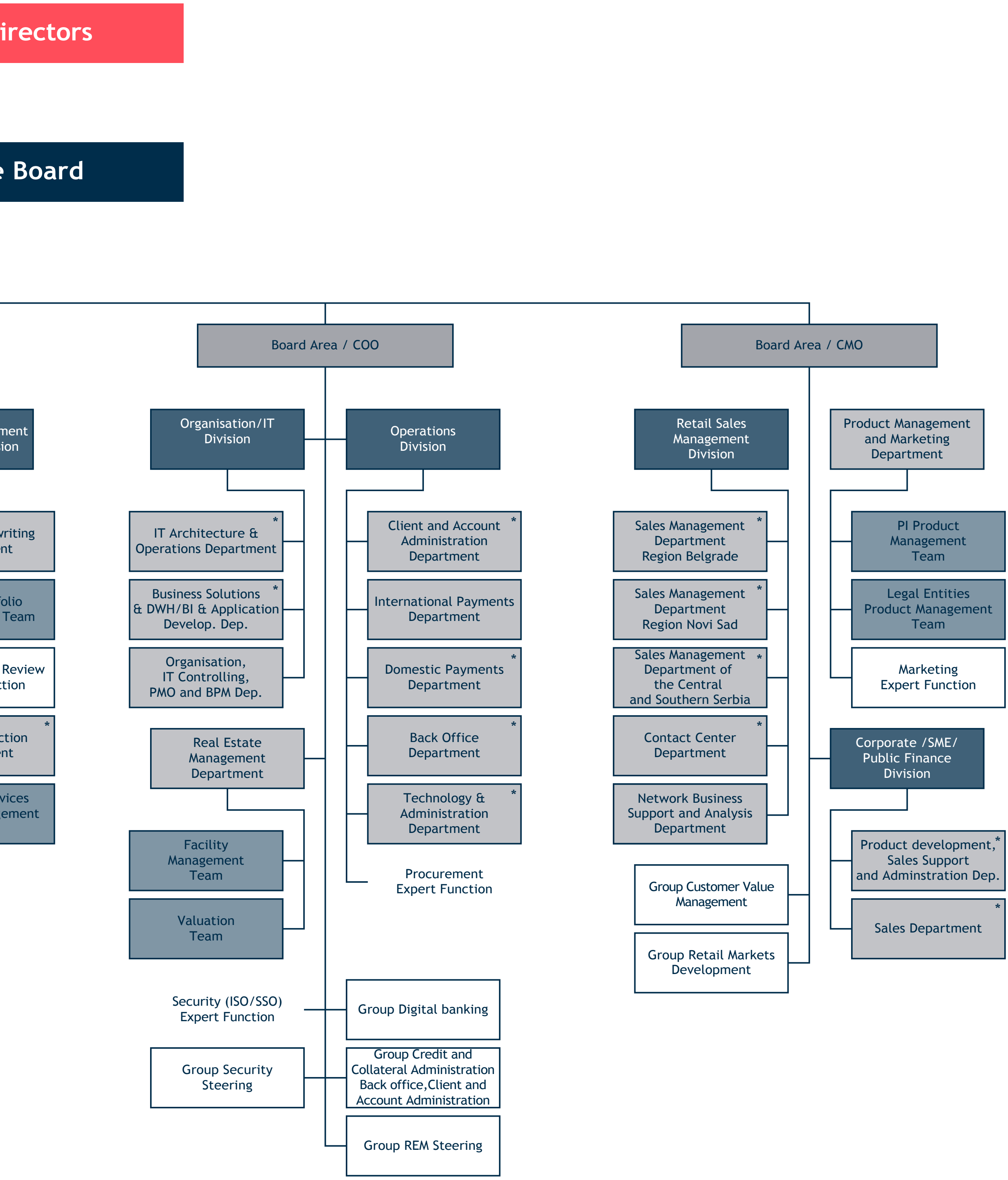
Professional qualifications

	2017	2016
University graduates	278	299
College graduates	45	48
Secondary school graduates	272	292
Total	**595**	**639**

b) Organizational Chart

The Bank's organizational chart as of December 31, 2017 is presented on the following page:





irectors
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Organisation/IT Division
IT Architecture & Operations Department *
Business Solutions & DWH/BI & Application Develop. Dep. *
Organisation, IT Controlling, PMO and BPM Dep.
Real Estate Management Department
Facility Management Team
Valuation Team
Security (ISO/SSO) Expert Function
Group Security Steering
Operations Division
Client and Account Administration Department *
International Payments Department
Domestic Payments Department *
Back Office Department *
Technology & Administration Department *
Procurement Expert Function
Group Digital banking
Group Credit and Collateral Administration Back office,Client and Account Administration
Group REM Steering
Retail Sales Management Division
Sales Management Department Region Belgrade *
Sales Management Department Region Novi Sad *
Sales Management Department of the Central and Southern Serbia *
Contact Center Department *
Network Business Support and Analysis Department
Group Customer Value Management
Group Retail Markets Development
Product Management and Marketing Department
PI Product Management Team
Legal Entities Product Management Team
Marketing Expert Function
Corporate /SME/ Public Finance Division
Product development, Sales Support and Adminstration Dep. *
Sales Department *

c) The Bank’s Branch Offices

The Bank operates through its Head Office located in Belgrade and thirty-eight branches offices.

The Bank's organizational units – branch offices are not legal entities and have no independent transaction accounts but operate via the Bank's unique account. They are entitled to execution of contracts and performance of other legal affairs and transactions within their scope of business and within authorizations granted to them by the Bank's relevant bylaws.

The Bank's branch offices perform the following activities: collection of deposits, payment transfer operations, operations involving bills of exchange and other securities; finance and accounting operations; collection of funds from retail clients to foreign currency savings accounts, current and gyro accounts foreign exchange operations, as well as lending activities.

The Bank owns buildings with premises for performance of its operations at 7 locations: Branch Bežanijska Kosa, Branch Hill Belgrade, Branch Stepa Stepanović Belgrade, Branch Bečej, Branch Bačka Palanka, Branch Subotica and Branch Kruševac Branch Bečej, Branch Bačka Palanka, Branch Subotica and Branch Kruševac.

All other business premises are rented and the item of leasehold improvements relates to the refurbishment, equipment and putting to use of the rented premises.

9. Events After the Reporting Period

The Bank is planning to make dividend payments to the shareholder form profit realized for 2017.

At its session held on March 20, 2018, the Bank’s Executive Board proposed to the Board of Directors to prepare a proposal at it session to be held on March 23, 2018 for the Shareholder Assembly for enactment of a decision on distribution of 60% of the profit after taxes in the amount of RSD 730,948,977.71 to dividend payment liability toward the Bank’s shareholder.

The dividend ex-date is to be set at December 31, 2017.

Except for the foregoing, there have been no significant events after the reporting period that would require disclosure in the notes to the accompanying financial statements of the Bank for 2017.

This Annual Business Report was adopted by the Executive Board of Addiko Bank A.D., Beograd on March 20, 2018.

Signed on behalf of Addiko Bank A.D., Beograd by:

Gordana Ivanković Head of Accounting and Reporting Department	Vladimir Stanisavljević Executive Board Member	Vojislav Lazarević Executive Board Chairperson

Addiko Bank a.d. 1 *Beograd*

Contents

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Addiko Bank A.D., Beograd

We have audited the accompanying financial statements of Addiko Bank A.D., Beograd (hereinafter: the "Bank") enclosed on pages 2 to 96, which comprise the statement of the financial position as of December 31, 2017 and the related income statement, statement of other 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 the International Financial Reporting Standards, as well as for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Audit and standards on auditing 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 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 present fairly, in all material respects, the financial position of Addiko Bank A.D., Beograd as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Management of the Bank is responsible for the preparation of the annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia. In accordance with the Law on Audit of the Republic of Serbia and Decision on Amendments and Supplements to the Decision on External Audit of Banks, it is our responsibility to express an opinion on the compliance of the Bank's annual business report for the year 2017 with its audited financial statements for the same financial year. In our opinion, the financial information disclosed in the annual business report for 2017 is consistent with the Bank's audited financial statements for the year ended December 31, 2017.

Deloitte d.o.o. BEOGRAD IV

Belgrade, March 22, 2018

Nada Sudić
Certified Auditor

Financial Statements

Income Statement

Year Ended December 31, 2017 RSD '000

	Note	2017	2016
Interest income	5	4,161,983	4,047,443
Interest expenses	5	(952,923)	(1,067,772)
Net interest income		**3,209,060**	**2,979,671**
Fee and commission income	6	1,265,885	934,579
Fee and commission expenses	6	(125,196)	(115,828)
Net fee and commission income		**1,140,689**	**818,751**
Net gains on the financial assets held for trading	7	516,813	590,140
Net gains on the financial assets available for sale	7	154,399	56,667
Net foreign exchange (losses)/gains and (negative)/ positive currency clause effects	8	(92,039)	202,096
Other operating income	9	882,406	168,731
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet assets	10	(83,573)	(1,561,744)
Total operating income, net		**5,727,755**	**3,254,312**
Staff costs	11	(1,458,199)	(1,527,511)
Amortization and depreciation charge	12	(207,233)	(231,027)
Other expenses	13	(2,842,919)	(2,772,999)
Profit/(loss) before taxes		**1,219,404**	**(1,277,225)**
Current income tax expenses	14	(1,156)	(1,283)
Deferred tax benefits/(expenses)	14	–	–
Profit/(loss) for the year, net of taxes		**1,218,248**	**(1,278,508)**

Notes on pages 7 to 96 form an integral part of these financial statements.

These financial statements were adopted by the Executive Board of Addiko Bank A.D., Beograd on March 20, 2018:

Signed on behalf of Addiko Bank A.D., Beograd by:

Gordana Ivanković	Vladimir Stanisavljević	Vojislav Lazarević
Head of Accounting and Reporting Department	Executive Board Member	Executive Board Chairperson

Statement of other comprehensive income

Year Ended December 31, 2017 RSD ’000

	Note	2017	2016
Profit/(loss) for the year		**1,218,248**	**(1,278,508)**
Other comprehensive income			
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive effects of changes in fair value of financial assets available for sale		16,264	–
Unrealized losses on securities available for sale		–	(186,942)
(Losses)/gains on deferred taxes relating to the other comprehensive income for the year		(2,439)	28,041
Total other comprehensive income for the year	**29**	**13,825**	**(158,901)**
Total positive/(negative) comprehensive income for the year		**1,232,073**	**(1,437,409)**

Notes on pages 7 to 96 form an integral part of these financial statements

These financial statements were adopted by the Executive Board of Addiko Bank A.D., Beograd on March 20, 2018.

Signed on behalf of Addiko Bank A.D., Beograd by:

Gordana Ivanković
Head of Accounting and Reporting Department

Vladimir Stanisavljević
Executive Board Member

Vojislav Lazarević
Executive Board Chairperson

Statement of financial position

As of December 31, 2017 RSD '000

	Note	2017	2016
Assets			
Cash and balances held with the central bank	15	10,575,958	12,290,116
Financial assets at fair value through profit and loss, held for trading	16	258,495	1,208,490
Financial assets available for sale	17	16,779,382	16,781,879
Loans and receivables due from banks and other financial institutions	18	2,828,041	4,625,091
Loans and receivables due from customers	19	61,639,577	60,428,102
Intangible assets	20	680,945	545,150
Property, plant and equipment	21	615,354	776,702
Current tax assets	14	–	78,242
Non-current assets held for sale and assets from discontinued operations	22	119,826	149,267
Other assets	23	618,232	471,669
Total assets		**94,115,810**	**97,354,708**
Liabilities and equity			
Financial assets at fair value through profit and loss, held for trading	16	32,347	16,716
Deposits and other liabilities due to banks, other financial institutions and the central bank	24	5,382,756	3,514,208
Deposits and other liabilities due to customers	25	61,919,011	67,531,881
Subordinated liabilities	26	3,774,141	4,322,188
Provisions	27	283,395	604,830
Current tax liabilities	14	1,156	–
Deferred tax liabilities	14	32,100	29,661
Other liabilities	28	745,461	621,853
Total liabilities		**72,170,367**	**76,641,337**
Issued (share) capital	29	20,545,294	21,823,802
Profit/(loss)	29	1,218,248	(1,278,508)
Reserves	29	181,901	168,077
Total equity		**21,945,443**	**20,713,371**
Total liabilities and equity		**94,115,810**	**97,354,708**

Notes on pages 7 to 96 form an integral part of these financial statements.

These financial statements were adopted by the Executive Board of Addiko Bank A.D., Beograd on March 20, 2018.

Signed on behalf of Addiko Bank A.D., Beograd by:

Gordana Ivanković
Head of Accounting and Reporting Department

Vladimir Stanisavljević
Executive Board Member

Vojislav Lazarević
Executive Board Chairperson

Addiko Bank a.d. 1 *Beograd*

Statement of changes in equity

Year Ended December 31, 2017 RSD '000

	Share Capital	Share Premium	Reserves from Profit	Revaluation Reserves	Profit/(Loss)	Total
Opening balance at January 1, 2016	**17,517,484**	**9,758,438**	**893,149**	**326,978**	**(6,345,269)**	**22,150,780**
Loss for the year	–	–	–	–	(1,278,508)	(1,278,508)
Negative effects of fair value adjustments of financial assets available for sale	–	–	–	(186,942)	–	(186,942)
Deferred tax benefits	–	–	–	28,041	–	28,041
Loss absorption	–	(5,452,120)	(893,149)	–	6,345,269	–
Balance at December 31, 2016	**17,517,484**	**4,306,318**	**–**	**168,077**	**(1,278,508)**	**20,713,371**
Opening balance at January 1, 2016	**17,517,484**	**4,306,318**	**–**	**168,077**	**(1,278,508)**	**20,713,371**
Profit for the year	–	–			1,218,248	1,218,248
Positive effects of fair value adjustments of financial assets available for sale	–	–	–	16,264	–	16,264
Deferred tax expenses	–	–	–	(2,439)	–	(2,439)
Other	–	–	–	(1)	–	(1)
Loss absorption	–	(1,278,508)	–	–	1,278,508	–
Balance at December 31, 2017	**17,517,484**	**3,027,810**	**–**	**181,901**	**1,218,248**	**21,945,443**

Notes on pages 7 to 96 form an integral part of these financial statements

These financial statements were adopted by the Executive Board of Addiko Bank A.D., Beograd on March 20, 2018.

Signed on behalf of Addiko Bank A.D., Beograd by:

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Head of Accounting and Reporting Department

Vladimir Stanisavljević
Executive Board Member

Vojislav Lazarević
Executive Board Chairperson

Addiko Bank a.d. 1 *Beograd*

Statement of cash flows

Year Ended December 31, 2017 RSD '000

	2017	2016
Cash flows from operating activities		
Cash inflows from operating activities	**6,481,529**	**5,538,258**
Interest receipts	4,760,866	4,440,966
Fee and commission receipts	1,073,589	890,746
Receipts of other operating income	647,074	206,546
Cash outflows from operating activities	**(5,312,620)**	**(5,331,072)**
Interest payments	(1,023,358)	(1,042,943)
Fee and commission payments	(125,069)	(116,239)
Payments to, and on behalf of employees	(1,429,226)	(1,525,147)
Taxes, contributions and other duties paid	(171,820)	(165,160)
Payments for other operating expenses	(2,563,147)	(2,481,583)
Net cash inflows from operating activities prior to increases/decreases in loans and deposits and other liabilities	**1,168,909**	**207,186**
Decrease in loans and increase in deposits received and other liabilities	**830,809**	**18,515,653**
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	324,171	4,727,684
Decrease in receivables per financial derivatives used as hedges against risks and changes in fair value of hedged items	506,638	569,199
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	–	13,218,770
Increase in loans and decrease in deposits received and other liabilities	(5,980,037)	(3,887,116)
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	**(1,884,468)**	**(3,887,116)**
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	(4,095,569)	–
Net cash (used in)/generated by operating activities before income taxes	(3,980,319)	14,835,723
Income tax paid	–	(1,283)
Net cash (used in)/generated by operating activities	**(3,980,319)**	**14,834,440**
Cash flows from investing activities		
Proceeds from the sales of intangible assets, property, plant and equipment	113,217	6,404
Cash used for the purchases of intangible assets, property, plant and equipment	(309,488)	(350,528)
Net cash used in investing activities	**(196,271)**	**(344,124)**
Cash flows from financing activities		
Cash inflows from borrowings	2,481,242	–
Cash used for subordinated liabilities	–	(11,600,387)
Cash used in the repayment of borrowings	–	(5,702,045)
Net cash generated by/(used in) financing activities	**2,481,242**	**(17,302,432)**
Total cash inflows	9,906,797	24,060,315
Total cash outflows	(11,602,145)	(26,872,431)
Net cash decrease	**(1,695,348)**	**(2,812,116)**
Cash and cash equivalents, beginning of year	6,413,163	9,161,094
Foreign exchange gains	1,416,644	755,733
Foreign exchange losses	(244,537)	(691,548)
Cash and cash equivalents, end of year	**5,889,922**	**6,413,163**

Notes on pages 7 to 96 form an integral part of these financial statements
These financial statements were adopted by the Executive Board of Addiko Bank A.D., Beograd on March 20, 2018.

Signed on behalf of Addiko Bank A.D., Beograd by:

Gordana Ivanković
Head of Accounting and Reporting Department

Vladimir Stanisavljević
Executive Board Member

Vojislav Lazarević
Executive Board Chairperson

Addiko Bank a.d. 1 Beograd

Notes to the financial statements

1. General information about the bank

Based on license issued by the National Bank of Yugoslavia no. O 38 dated February 27, 1991 and Decision on Establishment of Depozitno-kreditna banka d.d. Beograd no. 1/5 dated May 14, 1991, Depozitno-kreditna banka a.d. Beograd, Novi Beograd, Goce Delčeva 44, was registered with the District Commercial Court of Belgrade, under Decision no. Fi-5709/91 dated May 22, 1991 (registry card no. 1-18332-00).

For harmonization of the Bank's bylaws and enactments with the Law on Banks and Other Financial Organizations (Official Gazette of SRY no. 32/93) the founders of Depozitno-kreditna banka a.d. Beograd executed Articles of Association of Depozitno - kreditna banka a.d. Beograd no. 563 dated April 20, 1995.

Under Decision of the Commercial Court in Belgrade no. XII-Fi. 10865/02 dated September 27, 2002, based on the share sale and purchase transaction performed with the existing shareholders of Depozitno-kreditna banka a.d. Beograd, the majority ownership of Hypo Alpe-Adria-Bank AG Klagenfurt over the Bank was registered, while the Bank's name was changed to Hypo Alpe-Adria-Bank a.d. Beograd and the change registered under the same court's Decision no IX Fi. 12210/02 dated October 28, 2002.

Upon takeover of shares of Hypo Alpe-Adria-Bank a.d. Beograd by Hypo Alpe-Adria-Bank International AG Klagenfurt approved under the Decision of the Securities Commission no. 4/0-32-3303/4-10 dated July 14, 2010, and realization of the procedure of enforced sale of shares, fully in line with the Law, Hypo Alpe-Adria-Bank a.d. Beograd had two shareholders: Hypo Alpe-Adria-Bank International AG Klagenfurt and Industrija kotrljajućih ležaja a.d. Beograd (subsequently: Industrija kotrljajućih ležaja a.d. Beograd – in bankruptcy).

At its session held on March 24, 2011, the Shareholder Assembly of Hypo Alpe-Adria-Bank a.d. Beograd enacted Decision on Amendments and Supplements to the Articles of Association of Hypo Alpe-Adria-Bank a.d. Beograd no. 08461/11, whereby the Bank changed its organizational form and became a closed shareholding company. This change of legal form was registered with the Serbian Business Registers Agency under Decision no. BD 39396/11 dated April 5, 2011.

Pursuant to the National Bank of Serbia's Decision no. 10407 dated November 22, 2013 on the issue of prior approval to the acquirer Hypo SEE Holding AG for the acquisition of direct ownership, vesting it with 99.999% of voting rights in Hypo Alpe-Adria-Bank a.d. Beograd, on March 27, 2014, in the Central Securities Depository and Clearing House, the shares of the issuer Hypo Alpe-Adria-Bank a.d. Beograd were transferred from the account of Hypo Alpe-Adria-Bank International AG Klagenfurt to the account of the acquirer Hypo SEE Holding AG Klagenfurt, corporate ID no. FN 350921, Alpen-Adria-Platz 1, Klagenfurt.

On October 30, 2014 Hypo SEE Holding AG changed its name to Hypo Group Alpe Adria AG. The sole (100%) owner of Hypo Group Alpe Adria AG Klagenfurt is Al Lake Luxembourg S.A.R.L. registered with the Commercial Entity Register of Luxembourg under no. B191802, at the address of 47 Grand Rue, L-1661 Luxembourg.

Al Lake Luxembourg S.A.R.L. is owned by Al Lake Management S.A.R.L., Luxembourg. Owners of Al Lake Management S.A.R.L., Luxembourg are funds managed by Advent International Corporation domiciled in the United States of America and by the European Bank for Reconstruction and Development (EBRD).

On July 8, 2016, under Decision of the Commercial Court in Vienna, Hypo Group Alpe Adria AG (HGAA) changed its legal name to Addiko Bank AG (ABH), headquartered at the address of Wipplingerstrasse 34/4 Vienna, Austria.

On July 8, 2016, under Decision of the Serbian Business Registers Agency no. BD 55080/2016 Hypo Alpe-Adria-Bank a.d. Beograd changed its legal name to Addiko Bank a.d. Beograd.

Addiko Bank AG publishes its consolidated financial statements on web page www.addiko.com.

During 2017 the Bank operated through its Head Office and 38 branch offices.

The Bank performs the following activities:

1. deposit activities,
2. credit (lending) activities,
3. foreign exchange operations and exchange transactions,
4. payment transactions,
5. payment card issuance,
6. activities involving securities in accordance with the effective regulations,
7. issuance of guarantees, acceptances and other types of sureties (guarantee operations),
8. purchase, sale and collection of receivables (factoring and forfeiting),
9. insurance agency activities upon obtaining approval of the National Bank of Serbia,
10. technical and financial control of construction and reconstruction of facilities relating project financing,
11. valuation of real estate by certified appraisers for the purposes of the Bank and its clients related to the loans extended, and
12. provision of services to other members of the Group and other entities in the areas related to the Bank's business activities.

The Bank's organizational units are not legal entities and have no independent transaction accounts but operate via the Bank's unique account. They are entitled to execution of contracts within their scope of operations and within authorizations granted to them by the Bank's relevant bylaws.

As of December 31, 2017 the Bank had 595 employees (December 31, 2016: 639 employees).

The Bank’s activity code is 6419 – other monetary intermediation.

The Bank’s corporate ID number is 07726716.

The Bank’s tax ID number is 100228215.

2. Basis of preparation and presentation of the financial statements and accounting method

2.1. Basis of Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred to as the “Law”, Official Gazette of the Republic of Serbia no. 62/2013). As a large legal entity and in accordance with the Law on Accounting, the Bank is required to apply International Financial Reporting Standards (“IFRS”), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the “Framework”), International Accounting Standards (“IAS”), International Financial Reporting Standards (“IFRS”), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and additional amendments to the standards and related interpretations issued by the International Accounting Standards Board (“IASB”), the translations of which to the Serbian language were approved and published by the competent Ministry of Finance. In addition, in accordance with the Amendments and Supplements to the Law on Banks (Official Gazette of the Republic of Serbia no. 14/2015), upon preparation of the annual financial statements, banks in the Republic of Serbia are obligated to apply the International Financial Reporting Standards, subsequent revisions and amendments thereto and related interpretations as from their issue date by the competent authorities.

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS nos. 71/2014 and 135/2014.

These financial statements were prepared at historical cost principle, except for the measurement of the following significant balance sheet items:

- financial assets available for sale stated at fair value;
- derivative financial instruments stated at fair value; and
- financial assets and liabilities held for trading stated at fair value.

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for leasing transactions, which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as the net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3.

The Bank’s financial statements are stated in thousands of dinars unless it is otherwise stated. Dinar (RSD) is the official presentation currency in the Republic of Serbia.

2.2. New Amendments to the Existing Standards Effective for the Current Reporting Period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) have been effective over the current reporting period:

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after January 1, 2017); and
- Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017).

Adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements

2.3. New Standards and Amendments to the Existing Standards in Issue not yet Adopted

At the date of approval of these financial statements the following new standards, amendments to the existing standards and new interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after January 1, 2019);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021);
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2018or when IFRS 9 "Financial Instruments" is applied first time);
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018);
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018); and
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after January 1, 2019).

The Bank's management has elected not to adopt these new Standards, amendments to existing Standards and new interpretations in advance of their effective dates. The management anticipates that the adoption of these Standards, amendments to existing Standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for the impact of the first-time adoption of IFRS 9, as disclosed in Note 2.6.

2.4. Comparative Information

Comparative information in the accompanying financial statements comprise the data from the Bank's financial statements for 2016, audited by the Auditing Company Deloitte.

The Bank made no adjustments to the opening balance of retained earnings for 2016 since no adjustments were required under the Auditor's Report 2016.

Comparative financial information, i.e., opening balances, are figures from the Bank's financial statements as of December 31, 2016.

The accounting policies and estimates regarding the recognition and measurements of assets and liabilities used upon preparation of these financial statements are consistent with the accounting policies and estimates used in preparation of the\bank's annual financial statements for 2016.

The accounting estimates and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods.

2.5. Statement of Compliance

The Bank's accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

2.6. First-Time Adoption of IFRS 9

In July 2014, the IASB published the final version of IFRS 9 "Financial Instruments", which is mandatory for reporting periods beginning on or after January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification and measurement of Financial Assets and Financial Liabilities

IFRS 9 establishes three principal classification categories for financial assets: measurement at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing categories according to IAS 39 – held-to-maturity, loans and receivables and available-for-sale - are no longer existing.

On initial recognition, a financial asset is classified into one of the categories, the basis of this classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

Business model assessment

In 2017 the Bank made an assessment of business models for all segments and set up documentation including the policies and objectives for each relevant portfolio as this best reflects the way the business is managed and information is provided to management. The information that was taken into account includes:

- policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Bank´s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity; information about sales activity is considered as part of an overall assessment on how the Bank´s stated objective for managing the financial assets is achieved and how cash flows are realized.

Contractual cash flow characteristics

For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (“SPPI”), Addiko considered the contractual terms of the instrument and analyzed the existing portfolio based on a checklist for SPPI criteria. This include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, considering the following: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank´s claim to cash flows from specified assets and features that modify consideration for the time value of money.

Based on the entity’s business model and the contractual cash flow characteristics IFRS 9 defines the following principal classification categories:

- a financial asset is measured at amortized cost only if the object of the entity’s business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding (“SPPI criteria”);
- a financial asset is measured at fair value through other comprehensive income (FVOCI) if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and for sale and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature);
- financial assets that do not meet these criteria are measured at fair value through profit or loss (FVTPL).

According to IFRS 9, embedded derivatives will no longer be separated from the financial host asset. The financial instrument is assessed in its entirety and measured at fair value through profit or loss.

For equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments at FVOCI, with all subsequent changes in fair value being recognized in other comprehensive income (OCI). This election is available for each separate investment.

The classification and measurement requirements for financial liabilities are only slightly changed compared to IAS 39. Changes to the fair value of liabilities resulting from changes in own credit risk of the liability are recognized in other comprehensive income, the remaining amount of the change in the fair value will be presented in profit or loss.

Impairment – financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. The ECL is basically defined as the difference between the cash flows that are due to the Bank in accordance with the contractual terms of a financial instrument and the cash flows that the Bank expects to receive (considering probabilities of default and expected recoveries). This will require considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date.

IFRS 9 impairment requirements are complex and require a significant extent of the management’s judgements, estimates and assumptions, particularly in the following areas that are explained in more detail in the following passages:

- determining whether a credit risk o fan instrument has increased signficantly since the instrument's initial recognition; and
- including forward looking information in the expected credit loss measurement

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's hThe Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the one-year probability of default (PD) as at the reporting date; with the one-year PD that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment.

Credit risk grades - The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default (PD) and applying experienced credit judgement. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower. Credit risk grades are targeted such that the risk of default occurring increases as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD - Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Bank will collect performance and default information about its credit risk exposures analyzed by jurisdiction, by type of product and borrower and by credit risk grading, whenever meaningful. For some portfolios, information purchased from external credit reference agencies may also be used as well. The Bank will employ statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators are likely to include GDP growth, unemployment rate and others. The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Bank's 's quantitative modelling, the one year PD is determined to have increased in absolute range between 4% to 5%, depending on the portfolio, since initial recognition.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank aims to monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models, regulatory values as well as expert judgment. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors, wherever meaningful. Where it is available, market/external data may also be used as well. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. While PDs are based on statistical models, the risk parameters (LGD, CCF) are leveraging on regulatory values and/or expert assessment.

Forward-looking information

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank will formulate a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case will represent a most-likely outcome and be aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. The Bank will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk. These key drivers include within other factors also unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analyzing historical data.

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Bank will recalculate the gross carrying amount of the financial asset by discounting the modified contractual cash flows at the original effective interest rate and recognize any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognize any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition. The Bank expects an immaterial impact from adopting these new requirements.

Impact on capital planning

The Bank's assessment indicates that the impact on capital resources of the implementation of IFRS 9 will have impact to reduction in CET1 capital of approximately EUR 11 million as at January 1, 2018.

Impact after the initial application

The new standard will affect the classification and measurement of financial instruments held as at January 1, 2018 as follows:

- based on assessments undertaken to date, the major part of the loan portfolio classified as loans and advances according to IAS 39 will still be measured at amortized costs according to IFRS 9;
- financial assets held for trading will furthermore be measured at FVTPL;
- the Bank classified most debt securities as available-for-sale according to IAS 39. Within the new classification of IFRS 9 these debt securities will be measured at FVTOCI as those assets are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- for the majority of the equity instruments that are classified as available for sale under IAS 39, the Bank will exercise the option to irrevocable designate them at initial recognition at FVTOCI;
- held-to-maturity investments measured at amortized cost under IAS 39 will be measured at FVTOCI according to IFRS 9;

No further significant changes regarding classification arose based on the first-time adoption of IFRS 9 and the business model criterion application.

2.7. Use of Estimates

Preparation of the financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period. Actual amounts of assets and liabilities may vary from these estimates.

Impairment of Financial Assets

At each reporting date the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset (loss event), and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

When it comes to assessment of losses due to impairment of loans, the Bank analyses the loan portfolio so as to assess the impairment of receivables on a monthly basis. In the process of determining whether an impairment loss needs to be accounted for within the income statement, the Bank assesses whether there is reliable evidence showing a measurable decrease in the estimated future cash flows from the credit portfolio before the impairment that can be identified in individual loans in the portfolio.

The evidence may include available data indicating unfavorable changes of the status of debtors with regard to payment of liabilities due to the Bank, or national or local circumstances related to negative influences on the Bank's assets.

The Bank’s management makes assessment based on its experience with losses incurred on loans from prior periods for all assets susceptible to credit risk and showing evidence of impairment similar to the one that existed in the credit portfolio at the time of planning future cash flows.

The methodology and assumptions used in the assessment of amounts and time of future cash flows are subject to regular reviews with the aim to decrease differences between the estimated and actually incurred losses.

Additional information is disclosed in Notes 3.7 and 4.1.1 to the financial statements.

Useful Life of Intangible Assets, Property, Plant and Equipment

Determining the useful life of intangible assets, property and equipment (“fixed assets”) is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors. Adequacy of useful life is reviewed annually or whenever there are indications of significant changes in factors underlying the estimate of useful lives.

Due to the significance of the fixed assets within the Bank's total assets, any change to the aforesaid assumptions may have a significant effect on the Bank’s financial position and its performance.

Deferred Tax Assets

Deferred income taxes are provided under the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the Bank's financial statements. The currently effective tax rate at the reporting date equals 15% (2016: 15%).

Current Taxes

The Bank is subject to income taxation in the Republic of Serbia. Tax liability calculation requires application of certain estimates. The Bank is under obligation to pay income tax in the form of monthly advance payments during the year, the amount of which is determined based on the income tax return submitted for the previous year. The final taxable income to which the prescribed corporate income tax rate of 15% is applied (2016: 15%), is arrived in at through preparation of the Bank's tax statement. In the event that the final tax liability differs from the initially recognized tax liability, the difference between the two will affect the tax liability of the period in which the difference was identified.

Retirement Benefits and Other Employee Termination Benefits

The cost of defined post-employment benefits to employees and/or retirement benefits upon fulfillment of all legally prescribed criteria, are determined in an actuarial assessment. An actuarial assessment includes the assessment of a discount rate, future movements in salaries, mortality rates and employee turnover. Due to a long-term nature of these plans, significant uncertainties influence these assessments. Additional information in this respect are disclosed in Note 27 to the financial statements.

Fair Value of Financial Assets and Liabilities

The fair value of financial instruments traded on an active market at the reporting date are based on the quoted market bid (financial assets) and ask prices (financial liabilities). If the market for a financial asset is not active, the Bank determines the asset's fair value using valuation techniques. These include comparison with most recent similar transactions performed at arms' length, analysis of discounted cash flows and other valuation techniques used by the market participants. Models of estimates reflect the current market situation at the date of assessment and do not have to correspond to the market terms before or after the measurement date. At the reporting date, the Bank's management reviewed the models in order to ensure that they adequately reflect the current market conditions, including relative market liquidity and interest margins.

Additional information in this respect are disclosed in Note 4.3 to the financial statements.

3. Summary of significant accounting policies

3.1. Recognition of Income and Expenses

The Bank recognizes income when it can be measured reliably, when it is probable the future economic benefits will flow to the Bank and when special criteria for each of the Bank's activities are met, as set out below.

3.2. Interest Income and Expenses

The Bank earns interest income and incurs interest expenses in operations with the National Bank of Serbia, domestic and foreign banks and corporate and retail customers – legal entities and individuals.

Interest income and expenses, including penalty interest and other income and other expenses from interest bearing assets, i.e. liabilities are recognized as per "matching principle" (on an accrual basis) under obligatory terms defined by a contract executed between the Bank and a customer. Interest income and expenses are determined on an accrual basis using the effective interest rate, which is defined upon initial recognition of a financial asset/liability.

For all interest-bearing instruments other than those classified as available for sale or designated at fair value through profit or loss, interest income and expenses are recognized within the income statement using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows, taking into consideration all contractual terms related to the financial instrument (e.g. advance payments) but not considering future credit losses. The calculation includes all fees and commissions paid or received, which are a constituent part of the effective interest rate, transaction costs and all other premiums and discounts. Interest is recognized as it accrues on a time proportion basis, implying that interest amount depends on the time elapsed.

In case of impairment of a financial asset, the Bank impairs the receivable carrying amount up to the recoverable amount, representing the estimated future cash flow discounted at the original effective interest rate of the financial instrument, and continues with unwinding the discount as interest income.

From the moment of impairment of a financial asset, the contracted interest is not recognized in the statement of financial position (balance sheet) and income statement. Interest income from impaired loans and receivables is recognized using the effective interest rate method on the amortized cost of a financial asset. The only interest income recognized for all impaired clients is thus the effect arising out of future cash flows discounting – the so-called unwinding effect.

The legal framework allows for the banks to opt for the manner of recognizing the contracted gross interest on impaired loans, so they are allowed to recognize it through other off-balance sheet items or in the supporting books for internal requirements and for the needs of statistical monitoring of these amounts. The Bank has decided that for impaired loans it shall, within its accounting policy, recognize the contracted gross interest calculated according to repayment schedule in other off-balance sheet items.

The Bank also realizes income and expenses from fees for servicing approved (received) loans.

Such fee income is deferred by applying the effective interest rate throughout the loan period and it is recognized within the interest income.

3.3. Fee and Commission Income and Expenses

Fee and commission income and expenses are recognized on an accrual basis, when the underlying services are rendered. The Bank earns fee and commission income by providing services of domestic and foreign payment transfers, card operations, issuance of guarantees and letters of credit, foreign exchange operations and other services rendered to or on behalf of clients.

3.4. Dividend Income

Dividend income is recognized when the Bank's entitlement to receive dividend is established.

3.5. Foreign Exchange Translation

Items included in the Bank's financial statements are measured using the currency of the primary economic environment within which the Bank operates (functional currency). As stated in Note 2.1, the Bank's financial statements are stated in thousands of dinars (RSD). Dinar is the Bank's functional and presentation currency.

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates determined at the interbank foreign exchange market and effective at the date of each transaction or the measurement date, if the items are remeasured.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at the official middle exchange rates determined at the interbank foreign exchange market prevailing as of that date (Note 34).

Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses (Note 8).

Gains or losses realized/incurred upon translation of financial assets and liabilities with a currency clause index are recorded within the income statements as foreign exchange gains or losses and positive or negative currency clause effects (Note 8).

3.6. Financial Instruments

Recognition

All financial instruments are initially recognized at fair value (except for financial assets and financial liabilities at fair value through profit and loss), increased by transaction costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability.

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

Derecognition of Financial Assets and Liabilities

Financial Assets

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

- the contractual rights to the cash flows from the financial asset have expired; or
- the Bank has transferred the right to the cash flows from the financial asset or assumed an obligation to make the payment of the cash received in respect of the assets in full amount, without materially significant delay in payment to a third party under the executed contract on such transfer; and
- the Bank has either transferred all the risks and rewards associated with the asset or has neither transferred nor retained substantially all the risks and rewards of ownership over the asset but has transferred control over the asset.

When the Bank transfers the contractual rights to the cash flows from a financial asset or executes a contract on such transfer, and thereby the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset, the asset is recognized to the extent of the Bank's involvement in respect of the asset. Any further involvement of the Bank in the transferred asset, in the form of a guarantee for the asset transferred, is measured at the lower of the asset's original carrying value and the maximum amount of the consideration the Bank will need to pay.

Financial Liabilities

A financial liability is derecognized when its contractual obligation is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the simultaneous recognition of a new liability, with the difference between the respective carrying amounts recognized in the income statement.

Classification of Financial Instruments

The Bank’s management determines the classification of its financial instruments at initial recognition. Classification of financial instruments upon initial recognition depends on the purposes for which financial instruments have been acquired and their characteristics.

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets.

The Bank's liabilities are classified into the following categories: financial liabilities at fair value through profit or loss and financial liabilities held to maturity (deposits due to banks and customers and subordinated liabilities).

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

3.6.1. (a) Financial Assets at Fair Value through Profit and Loss

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

Financial assets are classified as held for trading if they have been primarily acquired for generating profit from short-term price fluctuations. Trading securities are stated in the statement of financial position at fair value. Financial assets held for trading also include financial derivatives.

All realized or unrealized gains and losses arising upon measurement and sale of financial assets at fair value are stated in the income statement.

The Bank is in possession financial derivatives that do not meet the criteria for hedge accounting. At year-end the Bank had receivables and liabilities per short-term foreign currency swaps (FX-swaps).

Derivatives, including FX contracts, FX swaps and other derived financial instruments, are initially recognized at fair value within the off-balance sheet items on the contract execution date and are subsequently remeasured at fair value.

Derivatives are initially recognized at the moment when derivative contract has been agreed with the counterparty (date of agreement). The notional amount of principal to which the respective derivative is agreed is recorded as an off-balance sheet item, while the initial positive or negative fair value of the derivative is carried within assets or liabilities. The initial recognition of fair value is executed only if the market price of the same or similar derivative can be found in the organized derivatives market, and if it differs from the price at which that derivative has been agreed by the Bank.

Information on the fair value is acquired at the market and includes information on recent market transactions or it is determined by the method of discounted cash flows.

All derivatives are recognized as assets when the fair value is positive, i.e. as liabilities when negative. The best source of estimation of the fair value of derivatives on initial recognition is transaction price (i.e. fair value of commission given or received).

3.6.2. (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.

Loans approved by the Bank to other banks and customers are recorded within the statement of financial position from the moment of loan funds disbursement to the borrower. All loans and receivables are initially recognized at fair value. As of the reporting date loans are stated at amortized cost using the contractually defined interest rate net of impairment allowance and any amounts written off.

Interest income and receivables in respect of these instruments are recognized under interest income. Fees which are part of effective yield on these instruments are deferred and credited to the income statement as interest income over the life of a financial instrument.

The Bank incorporates currency clause index in the loan contracts executed with customers. RSD loans with contracted risk hedges by indexing the loans to RSD to EUR, CHF or USD exchange rates are revalued in accordance with the particular contract executed for each loan facility. The difference between the carrying amount of the outstanding principal and the amount calculated by applying the foreign currency clause is included within loans and receivables. The currency clause represents an embedded derivative that is not accounted for separately from the host contract, since the economic characteristics and risks of the embedded derivative are closely related to those of the host contract. Gains or losses arising from the currency clause application are recorded in the income statement as positive or negative currency clause effects.

Loans and receivables are presented in the Bank’s statement of financial position (balance sheet) in two line items – as “loans and receivables due from banks and other financial institutions” and “loans and recievables due from customers”.

3.6.3. (c) Financial Assets Held to Maturity

Financial assets held-to-maturity 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 were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be reclassified to assets available for sale.

After initial recognition, financial assets held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. The amount of impairment loss for investments held to maturity is calculated as the difference between the investments' carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate.

3.6.4. (d) Financial Assets Available for Sale

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available-for-sale financial assets". Available-for-sale financial assets refer to Treasury bills of the Republic of Serbia.

Upon initial recognition, available-for-sale financial assets are shown at fair value. The fair value of Treasury bills is calculated based on discounted nominal value of notes by the interest rate published on the website of the Treasury Department of the Ministry of Finance.

In case of available-for-sale financial instruments, the Bank assesses on an individual basis whether there is objective evidence of impairment, based on the same criteria as those applied to the financial assets carried at amortized cost. Also, impairment already recognized represents cumulative loss valued as difference between amortized cost and current fair value, less any impairment loss previously recognized in the income statement.

Impairment of Financial Assets and Risk Provisions

In accordance with its internally adopted accounting policy, at each reporting date the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears in liability settlement or economic conditions that correlate with defaults.

In assessing impairment of loans and receivables due from banks and customers, the Bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes an asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the future cash flows (without taking into account expected credit losses not yet incurred). The asset's carrying value is reduced via the impairment allowance account and losses arising from impairment of loans and receivables and other financial assets are recorded within profit or loss as losses on impairment of financial assets and credit risk-weighted off-balance sheet items (Note 10).

Loans and the related impairment allowances are fully derecognized when there is no realistic prospect of future recovery and all collaterals have been realized or foreclosed by the Bank. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment has been recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement as gain on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items (Note 10).

The present value of expected future cash flows is arrived at by discounting the cash flows at the financial asset's original effective interest rate. If a loan has a variable interest rate, the current variable portion of the interest rate is applied. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from collateral foreclosure less costs of collateral sale irrespective of the probability of collateral realization.

For the purpose of group (collective) impairment assessment, financial assets are grouped on the basis of the Bank's internal classification system that takes into account credit risk characteristics. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of expert opinion supported by historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist at the reporting date. The Bank reviews the methodology and assumptions used for estimating future cash flows on an ongoing basis in order to reduce any differences between loss estimates and actual loss experience.

Write-offs for past-due loans and receivables, partial or in full, may be performed during the year if inability of their collection is certain, i.e., if impairment is recognized and documented. Write-off is made based on court ruling or the relevant decisions of the Bank’s competent bodies.

3.6.5. (e) Rescheduled Loans

In each individual case, the Bank decides on the collection strategy for clients facing financial difficulties. Where possible, the Bank seeks to reschedule or restructure loans rather than foreclose collaterals. This may involve alteration of the initially agreed loan terms such as extending the payment terms, extending the grace period, replacing several loans with a single new loan with extended repayment period or any combination thereof. Once the terms have been renegotiated, the loan is no longer considered past due. The Bank’s management continuously monitors rescheduled/restructured loans to ensure that all criteria are met, as well as that future payments are made. The Bank continues to assess loans for impairment on either an individual or a group level using the loan's original effective interest rate.

3.6.6. (f) Offsetting Financial Assets and Financial Liabilities

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

3.6.7. Cash and Balances Held with the Central Bank

Cash and cash balances held with the central bank include cash funds in the local (RSD) and foreign currencies, i.e., cash balances on gyro and current accounts, vault cash and other cash funds in the local (RSD) and foreign currencies, gold and other precious metals, liquid asset surpluses deposited with the National Bank of Serbia and foreign currency required reserve funds held on the special accounts with the National Bank of Serbia. Cash and cash balances held with the central bank are carried at amortized cost in the statement of financial position. These funds are held for settlement of current cash liabilities rather than investment or other purposes.

The structure of cash and cash balances held with the central bank is provided in Note 15.

3.6.8. Repo Transactions

Securities purchased under agreements to resell at a specified future date (‘repos’) are recognized in the statement of financial position.

The corresponding cash given, including accrued interest, is recognized in the statement of financial position. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement.

3.6.9. Deposits due to Banks and Customers

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

3.6.10. Borrowings

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

Borrowings are classified as current liabilities, unless the Bank has the undisputable right to postpone the settlement of obligations for at least 12 months after the reporting date.

3.6.11. Trade Payables

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

3.7. Reserves for Estimated Losses on Bank Balance Sheet Assets and Off-Balance Sheet Items

The required reserve for estimated losses on balance sheet assets and off-balance sheet items is calculated in accordance with the National Bank of Serbia’s Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items (Official Gazette of the Republic of Serbia nos. 94/2011, 57/2012, 123/2012 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017 and 114/2017).

In assessing the credit risk, in accordance with the methodology, the Bank considers the borrower's financial position in terms of profit stability, maturity matching of certain asset and liability components, adequacy of cash flows, indebtedness, leverage, liquidity ratios, interest liability coverage and profitability.

In addition to the financial indicators, an important element of the assessment of the borrower's risk category is timeliness in material liability settlement toward the Bank for the past 12 months and at the reporting date. Material liability amount equals 1% of the individual receivable due form the borrower yet not below RSD 10,000 for corporate customers and RSD 1,000 for entrepreneurs, farmers and individuals.

The basic borrower classification is independent of the collateral obtained.

Due to the collateral quality assessment, a receivable due from the borrower may be classified in a category different from the basic borrower classification. According to their quality, collaterals may be first-class and adequate collaterals.

First-class collaterals trigger category A classification of receivables, while adequate collaterals place receivables into a category more favorable (one up) than the category as per basic classification of borrowers.

The Bank classifies aggregate receivables due from a borrower into categories A, B, V, G and D based on the timeliness/delay in liability settlement criterion, as well as based on the assessment of the borrower's creditworthiness and collateral quality.

In accordance with the classification of receivables and pursuant to the aforesaid NBS Decision, the amount of the required reserve for estimated losses is calculated by applying the following percentages: A (0%), B (2%), V (15%), G (30%) and D (100%).

The Bank is obligated to determine the amount of the required reserve for estimated losses, which is calculated as the sum of all the positive differences between the reserve for estimated losses computed in accordance with NBS Decision and the determined impairment allowances for balance sheet assets and provisions per off-balance sheet items at the individual borrower level. The required reserve from profits for estimated losses represents a deductible item in calculation of the capital adequacy ratio.

3.8. Intangible Assets, Property, Plant and Equipment and Investment Property

a) Intangible Assets

Intangible assets consist of software, licenses and investments in progress. Intangible assets are states at cost less accumulated amortization and aggregate impairment losses, if any.

Separately acquired trademarks and licenses are stated at historical cost. Trademarks and licenses have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate (write down) the cost of trademarks and licenses over their estimated useful lives.

Acquired software licenses are capitalized based on the costs incurred to acquire and put to their intended use the specific software. Intangible assets are written down on a straight-line basis and charged to operating expenses through the calculation of amortization over their estimated useful life – 7 years for the Bank's core information and 5 years for other software. The residual value and useful lives are reviewed, and adjusted when necessary, at each reporting date.

Expenditures relating to the development or maintenance of the software application are recognized as expenses as incurred.

Intangible assets include investments in software which are not amortized since they have not yet been put to use.

b) Property, Plant and Equipment

Property, plant and equipment stated at cost less accumulated depreciation and aggregate impairment losses, if any. Cost includes expenditure that is directly attributable to the acquired asset.

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

Derecognition of property, plant and equipment occurs when they are sold or when the Bank no longer expects future economic benefit from their use. All gains and losses that on derecognition of assets (calculated as the difference between net sales proceeds and the carrying value of the asset) are recognized in profit and loss for the year of derecognition.

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

Asset	Depreciation rate % in 2017	Depreciation rate % in 2016
Buildings	1.87% – 2.24%	1.87% – 2.24%
Computer equipment	25.00%	25.00%
Furniture	11.00%	11.00%
Vehicles	15.50%	15.50%
Other equipment	10% – 33.33%	10% – 33.33%

When determining the basis for depreciation, the cost i.e. estimated value is not decreased by the amount of the residual value since after the expiry of the useful life of a fixed asset it is assessed as equal to zero.

Calculation of depreciation of property, plant and equipment commences at the beginning of the month following the month of the asset's placement into use. Investments in progress are not depreciated. Depreciation charge is recognized within expenses for the period when incurred.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. If higher than its estimated recoverable amount, an asset's carrying amount is written down immediately to its recoverable value.

Gains and losses arising on disposal or sales of property and equipment are credited or charged to the income statement as a part of other operating income or other operating expenses.

Depreciation for tax purposes is calculated in accordance with the Corporate Income Tax Law of the Republic of Serbia and the Rules of the Manner of Classification of Fixed Assets into Groups and Manner of Determining Depreciation for Tax Purposes, resulting in deferred taxes (Note 14).

c) Investment Property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property is recognized at cost less accumulated depreciation.

Calculation of depreciation of investment property commences at the beginning of the month following the month of the asset's placement into use. Depreciation charge is recognized within expenses for the period when incurred.

Investment property is depreciated at the rate of 2.5% p.a. using the straight-line depreciation method. The residual value and useful life are reviewed and adjusted if necessary, at each reporting date.

Subsequent costs are capitalized only when it is probable that future economic benefits associated with them will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

d) Impairment of Non-Financial Assets
Non-financial assets that have an indefinite useful life are not subject to amortization and are tested for impairment on an annual basis.

Assets that are subject to depreciation/amortization are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

In 2015 the Bank performed an internal review of the impairment assessment using the "value in use" concept in accordance with IAS 36. The results of the analysis showed that the recoverable amount of the cash-generating unit – CGU (at the Bank level) is significantly lower than the carrying amount of CGU. For that reason, the Bank applied the "fair value less costs to sell" concept at the level of individual assets and groups of assets. In 2017 no indications of impairment were identified.

Fair value measurement and impairment of the Bank's intangible assets are disclosed in the Note 20.

3.9. Leases

a) Operating Lease – the Bank as Lessee
A lease where all the risks and rewards incidental to ownership are retained by the lessor, i.e., not transferred to the lessee, is classified as an operating l.

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

In 2017 and 2016 the Bank leased (rented) business premises and cars for performance of its business activity.

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

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

In 2017 the Bank had no finance lease agreements.

c) Operating Lease – the Bank as 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 operating leasing, the assets are shown in the statement of financial position depending on the type of asset. Lease income is recognized on a straight-line basis during the lease period.

The Bank leases parts of its business premises, and thus earns rental income, as stated in Note 9.

3.10. Assets Acquired in Lieu of Debt Collection

According to the Bank's policy, the Bank assesses whether an asset acquired in lieu of debt collection is suitable for the Bank's internal business operations or it is to be sold. Assets determined as appropriate for the Bank's own use are classified within the relevant asset line item and measured at the lower of the asset's cost and the carrying value of the underlying receivable.

3.11. Non-Current Assets Held for Sale

Non-current assets (or disposal groups) held for sale are classified as assets held for sale when their carrying amount is recovered predominantly through a sale transaction and the sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continued use. This condition is considered fulfilled if the sale is highly probable and when such an asset (or a disposal group) is available for immediate sale in its current condition. Management must be committed to the action plan for the sale in order for the asset to fulfill the recognition criteria and the sale is expected to be completed within a year from the initial classification.

In the course of 2016 and 2017, the Bank acquired a certain number of buildings which were loan-securitizing collaterals through participation in the second out-of-court auction in the capacity of a buyer. By purchasing these properties the Bank closed portion of the customer's debts in the amount of the achieved sale/purchase prices for the said properties. The Bank's management then enacted a decision to sell these assets immediately upon takeover and all activities necessary to complete the sale were undertaken.

3.12. Provisions, Contingent Liabilities and Contingent Assets

Provision is a liability uncertain in terms of both maturity and amount. Provisions are recognized:
- when the Bank has a present obligation (legal or constructive) as a result of a past event;
- when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- when a reliable estimate can be made of the amount of the obligation.

The amount recognized as provision represents the best estimate of the expense needed to settle the present obligation at the reporting date.

Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized for.

Provisions are not recognized for future operating losses. In instances of a number of similar liabilities, probability that their settlement will require an outflow of resources is determined at the level of the liability category as a whole. Provisions are recognized even if the probability for any of the liabilities within the same category is remote.

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements (Note 33).

Contingent liabilities are assessed on an ongoing basis to determine the probability of an outflow of economic resources. Where a probable resource outflow will be required in the future for items previously recognized as contingent liabilities, provisions are recognized in the financial statements for the period in which a change occurred to the probability of event occurrence.

Provisions for commitments and contingent liabilities are separately calculated for:
- approved yet undrawn loans,
- payment and performance guarantees issued,
- unsecured letters of credit,
- other forms of sureties where payments may be required.

Credit risk exposure – exposure at default (EAD) for contingent liabilities is equal to the portion of the risk exposure that is expected to be used at the time of default.

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

3.13. Employee Benefits

(a) Employee Social Security Taxes and Contributions

Under the Republic of Serbia regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. The Bank has no legal obligation to pay further benefits to its employees that are due from the Pension Insurance Fund of the Republic of Serbia.

(b) Other Employee Benefits – Retirement Benefits
In accordance with the Labor Law and the Rules of Procedure, the Bank is under obligation to pay its vesting employees retirement benefits in the amount of two average monthly salaries of the vesting employee as at the payment date, but not below two average monthly salaries paid by the Bank as at the payment date or the two average monthly salaries paid in the Republic of Serbia according to the most recent data published by the Republic of Serbia Statistical Office, whichever arrangement is most favorable for the retiree.

The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Provisions for retirement benefits are made based on the independent actuary's report and stated at the present value of the expected future payments. Inputs for the calculation of these provisions are presented in Note 27.

(c) Provisions for Termination Benefits
Termination benefits are payable when employment is terminated before the regular retirement date, or whenever an employee accepts voluntary redundancy in exchange for those benefits. The Bank recognizes termination benefits when it is explicitly committed to either: terminating the employment of current employees according to an adopted plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy aimed at decreasing the number of employees.

Benefits falling due more than 12 months after balance sheet date are discounted to their present value.

d) Profit Sharing and Bonuses
The Bank recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to its shareholders after certain adjustments. The Bank recognizes a provision in instances of contractual or constructive obligations.

3.14. Equity

Equity consists of share capital (ordinary shares), share premium, reserves and retained earnings/accumulated losses.

Dividends on shares are recorded as liabilities in the period in which the relevant decision on their payment was rendered. Dividends approved for the year after the reporting date are disclosed in the note on the events after the reporting period.

3.14.1. Share Capital

Ordinary shares are classified as equity.

Where the Bank purchases its own share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity owners until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to equity owners. The Bank did not repurchase its own shares.

3.14.2. Other Forms of the Issued Capital

The share premium is the difference between the par (nominal) value of shares and their selling price. The par value of share is the product of the par value per share and the total share count. Reserves from profit arise as a result of allocation of portions of profit net income taxes other than the profit paid in the form of dividend to the shareholders or employee profit sharing.

3.15. Taxes and Contributions

Deferred Taxes

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

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

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

Deferred tax assets and liabilities are calculated at tax rates that are expected to be effective in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

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

Other Taxes

Indirect taxes and contributions include property taxes, value added tax, payroll contributions charged to the employer and various other taxes, contributions and duties payable under the republic and municipal tax regulations. These are included within other expenses (Note 13).

3.16. Internal Control System for Accounting Procedures

Addiko Bank has an internal control system (ICS) in place for accounting procedures, which define and allow realization of the processes throughout the organization. The governing bodies in each of the organizational units within the Group are responsible for implementation of the Group's rules and procedures. Compliance with the Group's policies is monitored as part of both external and internal audits.

ICS, as part of the Bank's risk management system, has the following general objectives:

- Protection and implementation of the business and risk strategies and Group's policies;
- Effective and efficient use of all resources with a view to achieve the target commercial success;
- Ensuring reliable financial reporting; and
- Support to the compliance with all relevant legislation, rules and regulations;

The specific objective with regard to the Group's accounting procedures is that ICS ensures that all business transactions are recorded accurately, timely and in a uniform manner for accounting purposes.

In addition, the system needs to ensure that no errors or intentional fraud affect adequate presentation of the Bank's financial position and performance.

This is the case whenever the data provided In the financial statements and notes to the financial statements are essentially Inconsistent with the correct figures, i.e. whenever, alone or in the aggregate, they can affect decisions made by the users of the financial statements, as such a decision may incur serious damage, such as financial loss, the Imposition of sanctions by the banking supervisor or reputational harm.

The internal control system itself is not a static system but is continuously adapted to the changing environment. The implementation of the internal control system is fundamentally based on the integrity and ethical behavior of the employees. The Executive Board and the management team actively and consciously embrace their role of leading by example.

4. Risk management policies

4.1. Financial Risk Factors

Risk management policies of the Bank are aimed at minimization of risks the Bank is exposed to in its operations by following and applying the principles and procedures of risk management, ensuring that all aspects of the Bank's business are stable and as little as possible susceptible to negative internal and external factors and that the Bank's risk profile at all times meets the requirements of the prudent banking business.

The Bank bases its risk profile on the capital adequacy level that provides risk coverage required by statutory regulations.

Moreover, the Bank monitors exposures to other risks arising from the Bank's operations and environment not required by statutory regulations on the capital adequacy ratio.

The Bank's risk management policies govern the management of all relevant risks (explained hereinafter) to which the Bank is exposed. The Bank's risk management policies and procedures are in compliance with statutory regulations of the National Bank of Serbia ("NBS"), and policies, procedures and other relevant documents of Addiko Group.

The approach to the management of individual Bank's risks is defined under effective regulations of the Republic of Serbia and internal regulations of the Bank. Targeted capital adequacy level is based on the principle that the Bank's capital adequacy ratio should be in line with the scope, type and complexity of the Bank's operations and, in addition to the risks contained within the NBS regulations, provide a buffer for other risks arising from the Bank's operations and environment to which the Bank is exposed. Risk management includes risk identification, risk measurement and assessment, undertaking of measures for mitigating risks and risk monitoring. Risk management is performed by:

1. the Bank's bodies and other committees stipulated by the Law – the Board of Directors, Executive Board, Audit Committee, Assets & Liabilities Committee (ALCO) and Credit Committees;
2. working groups and committees of the Bank's Executive Board – Risk Advisory Body, Operations Advisory Body and Operational Risk Advisory Body;
3. the Bank's organizational units – Risk Control Department, Corporate Risk Management Division, Retail Risk Management and Collection, BSM & Treasury Department, Compliance Department and other units, as appropriate.

The Bank's Board of Directors defines the strategy and policies for risk management which are executed by the Executive Board. The Executive Board adopts procedures for risk identification, measurement, assessment and management, analyses efficiency of their application and reports to the Board of Directors about those activities.

The relevant risks the Bank is exposed to in its operations are the following:

a) Financial risks:
- market risks (foreign exchange risk, interest rate risk, price risk),
- credit risk,
- liquidity risk;

b) Other risks:
- country risk,
- compliance risk,
- operational risk.

4.1.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank. The Bank's credit risk depends on the creditworthiness of tis borrowers, their regularity and timeliness in liability settlement and quality of collaterals securitizing the Bank's loans and receivables.

The Credit Risk Control Team operating within the Risk Control Department identifies, measures, assesses, monitors and reports on the credit risk at the portfolio level, i.e., the level of the Bank on the whole. The Credit Risk Control Team monitors, measures and reports on credit risk at both the local and Group levels, preparing reports in accordance with the needs of the report end-users.

Reports on credit risk are prepared at least quarterly for the Executive Board, Board of Directors and Audit Committee, while regularity of reporting to the Group is adjusted to the Group's needs. The Credit Risk Control Team calculates provisions in compliance with NBS regulations and according to the methodology established by the Bank based on IFRS.

The Corporate Risk Management Division performs activities of credit risk assessment for performing customers, prevention of new non-performing loans and management of the existing non-performing loans. The customer segments under the remit of the Division include corporate, public sector and financial institutions.

The Corporate Credit Department within the Corporate Risk Management Division actively participates in the preparation of loan applications and credit risk assessment per individual client, which include an expert opinion or a "vote" on each particular loan application (in favor, against it or in favor with a precondition) as well as in ongoing monitoring of the customer creditworthiness in accordance with NBS and Group requirements.

The Corporate Distressed Asset Management Department within the Corporate Risk Management Division performs the following activities:

1) prevention of new non-performing loans through continuous analysis and monitoring of the changes in the loan portfolio within the Division's competence as well as activities on implementation of the system of early warning of credit risk increase and implementation and improvement of the corporate credit risk monitoring;
2) active participation in the loan restructuring process in order to allow customer recovery, in the enforced collection process and in other measures contributing to NPL collection and minimizing additional risk costs.

The Retail Risk Management and Collection Division assesses, measures and monitors credit risk and performance of the retail portfolio (private individuals, SME, entrepreneurs and agricultural producers). The Division consists of two departments, one unit and two independent expert functions. Within the Retail Collection Department two new units were formed – the Workout Unit and Arrears Management Unit. The Workout Unit processes the clients with terminated loan contracts through instigation of forced collection procedures leaving the customers prior voluntary debt settlement option. The Arrears Management Unit treats all the customers and all the exposures designated as belonging to the retail customer segment in accordance with the Group's segmentation. All the clients with liabilities one day past due are transferred to the remit of this unit and its activity primarily entails collection of the receivables past due. The Retail Credit Department performs financial analyses and credit risk assessment for performing status clients (PL) from the micro business customer segment (micro and small entities, entrepreneurs, farmers) and private individuals. The Retail Portfolio Management Department manages risks inherent in the retail portfolio based on the regular monitoring, quantitative and qualitative analyses of the loan portfolio, monitoring of the key risk indicators through constant optimization of the crediting policies, products and processes in order to ensure the Bank's defined risk appetite. The expert independent function - the Officer for Retail Fraud Management within the Retail Risk Management and Collection Division deals with the prevention, detection, investigation of and recovery from credit fraud, with the basic goal of fraud prevention in the process of loan approval and fraud identification in the existing portfolio. The function also covers review of the crediting process for the retail customer segment aimed primarily at improvement of the loan life cycle through identification and assessment of the actual and potential weaknesses and failures.

The Bank's Risk Advisory Body monitors the Bank's exposure to the credit risk, exposure risk and risk of the borrower's country of origin and proposes to the Executive Board measures for managing these risks. Sessions of the Risk Advisory Body are held at least quarterly

The Risk Advisory Body work is governed by the Decision on the Competence and Method of Work of the Bank's Risk Advisory Body enacted by the Bank's Executive Board.

In addition to the Risk Control Department, the Corporate Risk Management Division and the Retail Risk Management and Collection Division a member of the Executive Board responsible for the work of those divisions/departments, who is also the Chairperson of the Advisory Body, Operations Division also participates in the work of the Risk Advisory Body.

In line with its authorizations, the Risk Advisory Body discusses in its sessions, in the area of credit risk, among other issues, the structure of the loan portfolio of the Bank according to certain indicators of credit risk at the level of the Bank's portfolio and at the level of portfolio sub-segments, in respect of the total credit risk exposure, aggregate impairment allowances of the balance sheet assets and provisions for losses per off-balance sheet items relative to the total portfolio, the aggregate exposure coverage by the aggregate collaterals obtained and per collateral classes, the Bank's exposure to the risk of the borrower country of origin, etc.

The advisory body for monitoring the corporate clients of the Bank is responsible for monitoring the portfolio of clients within the competence of the business sector with the economy and the public sector. It primarily takes into consideration the clients with the rating category 1A-4E, ie clients with the exposure of early warnings factors that potential credit risk is possible. The advisory body determines the classification of individual non-problematic clients, proposes and monitors measures to prevent the increase in credit risk.

4.1.1.1. Credit Risk Reporting

Reporting for Local Purposes

The Credit Risk Control reports the Executive Board and other Bank's bodies on the credit risk at the Bank's portfolio level at least quarterly through delivery of materials that are presented at the Risk Advisory Body sessions.

Those materials, sent at least quarterly by the Credit Risk Control Department to the Secretary of the Risk Advisory Body, provide analysis of the existing total credit portfolio and dynamics of its development in previous quarters on various bases, as well as review of risk of certain forms of exposure relevant for current operations and control of the total credit risk.

The underlying purpose of the analyses presented is to provide an overview of the Bank's exposure relating to its balance sheet and off-balance sheet items as at the last day of the month they have been prepared for, relating relevant positions and indicators (provisions, ratio of provisions and exposure, number of clients, etc.), as well as their dynamics and development in comparison to previous reporting periods.

At the quarterly level, the Board of Directors receives the risk management report, the format and contents of which are standardized. In the part related to credit risk, this report includes various overviews and aspects of measurement, assessment and monitoring of credit risk in the context of the credit risk exposure, portfolio quality per various criteria, as well as influence on capital of the Bank (having in mind the Group's ICAAP methodology).

Reporting to the Group

The Credit Risk Control reports to the Group on a monthly basis through delivery of the Key Risk Indicators – KRI Report, which represents the basis for preparation of material for the monthly conference call with the Group's CRO and CRO team members on the previous month's portfolio movements. The same report represents the source of information for monitoring the loan and reporting to the Bank's Risk Advisory Body, Board of Directors and Audit Committee.

Customer Credit Rating System

The Bank performs credit risk assessment in compliance with uniform standards of Addiko Group, which is in line with both domestic statutory regulations and internal policies and procedures for customer rating. The criteria for classification and rating of the Bank's customers are fully in accordance with the effective NBS Decision on Classification.

The assessment includes qualitative and quantitative risk assessment, i.e. overall financial analysis, creditworthiness evaluation and credit rating of customers.

The quantitative analysis is based on an assessment of client's creditworthiness, which includes an analysis of the balance sheet structure, liquidity ratios, indebtedness, efficiency, profitability, cash flows, credit limits, and the assessment of client's future business in the upcoming period (for the duration of the loan term). The qualitative indicators are based on assessment of development of the industry and sector the client operates in, assessment of applied accounting policies and assessment of strategic and economic factors characteristic for the client within the relevant industry.

The assessment of customer creditworthiness is performed within internally developed tools/systems for specific categories of financing. (There are specific systems applied for corporate loans "CO", small and medium-sized enterprises "SC", private individuals "PI Scorecard" and "Retail Behavior Rating", commercial real estate "RE", local government units "MU", countries "CT", banks "BN", insurance companies "IN" and project financing "PJ".) Expert tool "EX: is used to rate clients that cannot be rated through any of the aforesaid tools due to certain specificities, as well as WebFER "WF" tool for automatic assignment of class 5 rating to the clients in default for over 90 days). The rating tools rely on "hard" and "soft" facts, and reflect both financial and non-financial data on the client.

The Bank's clients are assigned ratings from classes 1 to 5 (and sub-classes A to E) so that ratings 1A to 3E represent standard ratings, while 4A to 4E represent sub-standard ratings. Clients assigned class 5 rating are default status clients.

1A – 1B	Best creditworthiness
1C – 1D	Excellent creditworthiness
1E	Very good creditworthiness
2A – 2B	Good creditworthiness
2C	Good to moderate creditworthiness
2D – 2E	Moderate creditworthiness
3A – 3B	Acceptable creditworthiness
3C – 3E	Insufficient creditworthiness

4A – 4E Watch list
5A – 5E Default

Commitments and contingent liabilities are interest-bearing and they are assessed in the same manner, by evaluating all the qualitative and quantitative performance indicators.

4.1.1.2. Credit Risk Measurement, Impairment and Provisioning Policy

A financial asset is deemed to be impaired if there is at least one identified piece of objective evidence that an asset has suffered impairment.

The Bank applies the following groups of indicators in order to provide objective evidence of impairment:

- default in settlement of material debt of over 90 days;
- significant doubt about the customer's creditworthiness;
- restructuring due to deterioration in the customer’s financial situation (forbearance);
- partial or total write-off of receivables;
- sale of a portion of or full receivable due to deterioration in the customer’s financial situation; and
- insolvency/bankruptcy.

An impairment loss is the difference between the carrying value of the loan (exposure) stated in the Bank's books and the present value of the expected future cash flows.

If determined to be irrecoverable, loans and receivables are written off under decisions of the Bank's competent bodies in accordance with their scope of authority.

The process of impairment assessment is divided into two steps:

1. checking whether there is objective evidence of impairment, and
2. determining of the amount of impairment, if any.

Determining of impairment for loans demands separation of individually significant loans from those that are not individually significant.

The method of collective impairment assessment is used for:

- individually significant exposures where no loss event was identified individually (i.e. there was no increase in credit risk);
- receivables for which the amount of impairment allowance for balance sheet assets and provisions for losses on off-balance sheet items calculated at the individual level equals zero;
- all insignificant exposures (small values).

For the purpose of collective assessment of impairment, the Bank uses the model based on concepts of the actual losses incurred and loss identification period, where all the parameters for calculation of the required provision based on the historical data, determined by experts or derived from the customer rating model.

The most important criterion for determining the method to be used for assessment of individual risk provisions is whether the total amount of exposure is significant at the individual level or not. The Bank treats an exposure as individually significant if total gross exposure of a group of related entities at the Bank level exceeds EUR 150,000 without reduction for collateral value.

The Bank's policy for detection of the default status and default status exit sets out criteria that must be fulfilled as well as the period upon expiry of which the customer may be relieved from the default status. Most commonly the period in which customers must not be in delay in liability settlement lasts three months. Upon expiry of the three months, if the requirements for the recovery are met, the customer is reassigned the initial rating (rating assigned according to the most recent financial statements).

Special terms and requirements are prescribed for forborne customers where the initially agreed loan terms have been altered due to deterioration of the customer’s financial situation.

The Bank’s policy for credit risk provisioning defines the framework for this area, while the process and responsibilities for calculation of impairment are defined by provisioning procedure.

The Bank's policy also defines responsibilities for approving the changes in the amount of provisions for customers with determined default status where exposures are individually significant.

Regarding implementation of the Guidelines for Disclosure of Bank Data and Information Related to the Quality of Assets (the “Guidelines”) issued by NBS, the required qualitative and quantitative information will be presented within disclosures required by the Decision on Disclosure of Data and Information by Banks (Official Gazette of RS, nos. 125/2014, 4/2015 and 103/2016). Such information has not been subject to the external audit.

Collaterals

The Bank uses the following types of collaterals:
1) mortgages over business and residential premises,
2) sureties of legal entities and individuals,
3) pledge liens over immovable and movable property,
4) pledges of securities,
5) bank and corporate guarantees,
6) earmarked deposits.

Factors affecting the collateral value appraisal:
a) collateral holding period,
b) the most recent appraised value of collateral (as per internal or external appraisal),
c) net realizable value of collateral (net of taxes, fees and commissions).

In order to assess impairment for future cash flow from collateral realization, the Bank assesses the value of collateral and time to collection. The haircut that the collateral value is reduced for represents the adjustment up to the amount recoverable in the process of collection from collateral foreclosure.

The Bank endeavors to reduce risk by obtaining collaterals, wherever possible. Different forms of financial and non-financial assets appear as collaterals, such as deposits, securities, guarantees, mortgages, pledged inventory and receivables. Collateral value is usually determined upon establishment as well as annually, based on statistical data or once every three years through appraisal performed by an independent appraiser in instances of immovable assets (real estate) or movable assets, while some collateral types such as deposits or securities are revalued on a monthly basis.

Through voluntary sale, court and out-of-court enforcement as well as bankruptcy procedures, the Bank sells collaterals serving as security for non-performing loans. The method of sale depends on the client cooperation, client legal status and collateral legal status.

Fair values per collateral types are provided in the following table:

Collaterals RSD ’000

	December 31, 2017	December 31, 2016
Residential real estate	22,200,195	28,924,771
Commercial real estate	19,523,828	14,438,170
Financial assets	626,084	175,213
Guarantees	1,246,799	2,532,077
Other	1,582,594	1,155,208
Total	**45,179,500**	**47,225,439**

The financial effect of collaterals as at December 31, 2017 is provided in the following table:

Balance sheet assets RSD ’000

December 31, 2017	Gross carrying amount	Allowance for impairment	Net carrying amount	Imapirment allowance without collateral	Net carrying amount without collateral
Maximum credit risk exposure					
Loans due from other banks and financial institutions	2,833,648	(5,607)	2,828,041	(5,607)	2,828,041
Loans to state agencies and institutions	3,246,202	(84,418)	3,161,784	(90,774)	3,155,428
Loans due from retail customers	32,926,994	(5,374,111)	27,552,883	(5,884,975)	27,042,019
Loans due from corporate customers	32,406,218	(2,839,042)	29,567,176	(5,561,724)	26,844,494
SME loans	1,718,785	(361,051)	1,357,734	(397,406)	1,321,379
Total	**73,131,847**	**(8,664,229)**	**64,467,618**	**(11,940,486)**	**61,191,361**

The financial effect of collaterals as at December 31, 2016 is provided in the following table:

Balance sheet assets RSD ’000

December 31, 2016	Gross carrying amount	Allowance for impairment	Net carrying amount	Imapirment allowance without collateral	Net carrying amount without collateral
Maximum credit risk exposure					
Loans due from other banks and financial institutions	4,633,911	(8,820)	4,625,091	(9,233)	4,624,678
Loans to state agencies and institutions	5,162,593	(133,424)	5,029,169	(140,561)	5,022,032
Loans due from retail customers	38,170,963	(9,113,149)	29,057,814	(9,968,618)	28,202,345
Loans due from corporate customers	28,916,579	(3,809,747)	25,106,832	(7,617,310)	21,299,269
SME loans	2,507,224	(1,272,937)	1,234,287	(1,355,042)	1,152,182
Total	**79,391,270**	**(14,338,077)**	**65,053,193**	**(19,090,764)**	**60,300,506**

4.1.1.3. Quantitative and Qualitative Information about Credit Risk

a) Maximum Credit Risk Exposure

Risk concentration is monitored at the level of the individual client, geographic region and industry. As at December 31, 2017, the largest exposure to an individual client amounted to RSD 3,299,070 thousand. The maximum credit risk exposure is presented in the table below:

Balance sheet assets RSD '000

December 31, 2017	Financial institutions	State agencies	Retail clients	Trade	Construction	Manufacture and oil industry	Services	Total
Cash and balances held with the central bank (Note 15)	**10,575,958**	**–**	**–**	**–**	**–**	**–**	**–**	**10,575,958**
Loans and receivables due from banks and customers (Notes 18 and 19)								
Loans due from other banks and financial institutions	2,828,041	–	–	–	–	–	–	2,828,041
Loans to state agencies and institutions	–	3,161,784	–	–	–	–	–	3,161,784
Loans due from retail customers	–	–	27,552,883	–	–	–	–	27,552,883
Loans due from corporate customers	–	–	–	7,761,712	2,413,952	12,048,708	7,342,804	29,567,176
SME loans	–	–	–	132,927	29,565	839,316	355,926	1,357,734
	2,828,041	**3,161,784**	**27,552,883**	**7,894,639**	**2,443,517**	**12,888,024**	**7,698,730**	**64,467,618**
Financial instruments								
Held for trading (Note16)	157,021	101,474	–	–	–	–	–	258,495
Available for sale (Note 17)	1,317,529	15,461,853	–	–	–	–	–	16,779,382
Total financial instruments	**1,474,550**	**15,563,327**	**–**	**–**	**–**	**–**	**–**	**17,037,877**
Total balance sheet assets	**14,878,549**	**18,725,111**	**27,552,883**	**7,894,639**	**2,443,517**	**12,888,024**	**7,698,730**	**92,081,455**

The Bank enters into various arrangements resulting in revocable and irrevocable liabilities for undrawn loan funds, as well as other off-balance sheet items. Although such arrangements are not shown within the balance sheet items, they involve certain credit risk and make an integral part of the overall Bank's risk. The amounts presented in the following table are given on the net basis, i.e. less related provisions:

Off-balance sheet items RSD '000

December 31, 2017	Financial institutions	State agencies	Retail clients	Trade	Construction	Manufacture and oil industry	Services	Total
Financial derivatives (Note 33)	**51,234,461**	**–**	**–**	**–**	**–**	**–**	**–**	**51,234,461**
FX swaps	**51,234,461**	**–**	**–**	**–**	**–**	**–**	**–**	**51,234,461**
Commitments (Note 33)								
Guarantees and unsecured letters of credit	29,448	985,131	–	795,144	2,010,913	1,025,308	922,155	5,768,099
Undrawn loan funds and other irrevocable liabilities	8,000	277,284	590,409	2,322,421	1,321,823	2,535,260	1,471,998	8,527,195
Total guarantees and other commitments	**37,448**	**1,262,415**	**590,409**	**3,117,565**	**3,332,736**	**3,560,568**	**2,394,153**	**14,295,294**
Total off-balance sheet items	**51,271,909**	**1,262,415**	**590,409**	**3,117,565**	**3,332,736**	**3,560,568**	**2,394,153**	**65,529,755**

Risk concentration is monitored at the level of the individual client, geographic region and industry. As at December 31, 2016, the largest exposure to an individual client amounted RSD 3,688,869 thousand. The maximum credit risk exposure is presented in the table below:

Balance sheet assets RSD '000

December 31, 2016	Financial institutions	State agencies	Retail clients	Trade	Construction	Manufacture and oil industry	Services	Total
Cash and balances held with the central bank (Note 15)	**12,290,116**	**–**	**–**	**–**	**–**	**–**	**–**	**12,290,116**
Loans and receivables due from banks and customers (Notes 18 and **19)**								
Loans due from other banks and financial institutions	4,625,091	–	–	–	–	–	–	4,625,091
Loans to state agencies and institutions	–	5,029,169		–	–	–	–	5,029,169
Loans due from retail customers	–	–	29,057,814	–	–		–	29,057,814
Loans due from corporate customers	–	–	–	7,159,704	1,264,641	9,097,751	7,584,736	25,106,832
SME loans	–	–	–	493,742	99,856	326,780	313,909	1,234,287
	4,625,091	**5,029,169**	**29,057,814**	**7,653,446**	**1,364,497**	**9,424,531**	**7,898,645**	**65,053,193**
Financial instruments								
Held for trading (Note16)	38,658	1,169,832	–	–	–	–	–	1,208,490
Available for sale (Note 17)	1,336,921	15,444,958	–	–	–	–	–	16,781,879
Total financial instruments	**1,375,579**	**16,614,790**	**–**	**–**	**–**	**–**	**–**	**17,990,369**
Total balance sheet assets	**18.290.786**	**21.643.959**	**29.057.814**	**7.653.446**	**1.364.497**	**9.424.531**	**7.898.645**	**95.333.678**

The Bank enters into various arrangements resulting in revocable and irrevocable liabilities for undrawn loan funds, as well as other off-balance sheet items. Although such arrangements are not shown within the balance sheet items, they involve certain credit risk and make an integral part of the overall Bank's risk. The amounts presented in the following table are given on the net basis, i.e. less related provisions:

Off-balance sheet items RSD '000

December 31, 2016	Financial institutions	State agencies	Retail clients	Trade	Construction	Manufacture and oil industry	Services	Total
Financial derivatives (Note 33)								
FX swaps	**28,963,577**	**–**	**–**	**–**	**–**	**–**	**–**	**28,963,577**
Commitments (Note 33)								
Guarantees and unsecured letters of credit	–	356,190	–	1,235,404	2,459,406	820,846	402,885	5,274,731
Undrawn loan funds and other irrevocable liabilities	4,000	904,131	722,462	1,544,014	625,929	2,444,569	2,293,578	8,538,683
Total guarantees and other commitments	**4,000**	**1,260,321**	**722,462**	**2,779,418**	**3,085,335**	**3,265,415**	**2,696,463**	**13,813,414**
Total off-balance sheet items	**28,967,577**	**1,260,321**	**722,462**	**2,779,418**	**3,085,335**	**3,265,415**	**2,696,463**	**42,776,991**

b) Maximum Credit Risk Exposure per Geographic Region

The Bank performs analysis, measurement and management of concentration risk by geographic region. Measurement and management of concentration risk is performed within the regular ICAAP calculation. Taking into consideration the differences in the growth and development of certain regions in Serbia, the Bank made the following classification of geographic regions: Belgrade, Vojvodina and the rest of Serbia. The concentration risk ratio of a specific geographic region represents the share of a region in the total credit portfolio.

The table below presents an overview of the exposure concentration by geographic region as at December 31, 2017:

RSD '000

December 31, 2017	Cash and assets held with the central bank and Loans and receivables due from banks and other financial institutions	Loans and receivables due from customers	Financial assets at fair value through profit and loss held for trading and Financial assets available for sale	Guarantees and other commitments	Total
Serbia					
Belgrade	12,269,699	44,892,747	16,198,020	10,613,972	83,974,438
Vojvodina	–	13,876,271	–	1,864,297	15,740,568
Rest of Serbia	–	11,310,996	–	1,862,239	13,173,235
Other countries					
European Union	310,592	104,475	839,857	–	1,254,924
Rest of the world	829,315	113,710	–	–	943,025
Less: Allowance for impairment	(5,607)	(8,658,622)	–	(45,214)	(8,709,443)
Total	**13,403,999**	**61,639,577**	**17,037,877**	**14,295,294**	**106,376,747**

The table below presents an overview of the exposure concentration by geographic region as at December 31, 2016:

RSD ’000

December 31, 2016	Cash and assets held with the central bank and Loans and receivables due from banks and other financial institutions	Loans and receivables due from customers	Financial assets at fair value through profit and loss held for trading and Financial assets available for sale	Guarantees and other commitments	Total
Serbia					
Belgrade	15,464,166	48,804,333	17,268,312	11,079,589	92,616,400
Vojvodina	–	14,712,448	–	1,156,967	15,869,415
Rest of Serbia	–	10,795,936	–	1,647,542	12,443,478
Other countries					
European Union	382,384	253,055	722,057	–	1,357,496
Rest of the world	1,077,477	191,587	–	75	1,269,139
Less: Allowance for impairment	(8,820)	(14,329,257)	–	(70,759)	(14,408,836)
Total	**16,915,207**	**60,428,102**	**17,990,369**	**13,813,414**	**109,147,092**

c) Structure of Loans by Rating and Status

Client rating system is explained in the Note 4.1.1.2. Ratings 1A to 3E represent standard ratings, 4A to 4E are substandard client ratings, while individually assessed receivables include clients to which the Bank has significant exposure. These are receivables from debtors whose total debt (before reduction for the amount of impairment allowance of balance sheet assets and provisions for losses on off-balance sheet items) exceeds EUR 150,000 as at the calculation date.

The following table presents the quality of loan portfolio per loan type, based on the Bank's system of classification, as of December 31, 2017:

RSD ’000

	Neither past due nor impaired						
	Standard rating	Watch list	Past due receivables not impaired	Impaired receivables	Total gross	Allowance for impairment	Net exposure
Cash and balances held with the central bank (Note 15)	**10,575,958**	**–**	**–**	**–**	**10,575,958**	**–**	**10,575,958**
Loans and receivables due from banks and customers (Notes 18 and 19)							
Loans due from other banks and financial institutions	2,833,648	–			2,833,648	(5,607)	**2,828,041**
Loans to state agencies and institutions	3,042,244	103,411	36,633	63,914	3,246,202	(84,418)	**3,161,784**
Loans due from retail customers	22,124,221	4,664,055	77,958	6,060,760	32,926,994	(5,374,111)	**27,552,883**
Loans due from corporate customers	24,318,775	2,006,956	634,639	5,445,848	32,406,218	(2,839,042)	**29,567,176**
SME loans	1,112,066	123,316	66,523	416,880	1,718,785	(361,051)	**1,357,734**
Total loans	**53,430,954**	**6,897,738**	**815,753**	**11,987,402**	**73,131,847**	**(8,664,229)**	**64,467,618**
Less: Impairment allowance	(888,502)	(165,351)	(11,602)	(7,598,774)	–	(8,664,229)	
Net exposure	**63,118,410**	**6,732,387**	**804,151**	**4,388,628**	**–**	**–**	**75,043,576**

Client rating system is explained in the Note 4.1.1.2. Ratings 1A to 3E represent standard ratings, 4A to 4E are substandard client ratings, while individually assessed receivables include clients to which the Bank has significant exposure. These are receivables from debtors whose total debt (before reduction for the amount of impairment allowance of balance sheet assets and provisions for losses on off-balance sheet items) exceeds EUR 150,000 as at the calculation date.

The following table presents the quality of loan portfolio per loan type, based on the Bank's system of classification, as of December 31, 2016:

RSD '000

	Neither past due nor impaired						
	Standard rating	Watch list	Past due receivables not impaired	Impaired receivables	Total gross	Allowance for impairment	Net exposure
Cash and balances held with the central bank (Note 15)	**12,290,116**	**–**	**–**	**–**	**12,290,116**	**–**	**12,290,116**
Loans and receivables due from banks and customers (Notes 18 and 19)							
Loans due from other banks and financial institutions	4,633,911	–	–	–	4,633,911	(8,820)	**4,625,091**
Loans to state agencies and institutions	4,990,369	19,599	–	152,625	5,162,593	(133,424)	**5,029,169**
Loans due from retail customers	23,634,590	3,316,846	637,203	10,582,324	38,170,963	(9,113,149)	**29,057,814**
Loans due from corporate customers	19,824,004	1,112,459	308,651	7,671,465	28,916,579	(3,809,747)	**25,106,832**
SME loans	932,664	85,766	51,189	1,437,605	2,507,224	(1,272,937)	**1,234,287**
Total loans	**54,015,538**	**4,534,670**	**997,043**	**19,844,019**	**79,391,270**	**(14,338,077)**	**65,053,193**
Less: Impairment allowance	(753,634)	(101,523)	(22,272)	(13,460,648)	–	(14,338,077)	
Net exposure	**65,552,020**	**4,433,147**	**974,771**	**6,383,371**	**–**	**–**	**77,343,309**

d) Past-Due Receivables, Not Impaired

As of December 31, 2017, past-due receivables not impaired (Note 19) amounted to:

Balance sheet items RSD '000

	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total gross
Loans due from retail customers	77,203	696	59	–	77,958
Loans due from corporate customers	634,570	69	–	–	634,639
Loans to state agencies and institutions	36,633	–	–	–	36,633
SME loans	65,085	1,436	2	–	66,523
Total financial assets	**813,491**	**2,201**	**61**	**–**	**815,753**

As of December 31, 2016 past-due receivables not impaired (Note 19) amounted to:

Balance sheet items RSD '000

	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total gross
Loans due from retail customers	299,868	220,156	117,180	–	637,204
Loans due from corporate customers	298,241	10,409	–	–	308,650
SME loans	31,783	15,831	3,575	–	51,189
Total financial assets	**629,892**	**246,396**	**120,755**	**–**	**997,043**

The Bank monitors clients in the default status. Loans to these clients are not impaired as long as they are less than 90 days past due, except in cases where the Bank has established impairment of loans based on a criterion other than the number of days past due.

As of December 31, 2017, impaired receivables (Note 19) amounted to:

Balance sheet items RSD '000

	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total gross
Loans due from the public sector	63,914	–	–	–	63,914
Loans due from retail customers	568,915	45,711	52,529	5,393,605	6,060,760
Loans due from corporate customers	3,593,902	–	32,195	1,819,751	5,445,848
SME loans	54,298	186	5,306	357,090	416,880
Total financial assets	**4,281,029**	**45,897**	**90,030**	**7,570,446**	**11,987,402**

As of December 31, 2016, impaired receivables (Note 19) amounted to:

Balance sheet items RSD '000

	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total gross
Loans due from the public sector	92,379	–	–	60,246	152,625
Loans due from retail customers	478,851	71,071	17,891	10,014,511	10,582,324
Loans due from corporate customers	4,770,282	355	6,239	2,894,589	7,671,465
SME loans	13,428	11,965	–	1,412,212	1,437,605
Total financial assets	**5,354,940**	**83,391**	**24,130**	**14,381,558**	**19,844,019**

e) Restructured Loans
Breakdown of restructured loans is provided in the table below:

RSD '000

	2017	2016
Loans due from the public sector	84,636	204,097
Loans due from retail customers	1,548,779	2,512,955
Loans due from corporate customers	3,120,500	5,629,673
SME loans	73,779	310,569
Total financial assets	**4,827,694**	**8,657,294**

Restructured loans all loans where the Bank allowed changes to the initially agreed loan terms due to deteriorating financial situation of the borrower. Such alteration of the initially contracted loan terms triggers default status assignment to the borrower.

4.1.2. Foreign Exchange Risk

Market risk management policies, procedures and work instructions of the Risk Control Department define the activities of foreign exchange risk control.

General activities pertaining to foreign exchange risk management include:

- foreign exchange risk identification,
- foreign exchange risk measurement,
- foreign exchange risk control,
- foreign exchange risk monitoring and
- reporting.

Foreign exchange risk is a risk of negative effects on the financial result and capital of the Bank due to changes in foreign exchange rate. The Bank is exposed to foreign exchange risk arising from both the banking book and trading book items.

The foreign exchange risk ratio is monitored as the total net open foreign exchange position relative to the Bank's capital. The foreign exchange risk ratio is calculated in accordance with the Decision of the National Bank of Serbia defining capital adequacy for banks. Currency matching of the Bank's assets and liabilities is maintained so that the Bank's total net open foreign exchange position at the end of each business day does not exceed the level prescribed by governing bylaws.

The Accounting and Reporting Department calculates on a daily basis the Bank's total net open foreign exchange position and f foreign exchange risk ratio in accordance with the Decision of the National Bank of Serbia defining capital adequacy for banks.

Based on thus determined net open position of the Bank, in coordination with Addiko Group and based on Addiko Group's methodology and tools, the Risk Control Department calculates on a daily basis VaR of the open foreign exchange position by J. P. Morgan - Geometric StDev. - Monte-Carlo method with the confidence interval of 99% and time horizon of one day, which must range within the internally prescribed limits.

In addition to the standardized Addiko Group's scenarios for changes in the value of EUR currency, stress testing is performed at least once a month in order to assess the potential effect of change in the value of the local currency of +/- 5% or +/- 10% to the income statement, i.e. the Bank's financial result before tax.

Had RSD depreciation/appreciation by 5%/10% against EUR, USD and CHF, and other currencies aggregately been recorded as at December 31, 2017 with the existing open foreign exchange position of the Bank (with all other variables unaltered), the effect on the Bank's income statement would be positive/negative by about RSD 25,8 million/RSD 51,6 million, mostly due to the foreign exchange gains/losses on translation of receivables and payables denominated in foreign currencies.

The following analysis calculates the result of reasonably expected exchange rate fluctuations against RSD with other variables held constant.

RSD '000

Currency	Exchange rate change 2017 (%)	Effect on P&L before tax 2017 In RSD '000	Exchange rate change 2016 (%)	Effect on P&L before tax 2016 In RSD '000
EUR	+5%	(5,019)	+5%	5,120
CHF	+5%	30,345	+5%	3,779
USD	+5%	(27)	+5%	386
Other currencies	+5%	515	+5%	351

'000 RSD

Currency	Exchange rate change 2017 (%)	Effect on P&L before tax 2017 In RSD '000	Exchange rate change 2016 (%)	Effect on P&L before tax 2016 In RSD '000
EUR	-5%	5,019	-5%	(5,120)
CHF	-5%	(30,345)	-5%	(3,779)
USD	-5%	27	-5%	(386)
Other currencies	-5%	(515)	-5%	(351)

'000 RSD

Currency	Exchange rate change 2017 (%)	Effect on P&L before tax 2017 In RSD '000	Exchange rate change 2016 (%)	Effect on P&L before tax 2016 In RSD '000
EUR	+10%	(10,039)	+10%	10,239
CHF	+10%	60,691	+10%	7,558
USD	+10%	(55)	+10%	772
Other currencies	+10%	1,030	+10%	702

'000 RSD

Currency	Exchange rate change 2017 (%)	Effect on P&L before tax 2017 In RSD '000	Exchange rate change 2016 (%)	Effect on P&L before tax 2016 In RSD '000
EUR	-10%	10,039	-10%	(10,239)
CHF	-10%	(60,691)	-10%	(7,558)
USD	-10%	55	-10%	(772)
Other currencies	-10%	(1,030)	-10%	(702)

* *The tables above show exchange rate change of +5%/+10% (RSD depreciation) and exchange rate change of -5%/-10% (RSD appreciation) and their effects on the income statement before tax.*

The Risk Control Department performs the said stress test on monthly basis and reports to the Assets and Liabilities Management Committee (ALCO) on results, in accordance with the schedule of the Committee's sessions.

The effect of possible exchange rate fluctuations against RSD (with other variables held constant) on the capital from the perspective of the Bank's foreign exchange risk ratio, which is determined pursuant to the Decision on Capital Adequacy of Banks, is provided in the following table*:

Exchange rate change 2017	Bank's foreign exchange risk ratio at December 31, 2017 after changes in exchange rates 2017	Exchange rate change 2016	Bank's foreign exchange risk ratio at December 31, 2016 after changes in exchange rates 2016
	(%of capital)		(%of capital)
+5%	4.5	+5%	1.4
-5%	4.1	-5%	1.3
+10%	4.8	+10%	1.5
-10%	3.9	-10%	1.2

* *The table above shows exchange rate change of +5%/+10% (RSD depreciation) and exchange rate change of -5%/-10% (RSD appreciation) and their effect on capital from the perspective of the Bank's foreign exchange risk ratio determined pursuant to the Decision on Capital Adequacy of Banks.*

The assumptions used in calculation of the sensitivity analysis scenario in 2017 for the income statement before tax and capital are the same as the assumptions applied in sensitivity analysis scenario for 2016.

In order to protect itself against foreign exchange risk, the Bank executes derivative agreements and contracts loans with foreign currency clause index.

Currency structure of financial instruments as at December 31, 2017 is provided in the table below. Financial assets denominated in RSD with contracted currency clause index are presented within appropriate foreign currency position.

Financial assets RSD '000

	EUR	USD	CHF	GBP	Other currencies	RSD	Total
Cash and balances held with the central bank	5,336,631	38,640	57,900	7,656	18,053	5,117,078	10,575,958
Loans and receivables due from banks and other financial institutions	990,223	16,431	99,775	5,485	53,228	1,662,899	2,828,041
Loans and receivables due from customers	37,325,534	–	10,078,313	–	–	14,235,730	61,639,577
Financial assets at fair value through profit and loss, held for trading	–	–	–	–	–	258,495	258,495
Financial assets available for sale	4,392,194	2,634,984	–	–	–	9,752,204	16,779,382
Other assets	281,487	19	5	9,940	36,262	148,405	476,118
Total	**48,326,069**	**2,690,074**	**10,235,993**	**23,081**	**107,543**	**31,174,811**	**92,557,571**
Derivative instruments	23,747,261	847,971	6,461,909	132,154	239,504	21,187,034	52,615,833
Total	**72,073,330**	**3,538,045**	**16,697,902**	**155,235**	**347,047**	**52,361,845**	**145,173,404**

Financial liabilities RSD '000

	EUR	USD	CHF	GBP	Other tcurrencies	RSD	Total
Deposits and other liabilities due to banks, other financial institutions and the central bank	4,892,434	367,020	67	–	–	123,235	5,382,756
Deposits and other liabilities due to customers	38,164,923	3,078,322	653,718	154,483	333,538	19,534,027	61,919,011
Financial assets at fair value through profit and loss, held for trading	–	–	–	–	–	32,347	v 32,347
Subordinated liabilities	–	–	3,774,141	–	–	–	3,774,141
Other liabilities	122,351	2,886	12,660	977	15	314,380	453,269
Total	**43,179,708**	**3,448,228**	**4,440,586**	**155,460**	**333,553**	**20,003,989**	**71,561,524**
Derivative instruments	28,971,314	90,366	11,650,406	-	2,970	11,637,159	52,352,215
Total	**72,151,022**	**3,538,594**	**16,090,992**	**155,460**	**336,523**	**31,641,148**	**123,913,739**
Long foreign currency position	**–**	**–**	**606,910**	**–**	**10,524**	**20,720,697**	**21,259,665**
Short foreign currency position	**77,692**	**549**	**–**	**225**	**–**	**–**	**–**

Currency structure of financial instruments as at December 31, 2016 is provided in the table below. Financial assets denominated in RSD with contracted currency clause index are presented within appropriate foreign currency position.

Financial assets RSD '000

	EUR	USD	CHF	GBP	Other currencies	RSD	Total
Cash and balances held with the central bank	6,472,002	42,811	88,754	22,172	29,538	5,634,839	12,290,116
Loans and receivables due from banks and other financial institutions	1,388,675	27,834	6,267	17,186	46,204	3,138,925	4,625,091
Loans and receivables due from customers	35,685,249	–	13,145,801	–	–	11,597,052	60,428,102
Financial assets at fair value through profit and loss, held for trading	511,354	497,808	–	–	–	199,328	1,208,490
Financial assets available for sale	8,741,669	2,941,022	–	–	–	5,099,188	16,781,879
Other assets	169,812	123	10	4	13,047	390,981	573,977
Total	**52,968,761**	**3,509,598**	**13,240,832**	**39,362**	**88,789**	**26,060,313**	**95,907,655**
Derivative instruments	13,816,180	47,778	468,524	140,693	42,989	-	14,516,164
Total	**66,784,941**	**3,557,376**	**13,709,356**	**180,055**	**131,778**	**26,060,313**	**110,423,819**

Financial liabilities RSD '000

	EUR	USD	CHF	GBP	Other currencies	RSD	Total
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,183,035	244	38	–	–	330,891	3,514,208
Deposits and other liabilities due to customers	42,556,643	3,193,204	761,389	161,024	103,877	20,755,744	67,531,881
Financial assets at fair value through profit and loss, held for trading	–	–	–	–	–	16,716	16,716
Subordinated liabilities	4,322,188	–	–	–	–		4,322,188
Other liabilities	114,926	14,503	18,320	232	16	281,072	429,069
Total	**50,176,792**	**3,207,951**	**779,747**	**161,256**	**103,893**	**21,384,423**	**75,814,062**
Derivative instruments	16,505,777	341,707	12,854,031	17,159	22,459	–	29,741,133
Total	**66,682,569**	**3,549,658**	**13,633,778**	**178,415**	**126,352**	**21,384,423**	**105,555,195**
Long foreign currency position	**102,372**	**7,718**	**75,578**	**1,640**	**5,426**	**4,675,890**	**4,868,624**
Short foreign currency position	**–**	**–**	**–**	**–**	**–**	**–**	**–**

In accordance with the Decision on Capital Adequacy of Banks (Official Gazette of RS, nos. 46/2011, 6/2013, 51/2014, 85/2016 and 103/2016), the Bank is to maintain its foreign exchange risk ratio, i.e., currency matching of assets and liabilities, in such a manner that the Bank's total net open foreign exchange position, including absolute value of the net position in gold, does not exceed 20% of its capital at the end of each working day.

Throughout 2017 the Bank's foreign exchange risk ratio was in compliance with the regulations of the National Bank of Serbia.

As at December 31, 2017 and 2016, the Bank's foreign exchange risk ratio was as follows:

Foreign exchange risk ratio in %

	2017	2016
As at December 31*	4.32	1.35
Maximum for the period - December **	11.68	11.32
Minimum for the period - December **	0.11	0.25

** FX risk ratio after calculation of the Bank's capital and recording of all transaction*
*** Indicator was achieved for the current working days in December*

4.1.3. Interest Rate Risk

Interest rate risk is a risk of negative effects on the financial result and capital of the Bank due to changes in interest rates. The Bank is exposed to this risk per items maintained in the banking book.

The Bank specifically analyses and manages exposure arising from the following types of interest risk:

a) maturity mismatching risk (for items with fixed interest rate) and repricing risk (for items with variable interest rate) for individual items in assets and liabilities, and for the Bank's off-balance sheet items;
b) yield curve risk exposure arising from change in the shape and inclination of the yield curve;
c) basis risk exposure arising from different reference interest rates with interest-sensitive items with similar characteristics in terms of maturity or repricing;
d) optionality risk exposure arising from contractual provisions related to interest-sensitive items (loans with the possibility of early repayment, deposits with the possibility of early withdrawal, etc.).

In line with the responsibilities and competences prescribed by NBS regulations and enactments, the Bank's Board of Directors defines the strategy and goals of the Bank to comply with the criteria for the risks and the result, whereas the Executive Board has overall competence for the Bank's operations and implementation of the strategy and policies for risk management and the strategy for capital management.

Other responsibilities related to interest rate risk are carried out through the following committees established by the Bank, in line with the law, regulations and enactments of the National Bank of Serbia:

- Audit Committee
- Assets and Liabilities Committee (ALCO).

The Risk Control Department is, in respect of interest risk management, among other things, responsible for overall interest rate analysis, measurement, assessment, monitoring, control and reporting as well as creation and implementation of an adequate limits system and early warning procedures in compliance with the ICAAP process (internal capital adequacy assessment process).

BSM & Treasury Department is, in respect of interest risk management, among other things, responsible for:

- managing interest-sensitive items of the assets and liabilities of the Bank in general and by each materially significant currency, so that the interest risk level is;
- submitting proposals to ALCO for interest rate risk mitigation, avoidance and hedging in cases of higher operating costs and exceeding of defined limits due to changes in interest rates;
- in cooperation with other market sectors, implementing the measures rendered by the Executive Board on reducing the interest rate risk exposure; and
- performing other operations defined by the applicable internal enactments of the Bank.

In accordance with NBS Decision on Risk Management by Banks and the Addiko Group methodology, via GAP analysis applied to balance sheet items of assets and liabilities of the Bank, as well as interest-sensitive off-balance sheet items from the banking book (Interest Sensitivity Gap Balance), the Risk Control Department measures, i.e. assesses, at the monthly level, negative effects of interest rate change on the financial result (income statement) and the economic value of the Bank.

Exposure to interest rate risk in the banking book and assessment of effects of this rate on the Bank's financial result (income statement) is determined in accordance with the Earning approach based on the Delta approach where the result shows solely delta (change) of interest income calculated by the predefined movement/change of interest rate. The calculation takes into consideration only interest-sensitive items from the banking book while interest sensitivity gap balance is the calculation basis. Likewise, there is no dynamic overview (the planned new operations are not included, the aspect of loan maturity date is not included, no transfer among risk categories – fixed, variable and UFN).

In order to assess potential consequences of interest rate changes on the net interest income, scenarios with predefined assumptions on interest rate movement are implemented as follows:

- three-month and six-month interest rate movement with Forward 3m/6m interest curve by currency available through Bloomberg;
- stress scenario for parallel interest rate movement by 200 bp*;
- three-month and six-month local projection of interest rate movement by currency.

The interest rate gap analysis is conducted by the Risk Control Department once a month, and the results are reported to the Executive Board and ALCO on a monthly basis, and to the Board of Directors and Audit Committee on a quarterly basis.

The table below shows sensitivity of the Bank's income statement to the aforesaid reasonably possible changes in interest rates for the period of up to one year as of the reporting date, with all other variables held constant.

Total interest income (ind+ufn+fix) RSD '000

	Total	EUR	USD	CHF	RSD	MISC
FWD 6M	(37)	10	(279)	191	42	(1)
FWD 3M	39,094	21,088	(2,438)	13,314	7,147	(17)
Projection GBSMT 3M	(3,078)	(230)	1,800	(4,600)	(70)	23
Parallel movement + 200 bps	651,938	325,084	(25,575)	184,342	168,693	(606)
Projection GBSMT 6M	(8,939)	(45)	396	(9,207)	(109)	26

** 1% = 100 basis points (bp)*

For measurement of the overall effect of the interest rate risk on the Bank's capital, taking into account only interest rate sensitive asset and liability items, the Bank measures the risk to equity ratio as the determined economic value of the Bank relative to the Bank's capital calculated in accordance with NBS Decision on Capital Adequacy of Banks. Under the stated assumptions, the risk to equity ratio shows the level of exposure of the Bank's capital to the interest rate risk.

PAs of December 31, 2017, the Bank's risk to equity ratio, as an indicator of a change in the economic value for items sensitive to interest rates relative to the Bank's capital as at December 31, 2017, calculated pursuant to the Decision on Capital Adequacy of Banks equaled 5.1% (2016: 1.9%), which was well below the internally set limit of 15% of the Bank's capital.

The table below shows the total amount of financial assets and liabilities at their carrying values, categorized by the earlier of the date of pricing (re-pricing date) and maturity date as at December 31, 2017:

Financial assets RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank (Note 15)	436,524	517,617	1,858,482	1,509,038	4,755	6,249,542	10,575,958
Financial assets at fair value through profit and loss, held for trading (Note 16)	–	–	–	–	–	258,495	258,495
Financial assets available for sale (Note 17)	589,428	–	1,508,752	12,396,510	1,950,798	333,894	16,779,382
Loans and receivables due from banks and other financial institutions (Note 18)	1,871,643	829,476	69,352	–	–	57,570	2,828,041
Loans and receivables due from customers (Note 19)	45,978,899	2,229,121	3,018,578	8,604,839	1,123,785	684,355	61,639,577
Other assets (Note 23)	–	–	–	–	–	476,118	476,118
Total	**48,876,494**	**3,576,214**	**6,455,164**	**22,510,387**	**3,079,338**	**8,059,974**	**92,557,571**

Financial liabilities RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 24)	4,004,037	–	416,938	947,782	–	13,999	5,382,756
Deposits and other liabilities due to customers (Note 25)	8,649,923	4,561,721	11,776,443	35,116,094	89,037	1,725,793	61,919,011
Financial liabilities at fair value through profit and loss, held for trading (Note 16)	–	–	–	–	–	32,347	32,347
Subordinated liabilities (Note 26)	–	–	–	3,774,141	–	–	3,774,141
Other liabilities (Note 28)		–	–	–	–	453,269	453,269
Total	**12,653,960**	**4,561,721**	**12,193,381**	**39,838,017**	**89,037**	**2,225,408**	**71,561,524**
Interest rate risk gap	**36,222,534**	**(985,507)**	**(5,738,217)**	**(17,327,630)**	**2,990,301**	**5,834,566**	**20,996,047**

The table below shows the total amount of financial assets and liabilities at their carrying values, categorized by the earlier of the date of pricing (re-pricing date) and maturity date as at December 31, 2016:

Financial assets RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank (Note 15)	732,271	609,697	2,287,595	1,418,527	5,157	7,236,869	12,290,116
Financial assets at fair value through profit and loss, held for trading (Note 16)	38,658	–	164,034	991,101	–	14,697	1,208,490
Financial assets available for sale (Note 17)	1,770,360	1,678,857	3,595,900	8,613,855	796,247	326,660	16,781,879
Loans and receivables due from banks and other financial institutions (Note 18)	3,462,718	1,049,257	88,428	–	–	24,688	4,625,091
Loans and receivables due from customers (Note 19)	36,903,340	4,741,059	4,910,795	11,232,477	1,318,747	1,321,684	v 60,428,102
Other assets (Note 23)	–	–	–	–	–	573,977	573,977
Total	**42,907,347**	**8,078,870**	**11,046,752**	**22,255,960**	**2,120,151**	**9,498,575**	**95,907,655**

Financial liabilities RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 24)	2,940,448	308,681	246,658	–	–	18,421	3,514,208
Deposits and other liabilities due to customers (Note 25)	12,675,779	6,171,556	16,066,475	31,547,956	96,203	973,912	67,531,881
Financial liabilities at fair value through profit and loss, held for trading (Note 16)	–	–	–	–	–	16,716	16,716
Subordinated liabilities (Note 26)	–	–	–	4,322,188	–	–	4,322,188
Other liabilities (Note 28)	–	–	–	–	–	429,069	429,069
Total	**15,616,227**	**6,480,237**	**16,313,133**	**35,870,144**	**96,203**	**1,438,118**	**75,814,062**
Interest rate risk gap	**27,291,120**	**1,598,633**	**(5,266,381)**	**(13,614,184)**	**2,023,948**	**8,060,457**	**20,093,593**

4.1.4. Equity Price Risk

The Bank is exposed to the risk of changes in the prices of equity securities, since the Bank's investments are classified in the statement of the financial position (balance sheet) as available for sale. At the proposal of the Executive Board, the Bank's Board of Directors adopts appropriate market risk management policies. In turn, at the proposal the Risk Control Department (and BSM and Treasury Department) the Executive Board adopts the related supporting procedures and manuals for identification, measurement/assessment, mitigation and monitoring of market risks. These policies, procedures and manuals are based on the principles of the Bank and Addiko Group pertaining to the market risk management and control and in compliance with the minimum standards and criteria prescribed by NBS.

Management of the price risk in debt and equity securities the Bank is exposed to is the responsibility of the Executive Board of the Bank. ALCO proposes to the Executive Board actions aimed at efficient and successful management of other market risks. For monitoring and control of the price and other market risks arising out of the banking book and trading book, once a year, the Bank defines a set of limits, as follows: volume/position limit, stop-loss limit p.a. and VaR limit (1-day, 99%). The limits for the trading book and banking book are defined at least once a year in coordination with Addiko Group, at the request/proposal of the BSM & Treasury Department, containing the business strategy of the BSM & Treasury Department within each of the aforesaid books. The request also contains the evaluation, i.e. the comments by the Risk Control Department regarding the proposed positions and limits, starting from the capital level and other parameters and ratios. The request for operating limits in the banking book and trading book is approved by the Bank's Executive Board and forwarded to Addiko Group. According to the standard of the Parent Bank, the positions and limits are defined in the same way for the Market Risk Steering Book, which in the case of the Bank contains the following: interest rate risk portfolio and FX portfolio whose positions and limits are used for strategic operations.

Within the Market Risk Steering Book, in 2017, the Bank operated and had limits established for the Interest rate risk portfolio and FX portfolio.

In 2017, in accordance with the Group and local strategy, procedures and approved limits, the Bank did not have equity investments in other legal entities based on share trading at the Belgrade Stock Exchange (directly), but throughout 2017 it has investment fund units carried in the banking book.

In 2017 the Bank continued to apply elements of additional credit risk protection in financial derivative trading process with Addiko Group through mutual collateralization (between the Bank and Addiko Group) in accordance with the executed Master Agreement for Financial Derivatives Transactions and Collateral Addendum to the aforesaid Master Agreement for Financial Derivatives Transactions," which are aligned with the ISDA standards (International Swaps and Derivatives Association).

4.1.5. Liquidity Risk

Liquidity risk is the possibility of adverse effects on financial result and capital of the due to the Bank's inability to fulfil its liabilities when these fall due as a result of:

- withdrawal of existing sources of financing and/or inability of securing new sources of financing (funding liquidity risk), or
- difficulties in converting assets into liquid funds due to market disturbances (market liquidity risk).

The Banks' liquidity management implies maintaining sufficient amounts of assets for settling due liabilities, ensuring regular and undisturbed operations with minimal costs. This implies the Bank's obligation to provide and maintain liquidity reserve in its regular operations for emergencies and unforeseen circumstances.

Accordingly, the Bank has defined the area of liquidity risk control and management by a set of bylaws and enactments (strategies, policies, procedures, etc.), which are aligned with the legislation and bylaws of the National Bank of Serbia governing liquidity management and with other Bank's policies and relevant bylaws, as well as with standards of Addiko Group, where the Bank is a member.

The objective of the liquidity risk strategy is to set out general parameters for prudent and ongoing management of the liquidity risk inherent in the Bank's business model.

This Strategy defines:

- adequate identifying, defining, analyzing, measuring, monitoring, reporting and limiting the Bank's overall appetite for liquidity risk, with the aim of ensuring sustainable development of the Bank's operations;
- ensuring that the liquidity risk structure is formed in accordance with available capital and liquidity, thus supporting its protection and value preservation for the Bank's shareholders;
- organizational framework for daily management and decision-making regarding liquidity risk;
- efficient liquidity management (including data quality) and forward looking approach that observes the defined early warning signals for the purpose of establishing liquidity adequacy on a long-term basis.

In conformity with the responsibilities and competences defined in the regulations and enactments of the National Bank of Serbia, the Bank's Board of Directors defines the Bank's strategy and goals in line with the criteria prescribed for risks and the result, while the Executive Board has overall competence for the Bank's operations and implementation of the strategy and policies for risk management and the strategy for capital management.

Other responsibilities in respect of liquidity risk are exercised by the following committees, in line with the legislation, regulations and enactments of the National Bank of Serbia:

- Audit Committee
- Assets and Liabilities Committee (ALCO).

The Risk Control Department takes care of overall analysis, measurement, assessment, control and reporting on liquidity risk (including funding spread risk) as well as creation and implementation of adequate limits system and early warning procedures in compliance with the ICAAP (internal capital adequacy assessment process) and ILAAP (internal liquidity adequacy assessment process) frameworks.

BSM & Treasury Department is in charge of liquidity management at the local level, hence within this organizational unit an employee is designated to perform, in line with Addiko Group standards, duties of the Bank's Liquidity Manager.

The basic instruments and indicators for monitoring and measuring short-term and long-term liquidity are the following:

- preparation and execution of cash flow plans in a defined timeframe (at least one month);
- liquidity ratios prescribed by the National Bank of Serbia (and calculated and delivered by the Accounting and Reporting Department);

- monitoring of the liquidity coverage ratio (LCR);
- analysis of developments and projections of cash flow matching (GAP analysis) in certain time intervals;
- analysis, monitoring and limitation of negative net cash flows against available liquidity reserve under both normal conditions and a range of stress scenarios within on-year horizon; and
- monitoring of internally defined liquidity ratios.

For a comprehensive liquidity risk assessment, several stress scenarios are in use. Stress sensitivity is used to calculate stress effects on the cash flows, as well as on the liquidity reserve. Stress analysis is performed for various timeframes and levels of unforeseen events.

The Risk Control Department monitors and reports monthly on maturity (mis)matches of balance sheet liabilities and receivables and off-balance sheet items through the maturity scale (GAP analysis) for predefined periods of time, taking into consideration the set of predefined model assumptions (criteria for classification of assets and liabilities without maturity). This report is based on the GAP analysis applied to maturity structure of assets and liabilities of the Bank. The underlying purpose of such measurement and the report is to recognize assets and liabilities, i.e. (net) cash flows (inflows/outflows) starting from their agreed maturity per the remaining period until maturity. Balance sheet items without contractually defined maturities ae included yet can also be treated separately and are grouped according to the documented assumptions. With regards to off-balance sheet items, the report includes derivatives with the effect on cash flows and undrawn framework loans, guarantees, and letters of credit under the stated assumptions.

Items without maturity that do not generate cash flows (fixed assets, intangible assets, other assets, equity investments, provisions, other liabilities, equity, etc.) are grouped in a separate column – non-relevant cash flows (“NR”).

For the purpose of analyzing the effects of potential (negative) movements of the liquidity position, i.e. creating a number of liquidity stress scenarios, the Risk Control Department, in cooperation with the BSM & Treasury Department providing minimum information on availability and time lag of the liquidity potential and the responsible Finance Controlling Department, defines/updates on a weekly basis the projected cash flows for a period of up to a year and determines the liquidity flows sensitivity to the disturbances entailed by the scenarios. The stress scenario methodology is developed in cooperation with Addiko Group. For quantitative and qualitative measurement, monitoring, control and reporting on long-term liquidity, in the aggregate separately for major currencies, the Risk Control Department applies the methodologies defined internally and/or in coordination with Addiko Group and its standards.

In line with the Decision of the National Bank of Serbia on Risk Management by Banks, the Bank is obligated to maintain the prescribed liquidity levels. The ratio between the sum of the first-ranking liquid receivables and the second-ranking liquid receivables, on one hand, and the sum of the Bank’s demand deposit liabilities or liabilities without agreed maturity and liabilities with maturity within one month from the day of liquidity ratio calculation, on the other hand, must be maintained by the Bank so that it equals:

a) at least 1.0 when calculated as an average of liquidity ratios for all working days in a month;
b) not below 0.9 for more than three consecutive working days;
c) at least 0.8 when calculated for one working day.

In accordance with the same Decision, since December 24, 2012 the Bank has also been monitoring the rigid (or cash) liquidity ratio, which represents first-ranking receivables relative to the sum of the Bank’s demand deposit liabilities or liabilities without agreed maturity and liabilities with maturity within one month from the day of liquidity ratio calculation. The Bank shall maintain the level of the rigid (cash) liquidity ratio so that it equals:

a) at least 0.7 when calculated as an average of the liquidity ratio for all working days in a month,
b) not below 0.6 for more than three consecutive working days,
c) at least 0.5 when calculated for one working day.

Under NBS Decision on Liquidity Risk Management (Official Gazette of RS no. 103/2016) effective as from June 30, 2017, the Bank is required to calculate the liquidity coverage ratio on monthly basis. The liquidity coverage ratio represents the Bank’s liquidity buffer relative to the net liquid asset outflows over an assumed stress period of 30 days. The Bank was required to maintain the liquidity coverage ratio at the level of minimum 80% for all currencies in the aggregate by the end of 2017.

A critically low level of liquidity of the Bank is the liquidity level whose ratio is lower than the above ratios. If the Bank establishes a critically low liquidity level, it is required to inform the National Bank of Serbia thereof no later than the following day.

In the course of 2017 and 2016 the Bank did not record any critically low liquidity levels. The Bank’s liquidity ratios complied with the requirements of the National Bank of Serbia.

Liquidity ratio

	2017	2016
	2.39	2.30
As of December 31	2.49	1.97
Average for December	3.08	2.74
Maximum for the year	2.05	1.31

Comparative rigid liquidity ratios for 2017 and 2016 are provided in the table below:

Rigid liquidity ratio

	2017	2016
	2.05	1.95
As of December 31	2.20	1.63
Average for December	2.74	2.51
Maximum for the year	1.76	1.12

As of December 31, 2017, the Bank's liquidity coverage ratio equaled 165%, and had the following values in the previous months: June 30, 2017 - 196%, July 31, 2017 - 182%, August 31, 2017 - 281%, September 30, 2017 - 176%, October 31, 2017 - 205% and November 30, 2017 - 173%.

The following table provides an analysis of the Bank's non-derivative financial assets and financial liabilities grouped according to maturity date, by the net remaining maturity. Gross receivables due from banks and customers are decreased by the amount of allowance for impairment as per loan facilities underlying the receivables. Matured receivables are categorized in up to 1 month maturity bucket. Loan origination/processing fees collected in advance and advance disbursement of interest on savings deposits are categorized in up to 1 month maturity bucket.

RSD ’000

As of December 31, 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying value
Assets - receivables	**16,261,926**	**2,372,868**	**11,103,925**	**30,280,584**	**32,279,773**	**92,299,076**
Cash and balances held with the central bank (Note 15)	10,575,958	–	–	–	–	10,575,958
Loans and receivables due from banks and other financial institutions (Note 18)	1,971,027	824,540	27,847	4,627	–	2,828,041
Loans and receivables due from customers (Note 19)	2,649,452	1,548,310	9,939,757	17,219,739	30,282,319	61,639,577
Financial assets at fair value through profit and loss, held for trading and available for sale (Notes 16 and 17)	589,429	–	1,136,281	13,056,218	1,997,454	16,779,382
Other assets (Note 23)	476,060	18	40	–	–	476,118
Liabilities	**37,057,921**	**3,091,673**	**14,744,886**	**16,540,054**	**126,990**	**71,561,524**
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 24)	4,072,725	2,666	122,638	1,184,727	–	5,382,756
Deposits and other liabilities due to customers (Note 25)	32,641,810	3,061,975	14,562,838	11,564,563	87,825	61,919,011
Financial liabilities at fair value through profit and loss, held for trading (No16)	28,999	3,348	–	–	–	32,347
Subordinated liabilities (Note 26)	–	–	–	3,774,141	–	3,774,141
Other liabilities (Note 28)	314,387	23,684	59,410	16,623	39,165	453,269
Maturity mismatch at year-end	**(20,795,995)**	**(718,805)**	**(3,640,961)**	**13,740,530**	**32,152,783**	
Cumulative gap - asset and liability maturity mismatch	**(20,795,995)**	**(21,514,800)**	**(25,155,761)**	**(11,415,231)**	**24,511,693**	

RSD '000

As of December 31, 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying value
Assets - receivables	**20,008,220**	**4,157,181**	**12,024,343**	**28,991,215**	**30,726,696**	**95,907,655**
Cash and balances held with the central bank (Note 15)	12,290,116	–	–	–	–	12,290,116
Loans and receivables due from banks and other financial institutions (Note 18)	3,428,024	1,055,812	126,307	14,948	–	4,625,091
Loans and receivables due from customers (Note 19)	2,828,200	1,315,515	7,934,033	18,440,222	29,910,132	60,428,102
Financial assets at fair value through profit and loss, held for trading and available for sale (Notes 16 and 17)	1,037,170	1,785,854	3,814,736	10,536,045	816,564	17,990,369
Other assets (Note 23)	424,710	–	149,267	–	–	573,977
Liabilities	**41,810,951**	**5,242,817**	**12,870,577**	**15,762,737**	**126,980**	**75,814,062**
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 24)	3,063,572	450,636	–	–	–	3,514,208
Deposits and other liabilities due to customers (Note 25)	38,408,602	4,782,101	12,819,597	11,426,058	95,523	67,531,881
Financial liabilities at fair value through profit and loss, held for trading (No16)	16,624	92	–	–	–	16,716
Subordinated liabilities (Note 26)	657	–	–	4,321,531	–	4,322,188
Other liabilities (Note 28)	321,496	9,988	50,980	15,148	31,457	429,069
Maturity mismatch at year-end	**(21,802,731)**	**(1,085,636)**	**(846,234)**	**13,228,478**	**30,599,716**	
Cumulative gap - asset and liability maturity mismatch	**(21,802,731)**	**(22,888,367)**	**(23,734,601)**	**(10,506,123)**	**20,093,593**	

For the purpose of liquidity risk monitoring, off-balance sheet items are modelled according to the following assumptions:

- Guarantees – 5% payment in the period of up to 1 month,
- Frame agreements – 5% payment up to 6 months,
- Irrevocable liabilities for undrawn credit lines – 100% payment up to 1 year.

These assumptions for off-balance sheet items, as well as overall assumptions for the purposes of liquidity risk monitoring and measuring, are defined in cooperation with the Group, taking into account assessments of expert units as well and the assumptions for liquidity risk ratio and rigid liquidity ratio measurement defined by NBS, bearing in mind that the Risk Control Department informs ALCO about all such assumptions and their changes.

In accordance with the aforesaid assumptions, the table below provides maturities of these items as of December 31, 2017:

RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees 5%	290,046	–	–	–	–	290,046
Revocable frame agreements 5%	31,750	63,499	285,747	–	–	380,996
Irrevocable liabilities for undrawn credit lines 100%	76,638	153,277	689,746	–	–	919,661
Total	**398,434**	**216,776**	**975,493**	**–**	**–**	**1,590,703**

In accordance with the aforesaid assumptions, the table below provides maturities of these items as of December 31, 2016:

RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees 5%	261,750			–	–	261,750
Revocable frame agreements 5%	30,124	60,247	271,112	–	–	361,483
Irrevocable liabilities for undrawn credit lines 100%	110,533	221,067	994,800	–	–	1,326,400
Total	**402,407**	**281,314**	**1,265,912**	**–**	**–**	**1,949,633**

In addition to regulatory liquidity ratios (liquidity ratio – LIK and rigid liquidity ratio – rigid LIK), the Bank defines the following ratios that are monitored daily, for the purpose of internal liquidity monitoring:

- liquidity ratios (by analogy with LIK) per all significant currencies individually (EUR, USD, CHF and RSD) as well as other currencies in the aggregate, supplemented with swap and forward transactions maturing within a month from the day of applicable calculation (GAP limits per currency and currency ratio limits are established), and
- a set of liquidity ratios estimated as potentially significant for internal liquidity management (limits are established).

As in the case of internal limits for liquidity ratio and rigid liquidity ratio, the liquidity ratio limits per significant currencies individually are adopted by the Executive Board at the proposal of the Risk Control Department.

The Risk Control Department monitors movements of internal ratios/liquidity ratios and reports on the value of those ratios to BSM & Treasury Department on a daily basis.

In addition, at least once a month at ALCO meetings, the Risk Control Department reports on the periodic trend of internal liquidity ratio movements.

Maturity structure of derivatives according to the contractually agreed maturities as of December 31, 2017:

RSD '000

	1-3 months	1-5 years	Total
Purchasing transactions	**51,379,193**	**–**	**51,379,193**
Swaps with related banks	47,264,291	–	47,264,291
Swaps with other banks	4,023,478	–	4,023,478
Swaps with other legal entities	91,424	–	91,424
Sales transactions	**51,144,095**	**–**	**51,144,095**
Swaps with related banks	47,151,565	–	47,151,565
Swaps with other banks	3,992,530	–	3,992,530
Maturity mismatch at year-end	**235,098**	**–**	**235,098**

Maturity structure of derivatives according to the contractually agreed maturities as of December 31, 2016:

RSD '000

	1-3 months	1-5 years	Total
Purchasing transactions	**29,009,541**	**–**	**29,009,541**
Swaps with related banks	27,442,083	–	27,442,083
Swaps with other banks	1,491,251	–	1,491,251
Swaps with other legal entities	76,207	–	76,207
Sales transactions	**28,963,577**	**–**	**28,963,577**
Swaps with related banks	27,405,864	–	27,405,864
Swaps with other banks	1,481,668	–	1,481,668
Swaps with other legal entities	76,045	–	76,045
Maturity mismatch at year-end	**62,262**	**–**	**62,262**

4.1.6. Other Risks

- Compliance Risk

Rizik usklađenosti poslovanja nastaje usled propuštanja usklađivanja poslovanja sa zakonom i podzakonskim aktima, inteCompliance risk is the result of a failure to align the operations with the laws and by-laws, internal enactments, procedures for the prevention of money laundering and financing of terrorism and standard professional rules and codes, good business practices and the Bank's business ethic. Three major compliance risks are the following:

a) a risk of sanctions of the regulator – the risk resulting from business irregularities which may lead to the regulator imposing measures against the Bank under the conditions and as provided for under the legislation;
b) a risk of financial losses – the risk resulting from all risks the Bank is exposed to, particularly due to non-compliance with the legislation and internal enactments and inadequate application of strategies and policies, i.e., due to management of the Bank resulting in the financial loss for any reason; and
c) reputation risk – the risk arising from non-compliance with the legislation and internal enactments disrupting the business reputation and trust of the clients.

- Operational Risk

Operational risk is the risk of occurrence of negative effects on the financial result and capital of the Bank due to failures in work of employees (unintentional and intentional), inappropriate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to occurrence of unforeseen external events.

The Bank applies two approaches to operational risk identification and evaluation: reactive approach to risk assessment based on occurrence and proactive approach through scenario analysis (SA) and risk assessment (RA) as qualitative assessment tools.

The goal of managing operational risk in the Bank is to achieve a proactive approach (e.g. risk management) instead of the reactive approach (e.g. loss management).

The Bank measures, i.e. assesses the exposure to operational risk, considering the possibility, i.e. frequency of its occurrence, as well as its potential effect on the Bank, focusing on the events highly unlikely to occur, but capable of causing considerable material losses.

The Bank applies the following methods and tools to support operational risk management:

- Loss database for systematic collection of data on losses due to operational risk throughout the organization;
- Qualitative assessments (scenarios and risk assessments) to identify and assess the risks occurring within business processes;
- Regular reporting on operational risk.

All the Bank's employees are obligated to take active part in identifying and reporting on operational risk related losses.

Identification of operational risks shall be performed and assessed so as to allow defining appropriate actions for avoiding, mitigating, transferring or accepting the risks, including the priorities for implementing the safeguards.

The goal is to reduce losses as much as possible, in accordance with the allocated resources and budget. The Bank will propose actions to minimize operational risk if it deems that the benefit arising from the actions taken will not exceed the costs of their implementation, as well as that it will contribute to the Bank's efficiency.

The Bank identifies, assesses and monitors operational risk in all materially significant products, activities, processes and systems, including outsourcing, and before their introduction it estimates operational risk which can arise from their introduction.

The Bank applies the basic indicator approach (BIA) to calculate the capital requirement for operational risk. According to this approach, the capital requirement for operational risk equals the amount of a three-year average exposure ratio multiplied by the capital requirement rate of 15%.

The three-year average exposure ratio is the arithmetic mean of the ratios for the past three years. If in any of the three years the exposure ratio is negative or equal to zero, the amount is not included in calculation of the three-year average. Instead, the average is calculated as the ratio of the sum of positive values of the exposure ratio and the number of years when such values were generated.

The Bank monitors exposure to the operational risk through regular reports on operational risk related losses (contingent losses), which is submitted to the Risk Management Committee and the Executive Board of the Bank.

The Board of Directors of the Bank and the Audit Committee are notified by way of operational risk reports in line with the schedule of these meetings.

The National Bank of Serbia is notified of operational risk occurrences in accordance with statutory regulations or as required by the regulator. In addition, the Bank reports to the Group on a regular basis in line with their prescribed reporting standards.

4.2. Capital Management

The strategic goals of the Bank with respect to capital management are as follows:

- ensuring sufficient capital to meet the minimum regulatory capital requirements in compliance with the regulations of the National Bank of Serbia;
- ensuring sufficient capital to support the Bank's aptitude for risk assumption and satisfy internal capital needs;
- ensuring going concern concept, providing return on equity to the shareholders and benefits for other interested parties;
- ensuring strong capital base, as support for further sustainable development of the Bank's operations;
- capital allocation in line with the Bank's strategic goals, including optimization of return on internal and regulatory capital.

The Bank's capital management is compliant with the effective relevant legislation and regulations of the National Bank of Serbia governing banking operations. In addition, capital management also complies with the requirements of Addiko Group, where the Bank is a member.

The Bank's Board of Directors defines and approves the Strategy for Capital Management, which constitutes the Bank's basic document for capital management.

The Bank's Executive Board has formed a working body – the Risk Management Committee. The Risk Management Committee monitors, analyses and implements simulations and stress tests related to changes in the Bank's capital in the forthcoming period, such as changes in the regulatory capital, capital adequacy and internal capital (calculated based on the internal capital adequacy assessment process – ICAAP). The Risk Management Committee proposes to the Executive Board of the Bank measures for managing the Bank's capital.

For the purpose of maintaining adequate level and structure of available internal capital that may support the expected growth of loans and receivables, future sources of funding and their use, risks to which the Bank is exposed and may be exposed in the forthcoming period, as well as any changes in minimum capital requirement set forth by the Decision on Capital Adequacy of Banks, the Bank establishes a capital management plan. Taking into account the aforesaid elements, including guidelines under the Decision on Risk Management by Banks, the Bank performs capital planning quantification.

The Capital Management Plan comprises:

- strategic objectives and period for their achievement, taking into consideration the influence of the macroeconomic environment and phases of business cycle;
- manner of organizing available internal capital management process;
- process and procedures for planning the adequate level of available internal capital;
- manner of achieving and maintaining the adequate level of available internal capital; and
- contingency plan in the event of emergencies that may affect the amount of available internal capital.

In accordance with the Decision on Capital Adequacy of Banks (Official Gazette of RS no.103/2016) (hereinafter: the "Decision"), the Bank is required to maintain the minimum amount of capital in RSD equivalent of EUR 10 million at the official middle exchange rate of NBS.

The Bank is required to maintain its capital adequacy ratios listed above at the following minimum prescribed levels:

- the common equity Tier 1 capital ratio (CET 1 ratio) minimum of 4.5%;
- the core capital adequacy ratio (T1 ratio) minimum of 6%;and
- the total capital adequacy ratio (CAR) minimum of 8%.

In addition, the Bank is to maintain capital adequacy ratios increased in the manner that will ensure coverage of the following capital buffer requirements:

- the capital conservation buffer equal to 2.5% of the Bank's total risk-weighted assets; and
- the systemic risk buffer equal to 3% of the total foreign currency and FX-clause-indexed corporate and retail loans in the Republic of Serbia on condition that the share of such loans in the total Bank's loans approved to corporate and retail clients is above 10%.

The Decision defines the Bank's regulatory capital is the sum of the core (Tier 1) capital and supplementary (Tier 2) capital, where the core (Tier 1) capital is comprised of the common equity Tier 1 capital (CET 1) and additional Tier 1 capital, less deductibles. In order to be included in the core or supplementary capital, items of the Bank's capital must meet the criteria prescribed by the Decision at all times.

The Bank's common equity Tier 1 capital is the sum of the following items adjusted for the regulatory adjustments less deductible items:

1. shares and other equity instruments;
2. relevant share premium with the common equity Tier 1 instruments;
3. the Bank's profit;

4. revaluation reserves and other unrealized gains;
5. reserves from profit and other reserves of the Bank;
6. reserve funds for general banking risks.

Instruments are included in the Bank's common equity Tier 1 capital only if the Bank may use them unconditionally, fully and without delays to cover or absorb risks or losses if any occur.

Deductible items from the common equity Tier 1 capital are:

1. current and prior year’s losses and unrealized losses;
2. intangible assets;
3. deferred tax assets dependable on the Bank’s future profitability in line with the effective regulations;
4. defined benefit pension fund assets on the Bank’s balance sheet;
5. the Bank’s direct, indirect and synthetic holdings of its own common equity Tier 1 instruments, including those that the Bank is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
6. the Bank’s direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where those entities have reciprocal holdings in the Bank, designed to artificially inflate the Bank’s capital;
7. the Bank’s applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds no significant investments;
8. the Bank’s applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments;
9. the amount for which the Bank’s additional Tier 1 capital deductible items exceed the Bank’s additional Tier 1 capital;
10. the amount of exposures qualifying for application of a risk weight of 1.25%, where the Bank decides to deduct the exposure from the common equity Tier 1 rather than apply the said risk weight;
11. any tax charge relating to the common equity Tier 1 items foreseeable at the moment of its calculation, except where the Bank has previously suitably adjusted the amount of common equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to absorb risks or losses;
12. amount of the required reserve for estimated losses on the Bank’s balance sheet assets and off-balance sheet items.

For purposes of the common equity Tier 1 capital calculation during the year the Bank is required to determine profit/loss at the end of each interim period and deduct all losses from the CET 1 as these are incurred in accordance with the Decision.

The Bank’s additional Tier 1 capital consists of the sum of the following items less respective deductibles:

1. shares and other equity instruments that meet the criteria of additional Tier 1 capital instruments;
2. relevant share premium.

Deductible items from the additional Tier 1 capital are:

1. the Bank’s direct, indirect and synthetic holdings of own s additional Tier 1 capital instruments, including those that the Bank is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
2. the Bank’s direct, indirect and synthetic holdings of additional Tier 1 capital instruments of FSI entities where those entities have reciprocal holdings in the Bank, designed to artificially inflate the Bank’s capital;
3. the Bank’s applicable direct, indirect and synthetic holdings of additional Tier 1 capital instruments of FSI entities where the Bank holds no significant investments;
4. the Bank’s direct, indirect and synthetic holdings of additional Tier 1 capital instruments of FSI entities where the Bank holds significant investments, excluding items that, as the issue underwriter, it has held for no more than five working days;
5. the amount for which the Bank’s supplementary capital deductible items exceed the Bank’s supplementary Tier 2 capital;
6. any tax charge relating to the additional Tier capital items foreseeable at the moment of its calculation, except where the Bank has previously suitably adjusted the amount of additional Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to absorb risks or losses.

The Bank’s supplementary (Tier 2) capital consists of the sum of the following items less respective deductibles:

1. shares and other Tier 2 instruments and liabilities under subordinated loans;
2. the relevant share premium, i.e., amounts paid in above the par value of such instruments; and
3. general credit risk adjustments gross of tax effects, of up to 1.25% of the risk-weighted credit risk exposures.

Deductible items from the supplementary Tier 2 capital are:

1. the Bank’s direct, indirect and synthetic holdings of own supplementary capital instruments and subordinated liabilities, including those that the Bank is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
2. the Bank’s direct, indirect and synthetic holdings of supplementary capital instruments and subordinated liabilities of FSI entities where those entities have reciprocal holdings in the Bank, designed to artificially inflate the Bank’s capital;

3. the Bank's applicable direct, indirect and synthetic holdings of supplementary capital instruments and subordinated liabilities of FSI entities where the Bank holds no significant investments;
4. the Bank's direct, indirect and synthetic holdings of supplementary capital instruments and subordinated liabilities of FSI entities where the Bank holds significant investments, excluding items that, as the issue underwriter, it has held for no more than five working days.

The following table presents the Bank's balance of capital as of December 31, 2017 and 2016:

Calculation of the Bank's capital RSD '000

	2017	2016
Common equity Tier 1 capital - CET 1	**12,243,000**	**11,492,109**
Paid in common equity Tier 1 instruments	17,517,484	17,517,484
Share premium	3,027,810	4,306,318
Current year's loss	–	(1,278,508)
Current year's profit (not included in CET 1)	1,219,404	–
Intangible assets	(680,945)	(545,150)
Other unrealized losses	(10,641)	(46,314)
The required reserve for estimated losses on the Bank's balance sheet assets and off-balance sheet items	(7,610,708)	(8,461,721)
Additional Tier 1 capital - AT 1	**–**	**–**
Supplementary capital - T 2	**2,063,405**	**2,807,309**
Subordinated liabilities	2,063,405	2,592,918
A portion of revaluation reserves (in 2017 a CET 1 item)	–	214,391
Capital	**14,306,405**	**14,299,418**

In 2017 the Bank calculated the required reserve for estimated losses under the effective NBS Decision on Classification of the Bank Balance Sheet Assets and Off-Balance Sheet Items (Official Gazette of RS nos. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017 and 114/2017).

Capital requirements are calculated in accordance with the Decision on Capital Adequacy of Banks (Official Gazette of RS nos. 46/2011, 6/2013, 51/2014, 85/2016 and 103/2016).

A bank whose capital adequacy ratio is higher than or would be higher than 12% due to distribution of profit by less than 2.5 percentage points, may distribute profit only through allocation to the elements of its core capital.

The table below shows the Bank's capital adequacy ratio calculation at year-end 2017 and 2016 in compliance with the requirements of the National Bank of Serbia.

Calculation of the Bank's capital adequacy ratio RSD '000

	2017	2016
Capital	**14,306,405**	**14,299,418**
Credit risk weighted assets multiplied by the capital adequacy ratio reciprocal value	54,791,099	54,702,457
Exposure to foreign exchange risk multiplied by the capital adequacy ratio reciprocal value	617,437	–
Exposure to price risk multiplied by the capital adequacy ratio reciprocal value	26,288	683,200
Exposure to operational risk	10,060,363	6,702,550
Total risk-weighted assets	**65,495,187**	**62,088,207**
Capital adequacy ratio	**21.84%**	**23.03%**

4.3. Fair Value Assessment

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of financial instruments traded in an active market (such as traded securities and securities available for sale) is based on quoted market prices as of the reporting date. Quoted market prices used for the Bank's financial assets represent the current bidding prices. Fair value of financial instruments not traded in the active market (such as derivatives which are traded OTC) is determined by various valuation techniques The Bank applies different methods and determines assumptions based on the market conditions existing as of the reporting date. Quoted market prices or quoted prices for similar instruments are used for long-term liabilities. Other techniques, such as estimated discounted cash flows, are used for determining the fair value of the remaining financial instruments.

Fair value of interest rate swaps is recalculated as the present value of estimated future cash flows. Fair value of forward FX contracts is determined by applying quoted market exchange rates as of the reporting date. It is assumed that the nominal values of receivables and payables, less any impairment losses, approximate their fair values. Fair values of financial liabilities for disclosure purposes are assessed by discounting future cash flows at the current market interest rate available to the Bank for similar financial instruments.

IFRS 13 "Fair Value Measurement" establishes the fair value hierarchy which categorizes the inputs used in valuation techniques into three levels that are applied for fair value measurement:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Information based on market inputs other than quoted prices included in Level 1, observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: Information on an asset or a liability that are not based on observable market data (unobservable inputs).

Fair value of financial instruments traded in active markets is based on quoted market prices as of the reporting date. A market is deemed active if quoted prices are immediately and regularly available at the stock exchange, with dealers, brokers, industrial groups, unit for pricing or the regulatory agency, and if the said prices reflect the current market transactions regularly performed at arm's length. Quoted market prices used for the Bank's financial assets represent current bidding prices. The said instruments are recorded within Level 1 of the fair value hierarchy. The instruments within Level 1 primarily include BELEX investments into equity instruments classified as financial assets held for trading or financial assets available for sale. Fair value of financial instruments not traded in an active market (such as derivatives traded OTC, with publicly available data) is determined by application of various valuation techniques. Those valuation techniques use observable data from the market as much as possible, if available, and rely on special estimates of the Bank as little as possible. If all materially significant inputs necessary for determining fair value of an instrument are present, the instrument measured is classified within Level 2 of the fair value hierarchy.

If one or more materially significant inputs are not based on available market data, the instrument is classified within Level 3 of the fair value hierarchy. Special valuation techniques used for financial instruments are:

- Quoted market prices or prices of dealers for similar instruments;
- Fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on the available yield trend;
- Fair value of forward FX contracts is determined by application of forward exchange rates as of the reporting date, with discounting the acquired value to the present value;
- Other techniques, such as analysis of discounted cash flow, are used to determine fair values of the remaining financial instruments.

Fair Value of Financial Assets and Liabilities Carried at Fair Value

In 2017 and 2016, the Bank did not transfer financial assets held for trading and financial assets available for sale from Level 1 to Level 2.

RSD '000

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	**–**	**258,495**	**–**	**258,495**
(Treasury bills of the Republic of Serbia)	–	101,474	–	101,474
(Positive value of derivatives)	–	157,021	–	157,021
Financial assets available for sale	**–**	**16,779,382**	**–**	**16,779,382**
(Investment units)	–	589,429	–	589,429
(Treasury bills of the Republic of Serbia)	–	15,350,096	–	15,350,096
(Bank bonds)	–	839,857	–	839,857
Total financial assets	**–**	**17,037,877**	**–**	**17,037,877**
Financial liabilities				
Negative value of derivatives	–	(32,347)	–	(32,347)
Total financial liabilities	**–**	**(32,347)**	**–**	**(32,347)**

RSD '000

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	**–**	**1,208,490**		**1,208,490**
(Treasury bills of the Republic of Serbia)	–	1,169,832	–	1,169,832
(Positive value of derivatives)	–	38,658		38,658
Financial assets available for sale	**–**	**16,781,879**	**–**	**16,781,879**
(Investment units)	–	614,864	–	614,864
(Treasury bills of the Republic of Serbia)	–	15,444,958	–	15,444,958
(Bank bonds)	–	722,057	–	722,057
Total financial assets	**–**	**17,990,369**	**–**	**17,990,369**
Financial liabilities				
Negative value of derivatives	–	16,716	–	16,716
Total financial liabilities	**–**	**16,716**	**–**	**16,716**

Fair value of financial derivatives in established by discounting cash flows at interest rates taken from Reuters or Bloomberg.

Fair value of Treasury bills is calculated on the basis of their par value discounting by the interest rate published on the website of the Treasury Department of the Ministry of Finance.

Fair Value of Financial Assets and Liabilities Carried at Other than Fair Value

The Bank assessed the fair values of the financial instruments carried at other than fair value, as follows:

- By discounting the expected future cash inflows from financial assets at the expected rate of return, consisting of the "risk-free" interest rate and premiums for credit risk per corresponding maturities of the financial assets; and
- By discounting the expected future cash outflows arising from financial liabilities at the "risk-free" interest rate plus the zero credit spread applicable to the corresponding financial liability according to its maturity.

The Bank's management believes that, due to the nature of the Bank's financial assets, as well as the type of its clients, the carrying amounts of loans and receivables due from banks and other financial institutions do not depart from their fair values.

Fair values of the financial instruments carried at other than fair value as of December 31, 2017 are presented in the table below:

RSD '000

	Carrying value	Fair value	Level 3
Financial assets			
Cash and balances held with the central bank	10,575,958	10,575,958	10,575,958
Loans and receivables due from banks and other financial institutions	2,828,041	2,831,799	2,831,799
Loans and receivables due from customers	61,639,577	64,728,599	64,728,599
Total	**75,043,576**	**78,136,356**	**78,136,356**
Financial liabilities			
Deposits and other liabilities due to banks, other financial institutions and the central bank	5,382,756	5,447,969	5,447,969
Deposits and other liabilities due to customers	61,919,011	62,043,660	62,043,660
Subordinated liabilities	3,774,141	4,339,931	4,339,931
Total	**71,075,908**	**71,831,560**	**71,831,560**

Fair values of the financial instruments carried at other than fair value as of December 31, 2016 are presented in the table below:

RSD '000

	Carrying value	Fair value	Level 3
Financial assets			
Cash and balances held with the central bank	12,290,116	12,290,116	12,290,116
Loans and receivables due from banks and other financial institutions	4,625,091	4,625,082	4,625,082
Loans and receivables due from customers	60,428,102	61,689,688	61,689,688
Total	**77,343,309**	**78,604,886**	**78,604,886**
Financial liabilities			
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,514,208	3,514,208	3,514,208
Deposits and other liabilities due to customers	67,531,881	67,516,592	67,516,592
Subordinated liabilities	4,322,188	4,321,531	4,321,531
Total	**75,368,277**	**75,352,331**	**75,352,331**

5. Interest income and expenses

RSD '000

	2017	2016
a) Interest income from		
Required reserve held with the central bank	71,701	72,860
Operations with the central bank	2,890	1,417
Loans due from banks and financial institutions	38,235	29,183
Loans due from corporate customers	1,067,884	1,138,964
Loans due from retail customers	1,944,947	1,616,733
Impaired non-performing loans - unwinding	201,875	263,310
Corporate loan origination fees	97,762	104,550
Retail loan origination fees	97,331	49,716
Securities	639,358	770,710
Total interest income	**4,161,983**	**4,047,443**
b) Interest expenses from		
Liabilities due to banks and financial institutions	15,364	40,602
Liabilities to corporate customers	444,160	184,074
Liabilities to retail customers	274,234	409,383
Borrowings	219,165	433,713
Total interest expenses	**952,923**	**1,067,772**
Net interest income	**3,209,060**	**2,979,671**

6. Fee and commission expenses

RSD '000

	2017	2016
a) Fee and commission income		
Fees per guarantees and other sureties issued	83,737	83,515
Fees for domestic payment transfer activities	351,511	296,611
Fees for foreign payment transfer activities	142,292	134,115
Fees arising from card operations	258,586	226,017
Fees for custody operations/brokerage fees	104	380
Other fees from banks and financial institutions	2,370	2,269
Other fees from corporate customers	23,552	22,233
Fees per sale/purchase of currencies	175,802	–
Fees for retail account maintenance	40,250	–
Other fees from retail customers	187,681	169,439
Total fee and commission income	**1,265,885**	**934,579**
b) Fee and commission expenses		
Fees per transactions with banks	3,600	2,413
Fees per transactions with corporate customers	12,414	2,345
Fees for domestic payment transfer activities	37,499	34,443
Fees for foreign payment transfer activities	45,467	52,958
Fees arising from card operations	24,393	21,639
Fees for custody operations/brokerage fees	1,823	2,030
Total fee and commission expenses	**125,196**	**115,828**
Net fee and commission income	**1,140,689**	**818,751**

7. Net gains on financial assets

RSD '000

	2017	2016
Losses on the value adjustment of derivatives held for trading	(64)	(16,716)
Gains on the value adjustment of derivatives held for trading	506,702	585,914
Fair value adjustments of securities held for trading	(18,854)	19,668
Gains on the sales of trading securities	29,029	1,274
Net gains on financial assets held for trading	**516,813**	**590,140**
Losses on financial assets available for sale	(269,189)	(61,212)
Gains on financial assets available for sale	423,588	117,879
Net gains on financial assets available for sale	**154,399**	**56,667**
Total	**671,212**	**646,807**

8. Net foreign exchange (losses)/gains and positive currency clause effects

RSD '000

	2017	2016
Foreign exchange losses per foreign currency receivables and liabilities	(38,167,248)	(45,904,368)
Negative currency clause effects per receivables	(3,296,142)	(726,083)
Negative currency clause effects per liabilities	(416)	(7,452)
Total foreign exchange losses	**(41,463,806)**	**(46,637,903)**
Foreign exchange gains per foreign currency receivables and liabilities	40,921,536	45,260,601
Positive currency clause effects per receivables	446,913	1,578,164
Positive currency clause effects per liabilities	3,318	1,234
Total foreign exchange gains	**41,371,767**	**46,839,999**
Net effect	**(92,039)**	**202,096**

9. Other operating income

RSD '000

	2017	2016
Rental income	4,538	3,404
Collected damages	403	425
Gains on the sales of non-current assets held for sale (Note 22)	858	2,927
Gains on the sales of other equipment	26,885	14,950
Income from the employees - unused employee bonuses	18,088	–
Other income from the employees	10,823	9,124
Reversal of provisions for liabilities (Note 27)	345,077	3,572
Income per the centralized management function	202,619	110,055
Gains on the sales of loans and receivables	240,304	–
Other income	32,811	24,274
Total other operating income	**882,406**	**168,731**

10. Net losses on impairment of financial assets and credit risk-weighted off-balance sheet assets

Losses on impairment of financial assets and credit risk-weighted off-balance sheet assets RSD ’000

	2017	2016
Losses on impairment of financial assets		
Loans and receivables due from banks and other financial institutions	–	(3,536)
Loans and receivables due from customers	(7,812,487)	(4,671,604)
Other assets	(15,627)	(41,082)
Total on financial assets (Note 19 c)	**(7,828,114)**	**(4,716,222)**
Provisions for losses per off-balance sheet assets (Note 27)	(68,811)	(56,417)
Total losses	**(7,896,925)**	**(4,772,639)**
Gains on reversal of impairment of financial assets and credit risk-weighted off-balance sheet assets		
Loans and receivables due from customers (Note 19 c)	6,996,933	2,832,369
Collected during the year	722,063	272,039
Total on financial assets	**7,718,996**	**3,104,408**
Gains on reversal of provisions for losses per off-balance sheet assets (Note 27)	94,356	106,487
Total gains	**7,813,352**	**3,210,895**
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet assets	**(83,573)**	**(1,561,744)**

11. Staff costs

RSD ’000

	2017	2016
Net salaries	944,813	998,231
Payroll taxes and contributions	354,607	364,672
Other staff costs	129,807	162,244
Provisioning charge for termination benefits (Note 27)	17,390	14,032
Provisioning charge/(reversal of provisions) for retirement benefits (Note 27)	11,582	(11,668)
Total staff costs	**1,458,199**	**1,527,511**

12. Amortization and depreciation charge

RSD ’000

	2017	2016
Amortization of intangible assets	101,255	81,556
Depreciation of leasehold improvements	30,362	40,369
Depreciation of buildings	10,253	10,129
Depreciation of other equipment	65,363	98,973
Total amortization and depreciation charge	**207,233**	**231,027**

13. Other expenses

RSD '000

	2017	2016
Donations and financial aid	20,761	4,409
Rental costs	320,633	396,562
Other costs related to rented premises - leasehold improvements	89,225	97,820
Insurance premiums	302,122	302,221
Entertainment	11,076	14,241
Marketing and advertising	197,508	190,859
IS usage	584,807	555,851
Cost of fuel for vehicles and vehicle maintenance	8,498	16,681
Telecommunications and postage services	85,293	91,572
Membership fees, foreign and domestic	3,017	2,532
Indirect taxes and contributions	242,660	257,191
Auditing services	14,546	17,277
Consultant services	103,757	126,657
Municipal utilities	51,975	62,162
Office supplies	10,214	23,602
Other expenses to and on behalf of employees	54,137	52,162
Court and administrative fees	36,969	34,161
Costs of card operations	104,516	113,273
Security services	77,508	94,701
Other administrative costs	101,296	100,673
Cost of materials	4,036	2,484
Losses on write-off and sales of property, equipment and intangible assets	89,869	53,594
Cost of provisions for liabilities (Note 27)	35,990	98,523
Other expenses	292,506	63,791
Total other expenses	**2,842,919**	**2,772,999**

14. Income taxes

(a) Components of income tax

Total income tax expense comprises

RSD '000

	2017	2016
Current income tax expenses	(1,156)	(1,283)
Total	(1,156)	(1,283)
Current tax assets	**–**	**79,525**
Less: Calculated current income tax expense	(1,156)	(1,283)
Current tax liabilities/assets at year-end	**(1,156)**	**78,242**

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

RSD ’000

	2017	2016
Profit/(loss) before taxes	**1,219,404**	**(1,277,225)**
Income tax at the rate of 15%	182,911	(191,584)
Tax effects of income and expenses not recognized for tax purposes	98,033	(24,755)
Tax on capital gains	1,156	1,283
Tax losses utilized	(279,534)	–
Other	(1,410)	(3,159)
Tax losses carried forward	–	219,496
Total income taxes included in the income statement	**1,156**	**1,283**
Effective interest rate	**0.10%**	**0.10%**

(c) Basis for recording deferred tax assets and liabilities and their effect on the Bank’s income statement for 2017 and 2016:

RSD ’000

	Deferred tax assets 2017	Deferred tax liabilities 2017	Income statement 2017	Deferred tax assets 2016	Deferred tax liabilities 2016	Income statement 2016
Unrealized (gains)/losses on available-for-sale securities	–	(32,100)	–	–	(29,661)	–
	–	**(32,100)**	**–**	**–**	**(29,661)**	**–**

As of December 31, 2107 the Bank had no deferred tax assets.

Unused tax losses

RSD ’000

Year of inception	Tax loss amount	Portion utilized	Year of utilization	Remaining tax loss amount	Year of expiry
2013	7,565,484	1,863,561	2017	5,701,993	2018
2014	**1,996,873**			**1,996,873**	**2019**
2015	**7,080,127**			**7,080,127**	**2020**
2016	**1,463,306**			**1,463,306**	**2021**
Total	**18,105,790**	**1,863,561**		**16,242,299**	

Losses stated in the tax statement, other than capital gains and losses, are available for carryforward against taxable profit of the future accounting period for duration of no longer than five years.

As of December 31, 2017, the Bank did not recognize deferred tax assets based on the prior years’ tax losses carried forward.

In the following year, the Bank will reassess its unrecognized deferred tax assets and recognize them to the extent it is probable that future taxable income will be available to allow recover of deferred tax assets as prescribed by IAS 12.37.

15. Cash and balances held with the central bank

RSD '000

	2017	2016
In RSD		
Gyro account	**4,323,784**	**5,049,720**
Cash on hand	790,106	580,619
Interest receivables from NBS	3,188	4,500
Total in RSD	**5,117,078**	**5,634,839**
In foreign currencies		
Required foreign currency reserve	4,993,300	6,168,988
Cash on hand	465,556	486,224
Foreign currency accounts for trading in securities	24	65
Total in foreign currencies	**5,458,880**	**6,655,277**
Balance at December 31	**10,575,958**	**12,290,116**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances on the Bank's account, cash on hand and foreign currency cash balances held on accounts with domestic and foreign banks.

The following items are included in cash and cash equivalents for the purposes of the cash flow statement:

RSD '000

	2017	2016
Gyro account	4,323,784	5,049,720
Cash on hand	1,255,662	1,066,843
Foreign currency accounts held with foreign banks	310,452	296,535
Foreign currency accounts for trading in securities	24	65
Balance at December 31	**5,889,922**	**6,413,163**

In 2017 the Bank calculated the required RSD and foreign currency reserves in accordance with the Decision on Obligatory Reserves Held with the National Bank of Serbia (Official Gazette of RS nos. 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 Bank is under obligation to maintain the average daily balance of the allocated required reserve over the reporting period in the amount of the calculated required reserve, where it is allowed that during the month daily balances of both RSD and foreign currency required reserves may be above or below the calculated required reserves. All days within the accounting period are taken into account in calculation of the average daily balance of the required reserve.

The required reserve is calculated at the rate of 5% applicable to the amount of RSD deposits and liabilities with agreed maturities of up to two years, while the rate of 0% is applied to the RSD liabilities with agreed maturities of over two years.

The foreign currency required reserve calculated based on the foreign currency liabilities maturing within two years was partially allocated in RSD (38%) as well as the foreign currency required reserve based on the foreign currency liabilities with maturities of over two years (30%). Allocations in RSD were made throughout 2017 in the same aforesaid percentage shares.

As of December 31, 2017 the calculated RSD required reserve, the amount of which had to be maintained on the gyro account from December 18, 2017 to January 17, 2018 totaled RSD 3,972,764 thousand and was in compliance with the foregoing Decision of the National Bank of Serbia.

The National Bank of Serbia pays interest to banks on the amount of the actual average daily balance of the allocated RSD required reserve in the reporting period up to the amount of the calculated RSD required reserve. The interest rate payable by the National Bank of Serbia during 2017 was 1.75% p.a.

In 2017 the required foreign currency reserve was calculated at the following rates:

- 20% – applicable to the amount of RSD liabilities with agreed maturities of up to two years;
- 13% – applicable to the amount of RSD liabilities with agreed maturities of over two years.

The rate applicable to the RSD liabilities with the currency clause index in the calculation of RSD required reserve was increased to and remained throughout the year at:

- 100% – applicable to the amount of to the RSD liabilities with the currency clause index, irrespective of maturity.

A portion of the calculated foreign currency reserve allocated in foreign currency remained unaltered throughout 2017, in the following percentage shares:

- 62% of the amount calculated on foreign currency liabilities and currency clause-indexed liabilities with agreed maturities of up to two years; and
- 70% the amount calculated on foreign currency liabilities and currency clause-indexed liabilities with agreed maturities of over two years.

As of December 31, 2017 the calculated foreign currency required reserve, the amount of which had to be maintained from December 18, 2017 to January 17, 2018 totaled EUR je 43,374 thousand. The National Bank of Serbia does not pay any interest on the amount of the actual average balance of the allocated foreign currency reserve.

16. Financial assets and financial liabilities held for trading

RSD '000

	2017	2016
Receivables arising from changes in the fair value of derivatives	157,021	38,658
Liabilities arising from changes in the fair value of derivatives	(32,348)	(16,716)
Net fair value of derivatives	**124,673**	**21,942**
Receivables arising from changes in the fair value of derivatives	157,021	38,658
Investments in the Republic of Serbia FX Treasury bills	–	1,009,162
Investments in the Republic of Serbia RSD Treasury bills	101,474	160,670
Total securities held for trading	**101,474**	**1,169,832**
Total financial assets held for trading	**258,495**	**1,208,490**

All derivative financial instruments are carried at fair value within the Bank's off-balance sheet items with positive changes in the fair value of derivatives recognized as assets and negative changes in the fair value of derivatives as liabilities. Fair value at the beginning of a transaction equals the price of the transaction.

The table below shows contracts for foreign currency swaps with the settlement dates after the reporting date in gross amounts as at December 31, 2017:

RSD '000

	Contracts with positive value	Positive fair value	Contracts with negative value	Negative fair value
FX swap - Receivable on settlement date EUR / Liability on settlement date CHF	EUR 49,500,000/ CHF 57,776,895	12,413	–	
FX swap - Receivable on settlement date EUR / Liability on settlement date RSD	EUR 6,700,000/ RSD 804,339,020	10,572	EUR 6,700,000/RSD 804,339,020	10,572
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	EUR 2,000,000/ RSD 240,072,000	2,880	RSD 835,849,700/ EUR 7,000,000	3,348
FX swap - Receivable on settlement date CAD / Liability on settlement date EUR	CAD 457,665/ EUR 300,000	566	–	
FX swap - Receivable on settlement date GBP / Liability on settlement date EUR	–		GBP 972,686/EUR 1,100,000	582
FX swap - Receivable on settlement date EUR / Liability on settlement date USD	–		USD 7,096,200/EUR 6,000,000	7,752
FX swap - Receivable on settlement date CHF / Liability on settlement date EUR	CHF 57,948,363/ EUR 49,500,000	4,955	EUR 48,500,000/ CHF 56,758,580	4,443
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 835,849,700/ EUR 7,000,000	3,348	EUR 2,000,000/RSD 240,072,000	2,880
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 8,759,481,700/ EUR 73,000,000	110,291	–	
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 358,306,500/ EUR 3,000,000	2,888	EUR 73,500,000/ RSD 8,711,175,900	2,744
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 59,739,300/ EUR 500,000	498	–	
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 598,421,500/ EUR 5,000,000	2,330	–	
FX swap - Receivable on settlement date AUD / Liability on settlement date EUR	AUD 2,629,560/ EUR 1,700,000	1,818	–	
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 238,267,000/ EUR 2,000,000	1,238	–	
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 4,800,000/EUR 571,831,680	417	–	
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 8,726,802,000 / EUR 73,500,000	1,767	–	
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 474,331,600/ EUR 4,000,000	22	–	
Forward transaction	USD 38,813/RSD 3,914,274	67	EUR 100,000/USD 119,380	15
Forward transaction	USD 56,552RSD 5,703,056	101	USD 15,000/RSD 1,485,415	1
Forward transaction	USD 53,321/RSD 5,384,709	98	EUR 150,000/USD 179,205	10
Forward transaction	USD 44,987/RSD 4,561,859	101	USD 35,000/ RSD 3,468,325	1
Forward transaction	USD 69,152/RSD 7,006,861	150		
Forward transaction	USD 55,000/RSD 5,541,619	87		
Forward transaction	USD 45,000/RSD 4,523,526	63		
Forward transaction	USD 30,000/RSD 3,013,347	40		

RSD '000

	Contracts with positive value	Positive fair value	Contracts with negative value	Negative fair value
Forward transaction	USD 55,000/RSD 5,533,044	80		
Forward transaction	USD 45,000/RSD 4,530,542	69		
Forward transaction	USD 57,128/RSD 5,696,369	29		
Forward transaction	USD 100,657/RSD 10,030,929	48		
Forward transaction	USD 46,333/RSD 4,623,498	27		
Forward transaction	USD 49,433/RSD 4,936,261	31		
Forward transaction	USD 30,390/RSD 3,026,438	13		
Forward transaction	USD 15,000/RSD 1,488,444	1		
Forward transaction	USD 20,000/RSD 1,987,282	4		
Forward transaction	**USD 30,000/RSD 2,984,952**	**8**		
Forward transaction	**USD 20,000/RSD 1,983,246**	**1**		
Fair value at year-end		**157,021**		**32,348**

The table below shows contracts for foreign currency swaps with the settlement dates after the reporting date in gross amounts as at December 31, 2016:

RSD '000

	Contracts with positive value	Positive fair value	Contracts with negative value	Negative fair value
FX swap - Receivable on settlement date EUR / Liability on settlement date CHF	EUR 104,400,000 / CHF 111,895,920	36,922	–	–
FX swap - Receivable on settlement date EUR / Liability on settlement date RSD	–	–	EUR 1,000,000 / RSD 124,245,500	64
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	–	–	RSD 13,596,660,000 / EUR 110,000,000	15,999
FX swap - Receivable on settlement date CAD / Liability on settlement date EUR	–	–	CAD 494,742 / EUR 350,000	227
FX swap - Receivable on settlement date GBP / Liability on settlement date EUR	GBP 978,348 / EUR 1,140,000	–	–	–
FX swap - Receivable on settlement date EUR / Liability on settlement date USD	EUR 1,850,000 / USD 1,952,305	–	–	–
FX swap - Receivable on settlement date CHF / Liability on settlement date EUR	CHF 3,651,260 / EUR 3,400,000	778	–	–
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 496,238,000 / EUR 4,000,000	296	–	–
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 248,498,400 / EUR 2,000,000	66	–	–
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 124,247,900 / EUR 1,000,000	114	–	–
Forward transaction	–	–	RSD 622,266,500 / EUR 5,000,000	426
Forward transaction	RSD 23,113,970 / USD 200,700	442	–	–
Forward transaction	RSD 53,093,094 / USD 448,507	40	–	–
Fair value at year-end		**38,658**		**16,716**

In 2017 the Bank earned interest income on investments in securities held for trading in the amount of RSD 34,054 thousand (2016: RSD 34,873 thousand).

Securities within the Bank's portfolio are remeasured every ten days. A number of days remaining to maturity is considered for each security and the pricing is performed by interpolation of the interest rates applied according to the number of days to maturity.

Interest rate input data for remeasurement of securities ae obtained from Bloomberg and Reuters systems. The most recent interest rate on securities in the auctions held by the Ministry of Finance are obtained from Bloomberg while interest rate for RSD securities with maturities below 3 months and EUR securities with maturities below 12 months are obtained from the Reuters system (Reuters interbank interest rates) as follows:

- Overnight and 2-week rates are applied to RSD securities, and
- Overnight rate increased by annual CDS of the Republic of Serbia expressed in USD (YCCD2104) is applied to EUR securities.

The prices made are imported onto the Bank's information system where each price is multiplied by the par value of the security and the product is divided by 100. The value arrived at in this manner represents the security's current value.

The fair value is obtained by deducting the sum of the cost and deferred discount value from the securities current value.

17. Financial assets available for sale

Financial assets not quoted in the stock exchange RSD '000

	2017	2016
Investments in long-term FX Treasury bills of foreign countries	111,757	–
Investments in coupon FX Treasury bills of the Republic of Serbia	6,915,421	11,682,691
Total in foreign currencies	**7,027,178**	**11,682,691**
Investments in RSD Treasury bills of the Republic of Serbia	8,434,675	3,762,267
Investments in RSD investment units of banks	589,429	614,864
Investments in long-term RSD bonds of foreign banks	728,100	722,057
Total in RSD	**9,752,204**	**5,099,188**
Total financial assets available for sale	**16,779,382**	**16,781,879**

Debt securities of the Republic of Serbia may be short-term and long-term, in local or foreign currencies. Short-term debt securities are issued in the form of no coupon treasury bills by the Republic of Serbia Ministry of Finance. Long-term debt securities are issued in the form of coupon bonds by the Republic of Serbia.

The nominal value is 10,000.00 monetary units if a debt security is denominated in RSD, or 1,000 if it is denominated in a foreign currency.

Debt securities of the Republic of Serbia are issued with maturities ranging from 3 months to 10 years.

The market value of the Republic of Serbia debt securities is calculated by discounting all future cash flows of the securities by the relevant debt securities interest rate used in the most recent auctions as published on the website of the Treasury Department of the Ministry of Finance.

In 2017, the Bank invested its free RSD funds in debt securities of the Republic of Serbia at interest rates (rates of return) ranging from 4.05% to 5.60% p.a. (2016: from 4.07% to 5.95% p.a.), in EUR securities at interest rates from 1% to 2.69% p.a. (2016: from 1.18% to 3.45% p.a.) and in USD securities at interest rates from 3.1% to 4.01% p.a. (2016: from 3.61% to 4.45% p.a.). In 2017, the Bank also invested its free RSD funds into RSD bonds of EBRD at the average rate of return of 3.58% p.a.

In 2017 the Bank generated interest income from its investments in securities available for sale amounting to RSD 606,067 thousand (2016: RSD 735,837 thousand).

Changes in the value of financial assets available for sale RSD '000

	RS Treasury bills
Opening gross balance as at January 1, 2016	**22,411,529**
Decrease during the year	(6,670,351)
Net gains on the sales (Note 7)	56,667
Interest income	735,837
Decrease in unrealized loss	(36,709)
Reserve decrease	(122,192)
Foreign exchange effects	407,098
Net balance as at December 31, 2016	**16,781,879**
Opening gross balance as at January 1, 2017	**16,781,879**
Decrease during the year	(127,761)
Net gains on the sales (Note 7)	154,399
Interest income	606,067
Increase in unrealized loss	35,673
Reserve decrease	(21,849)
Foreign exchange effects	(649,026)
Net balance as at December 31, 2017	**16,779,382**

The Bank did not have any financial assets pledged to secure repayment of borrowings.

18. Loans and receivables due from banks and other financial institutions

RSD '000

	2017	2016
In RSD		
RSD loans	863,180	168,954
Other RSD receivables	800,384	3,000,161
Total in RSD	**1,663,564**	**3,169,115**
In foreign currencies		
Foreign currency accounts held with other banks	310,593	296,689
Foreign currency loans	859,218	1,168,048
Other foreign currency receivables	273	59
Total in foreign currencies	**1,170,084**	**1,464,796**
Gross loans and receivables due from banks	**2,833,648**	**4,633,911**
– collective allowance for impairment in RSD	(665)	(2,513)
– collective allowance for impairment in foreign currencies	(4,942)	(6,307)
Total	**2,828,041**	**4,625,091**

During 2017 the Bank approved RSD loans to other banks at interest rates ranging from 2% to 3.1% p.a. (2016: from 2.5% to 2.97%), EUR loans at interest rates ranging between 0% and 2.42% p.a.(2016: between 0% and 1%), and USD loans at interest rates ranging between 0.88% and 1.1% p.a. (2016: between 0.4% and 1.55%).

19. Loans and receivables due from customers

a) Breakdown per Customer Type

The table below provides loans and receivables due from customers grouped per initial net maturities:

RSD '000

	2017			2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
– Corporate customers	1,028,964	2,180,713	3,209,677	1,702,967	2,497,749	4,200,716
– Retail customers	138,718	11,755,484	11,894,202	791,522	6,840,240	7,631,762
– Public sector	14,522	79,013	93,535	50,557	484,240	534,797
– Other customers	455,263	5,987	461,250	2,106	–	2,106
Total in RSD	**1,637,467**	**14,021,197**	**15,658,664**	**2,547,152**	**9,822,229**	**12,369,381**
In foreign currencies						
– Corporate customers	6,321,657	25,713,266	32,034,923	7,227,023	23,387,837	30,614,860
– Retail customers	80,005	22,088,006	22,168,011	8,132,855	22,684,083	30,816,938
– Public sector	59,250	377,351	436,601	102,285	853,895	956,180
Total in foreign currencies	**6,460,912**	**48,178,623**	**54,639,535**	**15,462,163**	**46,925,815**	**62,387,978**
Gross loans	**8,098,379**	**62,199,820**	**70,298,199**	**18,009,315**	**56,748,044**	**74,757,359**
Less: Impairment allowance						
– Individual in RSD	(538,265)	(504,753)	(1,043,018)	(391,063)	(143,462)	(534,525)
– Individual in FX	(524,575)	(6,031,187)	(6,555,762)	(8,433,961)	(4,492,162)	(12,926,123)
– Collective in RSD	(32,533)	(347,383)	(379,916)	(32,391)	(205,413)	(237,804)
– Collective in FX	(54,853)	(625,073)	(679,926)	(64,340)	(566,465)	(630,805)
Total impairment allowance	**(1,150,226)**	**(7,508,396)**	**(8,658,622)**	**(8,921,755)**	**(5,407,502)**	**(14,329,257)**
Balance at December 31	**6,948,153**	**54,691,424**	**61,639,577**	**9,087,560**	**51,340,542**	**60,428,102**

In 2017 the Bank sold receivables due from 398 customers, and the gross value of the sold receivables recalculated in EUR totaled EUR 21.5 million.

During 2017 the Bank calculated interest on corporate and public sector loans depending on the customer credit rating, loan type and collateral provided.

Accordingly, in 2017 interest rates applied to short-term corporate loans equaled EURIBOR increased by an average markup of 3.22% annually for currency clause-indexed loans and BELIBOR increased by an average markup of 2.24% for RSD loans(2016: EURIBOR increased by an average markup of 3.47% annually for currency clause-indexed loans and BELIBOR increased by an average markup of 2.37% annually for RSD loans).

In 2017 long-term currency clause-indexed loans were approved to corporate clients for a maximum period of 7 years at the interest rate equal to EURIBOR increased by an average markup of 3.24% annually, while long-term RSD loans were approved for periods of 24 months on the average at an interest rate of BELIBOR increased by a markup of 2.16% (2016: long-term currency clause-indexed loans were approved to corporate clients for a maximum period of 7 years at the interest rate equal to EURIBOR increased by an average markup of 3.55% annually, while long-term RSD loans were approved for periods of 24 months on the average at an interest rate of BELIBOR increased by a markup of 1.24% annually).

All-purpose retail loans in RSD were extended during 2017 at interest rates ranging from 6.99% to 19.99% per annum (2016: from 7.4% to 19.48%).

(b) Breakdown per Loan Type

RSD '000

	2017	2016
Loans per transaction accounts	326,998	430,444
Overdraft loans	10,890	27,278
Consumer loans	147,192	276,484
Cash loans	11,261,143	6,976,674
Working capital loans	25,361,434	24,708,059
Investment loans	7,970,716	9,712,390
Housing loans	20,452,568	27,637,834
Credit cards	372,971	406,222
Other loans	3,944,837	4,416,524
Receivables per payment under guarantees called on	449,450	165,450
Total gross loans	**70,298,199**	**74,757,359**
Less: Allowance for impairment of extended loans	(8,658,622)	(14,329,257)
Balance at December 31	**61,639,577**	**60,428,102**

(c) Movements on the Accounts of Impairment Allowances of Financial Assets and Other Assets

Movements on the impairment allowance accounts during 2016 and 2017 are presented below.

RSD '000

	Per loans due from banks (Note 18)	Per loans due from customers (Note 19)	Per other receivables (Note 23)	Total
Balance as at January 1, 2016	**(5,231)**	**(18,601,785)**	**(44,199)**	**(18,651,215)**
Charge for the year (Note 10)	(3,536)	(4,671,604)	(41,082)	(4,716,222)
Reversal of impairment allowance credited to income (Note 10)	–	2,832,369	–	2,832,369
Foreign exchange effects	(53)	(242,714)	(1)	(242,768)
Write-off and derecognition	–	6,091,167	–	6,091,167
Decrease per unwinding effect (Note 5)	–	263,310	–	263,310
Balance as at December 31, 2016	**(8,820)**	**(14,329,257)**	**(85,282)**	**(14,423,359)**
Balance as at January 1, 2017	**(8,820)**	**(14,329,257)**	**(85,282)**	**(14,423,359)**
Charge for the year (Note 10)	–	(7,812,487)	(15,627)	(7,828,114)
Reversal of impairment allowance credited to income (Note 10)	–	6,937,399	–	6,937,399
Foreign exchange effects	–	871,418	1,153	872,571
Write-off and derecognition	3,213	5,412,896	31,254	5,447,363
Decrease per unwinding effect (Note 5)	–	201,875	–	201,875
Sale of loans	–	59,534	–	59,534
Balance as at December 31, 2017	**(5,607)**	**(8,658,622)**	**(68,502)**	**(8,732,731)**

20. Intangible assets

RSD '000

	Licenses and rights	Licenses in progress	Total
Cost			
Balance as at January 1, 2016	1,458,085	4,574	1,462,659
Additions	–	205,498	205,498
Transfers (activations)	189,318	(189,318)	–
Retirement and disposal	(21,068)	(2,605)	(23,673)
Balance as at December 31, 2016	**1,626,335**	**18,149**	**1,644,484**
Additions	–	277,006	277,006
Transfers (activations)	108,110	(108,110)	–
Retirement and disposal	(18,956)	(21,000)	(39,956)
Balance as at December 31, 2017	**1,715,489**	**166,045**	**1,881,534**
Accumulated amortization			
Balance as at January 1, 2016	1,019,398	–	1,019,398
Charge for the year (Note 12)	81,556	–	81,556
Retirement and disposal	(3,934)	–	(3,934)
Impairment	2,314	–	2,314
Balance as at December 31, 2016	**1,099,334**	**–**	**1,099,334**
Charge for the year (Note 12)	101,255	–	101,255
Balance as at December 31, 2017	**1,200,589**	**–**	**1,200,589**
Net book value at			
December 31, 2017	**514,900**	**166,045**	**680,945**
December 31, 2016	**527,001**	**18,149**	**545,150**

Licenses refer to the right to use software necessary for the Bank's operations. The software was not internally generated.

In accordance with the requirement of IAS 36 – Impairment of Assets and IFRS 13 – Fair Value Measurement, the fair value of the Bank's intangible assets – the core software- was assessed as of December 31, 2016 by the independent appraiser Vision Consulting d.o.o., Beograd.

Measurement of the fair value of the Bank's core software was performed by applying the cost approach/replacement cost method, in view of the fact that the software is fully adjusted to the Bank's requirements. The Bank only has the right of use of the software, which will not be converted into the right of ownership, and it is therefore not possible to realize any benefits from the lease thereof, which is why the application of the income approach was not possible.

Due to numerous specific features of the software itself and its subsequent adjustments, there is no sufficiently similar software in the market for application of the market approach.

Inputs of Levels 1, 2 and 3 were applied in the cost approach, with predominant role of Level 2 inputs – estimated replacement costs for a new asset according to the initial 2008 contract in 2008 and actual acquisition costs (Level 1) and the new contract version from 2010 and adjusted actual acquisition costs (Level 1).

In accordance with the cost approach methodology, the appraised acquisition cost was decreased by the physical and functional write-off and these adjustments constitute Level 3 inputs.

The core software appraisal encompassed additional investments in the software made in 2016 and completed by the year-end. Taking into account regular software maintenance over the past years and the 2016 upgrade, the remaining useful life of the asset was estimated to 7 years. Based on the assessment performed, it was concluded that the recoverable amount of the core software, along with the additional investments made, was by RSD 1,941 thousand higher, which implies that there were no indications of impairment.

Based on the assessment performed, in 2017 the Bank's management concluded that there were no indications of impairment and hence no need for additional decrease of the software value.

21. Property, plant and equipment

RSD '000

	2017	2016
Buildings	384,740	414,937
Investments in progress (buildings)	–	13,723
Leasehold improvements	47,584	41,564
Computer and other equipment	154,386	219,388
Investments in progress	28,644	87,090
Total	**615,354**	**776,702**

RSD ’000

	Buildings	Leasehold improve-ments	Invest-ments in progress (buildings)	Computer equipment	Other equipment	Invest-ments in progress	Assets under finance lease	Total
Cost								
Balance as at January 1, 2016	479,708	829,071	–	501,880	1,149,095	11,120	1,071	2,971,945
Additions	–	–	13,941	–	–	131,087	–	145,028
Transfers (activations)	218	–	(218)	13,525	41,592	(55,117)	–	–
Transfers from investment property and assets acquired under finance lease	–	–	–	–	1,071	–	(1,071)	–
Retirement and disposal	–	(41,403)	–	(5,852)	(88,389)	–	–	(135,644)
Balance as at December 31, 2016	**479,926**	**787,668**	**13,723**	**509,553**	**1,103,369**	**87,090**	**–**	**2,981,329**
Additions	–	–	534	–	–	52,949	–	53,483
Transfers (activations)	14,258	36,382	(14,257)	27,946	86,105	(150,434)	–	–
Retirement and disposal	(43,013)	–	–	(46,587)	(419,605)	39,039	–	(470,166)
Balance as at December 31, 2017	**451,171**	**824,050**	**–**	**490,912**	**769,869**	**28,644**	**–**	**2,564,646**
Accumulated depreciation	**54,860**	**736,008**	**–**	**406,166**	**961,381**	**–**	**235**	**2,158,650**
Balance as at January 1, 2016	10,129	40,369	–	49,860	49,113	–	–	149,471
Charge for the year (Note 12)	–	–	–	–	235	–	(235)	–
Transfers from investment property	–	–	–	10,522	8,281	–	–	18,803
Retirement and disposal	–	(30,273)	–	(5,852)	(86,172)	–	–	(122,297)
Balance as at December 31, 2016	**64,989**	**746,104**	**–**	**460,696**	**932,838**	**–**	**–**	**2,204,627**
Charge for the year (Note 12)	10,253	30,362	–	33,837	31,525	–	–	105,977
Retirement and disposal	(8,811)	–	–	(45,172)	(307,329)	–	–	(361,312)
Balance as at December 31, 2017	**66,431**	**776,466**	**–**	**449,361**	**657,034**	**–**	**–**	**1,949,292**
Net book value at								
December 31, 2017	**384,740**	**47,584**	**–**	**41,551**	**112,835**	**28,644**	**–**	**615,354**
December 31, 2016	**414,937**	**41,564**	**13,723**	**48,857**	**170,531**	**87,090**	**–**	**776,702**

The Bank owns buildings with premises for performance of its operations at 7 locations: Branch Bežanijska Kosa, Branch Hill Belgrade, Branch Stepa Stepanović Belgrade, Branch Bečej, Branch Bačka Palanka, Branch Subotica and Branch Kruševac Branch Bečej, Branch Bačka Palanka, Branch Subotica and Branch Kruševac.

All other business premises are rented and the item of leasehold improvements relates to the refurbishment, equipment and putting to use of the rented premises.

The Bank did not pledge its property as collateral.

Operating Lease Arrangements

The future minimum lease payments for operating lease of business premises as at December 31 were as follows:

RSD ’000

	2017	2016
Up to 1 year	216,219	303,727
From 1 to 5 years	536,648	324,479
After 5 years	10,299	38,642
Total	**763,166**	**666,848**

In addition to the foregoing, the Bank executed two open-end agreements on the lease of business premises.

Finance Lease Arrangements

All the Bank's finance lease contracts expired in 2016. In 2017 the Bank executed no new finance lease arrangements.

22. Non-current assets held for sale

RSD '000

	2017	2016
Cost		
Opening balance at beginning of the year	149,267	337,905
Transfer from assets acquired in lieu of debt collection	15,446	17,917
Sales during the year	(44,887)	(206,555)
Net book value at year-end	**119,826**	**149,267**

In prior years the Bank acquired a number of buildings provided as collateral securitizing loans. The Bank's management decided to complete the sale of these assets so that the assets fulfilling the criteria of IAS 5 – *Non-Current Assets Held for Sale and Discontinued Operations* were transferred from the assets acquired in lieu of debt collection to the non-current assets held for sale.

Out of these assets, during 2017 the Bank sold real estate totaling RSD 44,887 thousand and realized gains on the sale of RSD 858 thousand.

The Bank's management is taking all the necessary actions to make the sale of the remaining assets – engagement of a real estate agency, advertising, search for prospective buyers – all in order to complete the sales as soon as possible.

23. Other assets

RSD '000

	2017	2016
Receivables	**566,941**	**471,286**
Receivables from employees	351	1,023
Receivables from banks for card operations	87,804	113,882
Advances and deposits paid	77,873	70,513
Receivables for customer liabilities paid	77,205	63,868
Other fees and other receivables	26,402	48,634
Receivables for rent	10,304	10,550
Receivables from related banks (Compentence Centers)	199,751	113,055
Other receivables	87,251	49,761
Other assets and prepayments and accrued income	**131,427**	**97,017**
Prepaid expenses	50,103	16,871
Prepayments and accrued income	889	118
Assets acquired in lieu of debt collection	68,801	68,676
Office supplies	11,634	11,352
Other assets, gross	**698,368**	**568,303**
Less: Allowance for impairment of other receivables	**(80,136)**	**(96,634)**
Other assets, net	**618,232**	**471,669**

As of December 31, 2017 the Bank's assets acquired in lieu of debt collection mainly comprise land of RSD 63,617 thousand and buildings and apartments of RSD 5,125 thousand.

Out of the total amount of allowance for impairment for other receivables, RSD 68,502 thousand pertains to the allowance for impairment of other receivables (2015: RSD 85,282 thousand), while RSD 11,634 thousand (2016: RSD 11,352 thousand) refers to the allowance for impairment of inventories.

24. Deposits and other liabilities due to banks, other financial institutions and the central bank

RSD '000

	2017	2016
RSD transaction deposits	**122,051**	**312,173**
Transaction deposits of banks	56,220	248,399
Transaction deposits of other financial institutions	65,831	63,774
Foreign currency transaction deposits	**292,146**	**670,978**
Transaction deposits of banks	188,942	262,359
Transaction deposits of other financial institutions	103,204	408,619
Other RSD deposits	**1,185**	**18,738**
Other deposits of banks	1	–
Other deposits of other financial institutions	–	17,666
Liabilities for interest and fees	1,184	1,072
Other foreign currency deposits	**424,486**	**437,984**
Other deposits of banks	117,805	311,150
Other deposits of other financial institutions	303,648	126,612
Liabilities for interest and fees	3,033	222
Borrowings	**4,542,888**	**2,074,335**
Foreign currency borrowings	1,895,563	–
Overnight borrowings	2,647,325	2,074,335
Balance as at December 31	**5,382,756**	**3,514,208**

In 2017 short-term loans were approved to the Bank at interest rates depending on the currency and maturity in the following ranges: RSD loans - 2.4% to 3.1% p.a. (in 2016 overnight loan: 1.7% to 3.1% p.a.); in EUR - 0% to 0.6% p.a. (2016: 3% p.a.); and in USD 1.45% to 3% p.a. (2016: 0.4% to 0.7% p.a.).

In 2016, annual interest rates on long-term borrowings in foreign currencies ranged from 3-month EURIBOR + 2.33% to 3-month EURIBOR + 5.47% and from 6-month LIBOR + 1.71% to 3-month LIBOR + 2.33%, depending on the length of the repayment period and currency. All these loans were repaid by the end of 2016.

Foreign currency borrowings relate to a loan obtained from EBRD and earmarked term deposit received from Banca Intesa. The said EBRD loan of EUR 10,000 thousand was received on July 3, 2017 with the repayment due date at December 2, 2020 at a fixed interest rate of 2.2% p.a. and with a grace period for interest payment of one year.

As of December 31, 2017 the Bank acheived the stipuilated financial indicators in full compliance with the covenants defined by the loan agreements executed with EBRD.

Breakdown of the Bank's overnight borrowings as of December 31, 2017 is provided in the table below:

Naziv poverioca RSD '000

Creditor	Currency	FX loan amount approved	Maturity	Interest rate	2017
Direktna banka a.d.	USD	2,000,000	January 3, 2018	3%	198,230
Direktna banka a.d.	EUR	3,000,000	January 4, 2018	0.15%	355,418
VTB banka a.d.	USD	1,000,000	January 4, 2018	2%	99,115
Komercijalna banka	EUR	3,000,000	January 3, 2018	0.10%	355,418
Srpska banka	EUR	1,500,000	January 4, 2018	0.10%	177,709
Addiko bank AG	USD	700,000	January 3, 2018	1.45%	69,381
Addiko bank AG	EUR	11,750,000	January 3, 2018	0.10%	1,392,054
Balance of borrowings at December 31, 2017					**2,647,325**

Breakdown of the Bank's overnight borrowings as of December 31, 2016 is provided in the table below:

Naziv poverioca RSD ’000

Creditor	Currency	FX loan amount approved	Maturity	Interest rate	2016
Addiko Bank AG	EUR	16,800	January 4, 2017	0.3%	2,074,335
Balance of borrowings at December 31, 2016					**2,074,335**

25. Deposits and other liabilities due to other customers

RSD ’000

	2017	2016
RSD transaction deposits	**10,887,797**	**9,917,014**
Corporate customers	4,567,440	3,449,516
Public companies	3,918,168	4,079,938
Non-resident entities	13,835	46,489
Other customers	175,000	278,623
Retail customers	2,213,354	2,062,448
Foreign currency transaction deposits	**16,596,786**	**16,952,978**
Corporate customers	3,318,203	4,364,808
Public companies	913,137	3,205,272
Non-resident entities	47,462	121,067
Other customers	156,997	52,508
Retail customers	12,160,987	9,209,323
Other RSD deposits	**1,465,751**	**3,447,208**
Corporate customers	899,416	1,766,366
Public companies	479,000	1,375,955
Public sector	24,450	16,600
Non-resident entities	1,680	1,878
Other customers	13,587	172,953
Retail customers	28,781	78,353
Interest and fee liabilities	18,837	35,058
Interest and fee liabilities with currency clause index	–	45
Other foreign currency deposits	**3,922,083**	**3,547,336**
Corporate customers	1,554,512	1,782,219
Public companies	2,196,156	1,530,710
Other customers	1,880	17,267
Retail customers	224	235
Interest and fee liabilities	169,311	216,905
Foreign currency-indexed earmarked deposits	**127,199**	**11,838**
Foreign currency-indexed earmarked deposits of corporate customers	127,031	11,429
Foreign currency-indexed earmarked depositsof retail customers	168	409
Earmarked RSD deposits	**6,709,275**	**6,708,895**
Corporate customers	520,963	453,894
Public companies	6,187,867	6,254,528
Retail customers	445	473
Earmarked foreign currency deposits	**949,891**	**831,006**
Corporate customers	749,978	576,990
Retail customers	199,913	254,016
Savings deposits	**21,260,229**	**26,115,606**
RSD savings deposits	471,204	682,627
Foreign currency savings deposits	20,789,025	25,433,883
Deferred foreign currency interest	–	(904)
Balance at December 31	**61,919,011**	**67,531,881**

Demand deposits of corporate customers both in RSD and foreign currencies the Bank cacluates 0% interest, except in instance of special arrangements, where interest rate is defined by individual contracts with significant customers. Most commonly, upon execution of special arrangements, interest rates are linked to the National Bank of Serbia's key policy rate. The Bank calculates and pays interest on demand deposits of local government budget beneficiaries the rate of which may not be lower than the current discount rate of the National Bank of Serbia.

Corporate and public sector term deposits accrue interest in accordance with the maturity and the amount of funds deposited. At the initiative of the BSM & Treasury Department, interest rates are adjusted to the market trends in reference interest rates. In 2017 the average interest rate on RSD deposits equaled 2.47% annually while the average annual rate on EUR deposits was 0.76%.

Interest rates applicable to demand savings deposits in foreign currencies ranged from 0% to 0.1% annually (2016: from 0.1% to 1.2%), and the rate of interest on RSD transaction deposits of retail customers equaled 0.1% p.a. (2016: 0.1%).

RSD savings term deposits of retail customers accrued interest at the rates between 0% and 4% annually (2016: between 3% and 4.7%). Foreign currency savings deposits of retail customers accrued interest at the rates ranging from 0% to 1.6% annually (2016: from 0.5% to 1.7%).

Breakdown of deposits and other liabilities due to customers per maturity:

RSD '000

	2017			2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Transaction deposits	10,887,796	–	10,887,796	9,905,176	–	9,905,176
Other deposits	1,423,414	23,500	1,446,914	3,402,605	9,500	3,412,105
Earmarked deposits	28,559	6,680,713	6,709,272	46,596	6,674,137	6,720,733
Savings deposits:	435,891	35,317	471,208	661,199	21,428	682,627
Interest and fee liabilities	18,837	–	18,837	35,103	–	35,103
Total in RSD	**12,794,497**	**6,739,530**	**19,534,027**	**14,050,679**	**6,705,065**	**20,755,744**
in foreign currencies						
Transaction deposits	16,596,786	–	16,596,786	16,964,816	–	16,964,816
Other deposits	3,265,796	486,980	3,752,776	3,302,985	27,446	3,330,431
Earmarked deposits	509,115	567,975	1,077,090	422,508	408,498	831,006
Savings deposits:	7,680,616	13,108,405	20,789,021	18,013,661	7,420,222	25,433,883
Interest and fee liabilities	169,311	–	169,311	216,001	–	216,001
Total in foreign currencies	**28,221,624**	**14,163,360**	**42,384,984**	**38,919,971**	**7,856,166**	**46,776,137**
Balance at December 31	**41,016,121**	**20,902,890**	**61,919,011**	**52,970,650**	**14,561,231**	**67,531,881**

26. Subordinated liabilities

The balances of liabilities arising from subordinated loans as at December 31, 2017 and 2016 are provided in the following tablei:

Naziv poverioca RSD '000

	Currency	Amount in currency	Due date	Interest rate	2017	2016
Addiko Bank AG	CHF	37,257,500	September 26, 2020	6 mes Libor + 5.667%	3,773,615	4,321,531
Interest liabilities					526	657
Total					**3,774,141**	**4,322,188**

In January 2017 the Bank converted the subordinated loan amount from EUR 35 million into CHF.

The subordinated loans received met all the requirements prescribed by the National Bank of Serbia to be included in the supplementary capital of the Bank.

27. Provisions

The Bank made the following provisions:

RSD '000

	2017	2016
Provisions for losses from guarantees	32,819	52,230
Provisions for unsecured letters of credit	–	1,164
Provisions for long-term commitments	12,395	17,365
Total provisions for losses per off-balance sheet items	**45,214**	**70,759**
Provisions for other contingent liabilities	–	299,970
Provisions for litigations and claims	157,652	169,133
Provisions for termination benefits	21,325	24,448
Provisions for retirement benefits	50,878	40,520
Provisions for bonuses	8,326	–
Balance at December 31	**283,395**	**604,830**

a) Provisions for losses on guarantees, other contingent liabilities and termination/retirement benefits:

The Bank made provisions for losses on off-balance sheet items charged to expenses, in line with its business policy.

Provisions for other contingent liabilities amounting to RSD 157,652 were made based on the calculation of a potential loss that would be incurred by the Bank in respect of a highly probable lawsuit.

Provisions for termination benefits decreased in 2017 to RSD 21,352 thousand (2016: RSD 24,448 thousand).

In September 2016, the Board of Directors of Addiko Bank a.d., Beograd adopted new Rulebook on Internal Organization fundamentally changing the Bank's organizational structure, based on which the Job Classification Rulebook was amended. Specifically, certain organizational units were eliminated or merged with other units, and organizational units within the Bank's Head Office were united. The Bank's Executive Board identified employees who were redundant in accordance with the established criteria, as well as employees who would be offered reassignment to jobs to be created.

In accordance with these decisions and the Bank's Rules of Procedure, the Executive Board drafted a redundancy program, which was submitted to the National Employment Agency. The foregoing actions for headcount reduction will be implemented observing corporate social responsibility principle. The priority is to reach an agreement with employees, i.e. to match the headcount with the reduced number of jobs through voluntary termination of employment or an annex to the employment contract for reassignment to new jobs within the Bank.

In accordance with these decisions, in 2017 termination benefits totaling RSD 20,513 thousand were paid to the employees whose employment contracts were terminated..

Provisions for retirement benefits were formed based on the independent actuary's report as at the reporting date, and they are recognized in the amount of the present value of expected future payments.

The starting assumptions of the independent actuary for the said calculation were as follows:

- Data on employees (total years of service as at December 31, 2017, gender, age);
- Mortality rate tables;
- Interest rate of 5.5%;
- Salaries paid by the Bank in 2017 per each employee; and
- Employee turnover in the next 40 years.

The Labor Law (Official Gazette of RS no. 75/2014) stipulates an obligation of the employer to pay a retirement benefit to the retiring employee in the minimum amount of the employee's two average salaries, whereby the amount of such retirement benefit may not be lower than two average salaries paid per employee in the Republic of Serbia according to the latest data published by the Statistical Office of the Republic of Serbia.

Movements on provision accounts are presented in the following table.

RSD ’000

	Guarantees and other off-balance sheet items	Other contingent liabilities	Termination benefits	Retirement benefits	Employee bonuses	Total
Balance at January 1, 2016	**120,829**	**375,664**	**89,420**	**53,005**	**–**	**638,918**
Charged/(reversed) to the income statement	(50,070)	94,951	14,032	(11,668)	–	47,245
Release of provisions	–	(1,512)	(79,004)	(817)	–	(81,333)
Balance at December 31, 2016	**70,759**	**469,103**	**24,448**	**40,520**	**–**	**604,830**
Balance at January 1, 2017	**70,759**	**469,103**	**24,448**	**40,520**	**–**	**604,830**
Charged/(reversed) to the income statement	(25,545)	(309,087)	17,390	11,582	–	(305,660)
Transfer from liabilities for bonuses	–	–	–	–	8,326	8,326
Release of provisions	–	(2,364)	(20,513)	(1,224)	–	(24,101)
Balance at December 31, 2017	**45,214**	**157,652**	**21,325**	**50,878**	**8,326**	**283,395**

b) Provisions for Litigations

As of December 31, 2017 there were 453 lawsuits involving the Bank as a defendant. All these lawsuits were initiated from 2005 to 2017. The aggregate value of all lawsuits filed against the Bank amounts to RSD 5,104,197 thousand.

The Bank has adopted a procedure for performance assessment of passive legal proceedings and court cases and for definition of provisions for the legal risk arising from these proceedings.

Performance assessment of passive legal proceedings is made based on:

- legal merits of the claim;
- legal analysis of the course of each and every court case;
- consideration of facts and evidence presented in the course of the proceedings by the counterparty and facts and evidence presented or which may be presented by the Bank and mutual dependence and connection of such facts and evidence
- customary jurisprudence in the same or similar court cases;
- if a lawsuit is conducted by an attorney hired by the Bank, the performance assessment will take into account his/her opinion as well; exceptionally, in very complex cases, the Bank’s unit in charge of the case at hand may seek an external legal opinion on the success of the case even if it is not conducted by an attorney, but by the Bank;
- possibility to reach court or out-of-court settlement with the counterparty;
- rules and conditions for provisioning as set out in the International Accounting Standard – IAS 37; and
- other elements that may affect the Bank’s success in a court case.

Performance assessment of passive legal suits is carried out at least once every six months, no later than on the 15th day of the month prior to expiry of the calendar term.

The assessment is done based on legal and factual state at the assessment day.

In 2017, the Bank made provisions for litigations and claims amounting to RSD 157,652 thousand.

The Bank was also involved in a number of lawsuits filed against third parties in an attempt to collect receivables. All the Bank's receivables claimed before court have been provided for in accordance with the Bank's methodology and charged to the Bank's income statement.

28. Other liabilities

RSD '000

	2017	2016
RSD trade payables	31,873	112,921
Foreign currency trade payables	63,064	22,742
Early loan repayment	226,209	66,540
Liabilities for employee bonuses and unused annual leaves	94,779	104,320
Other RSD liabilities	79,705	122,233
Other foreign currency liabilities	42,816	93,257
RSD advances received	13,194	43
Taxes and contributions payable	27,357	37,167
Liabilities from card operations	9,602	11,334
Accrued expenses	144,657	31,603
Deferred income	12,205	19,693
Total other liabilities	**745,461**	**621,853**

29. Equity and reserves

As of December 31, 2017 the Bank's equity comprised share capital, share issue premium, reserves, revaluation reserves, fair value reserves and retained earnings/accumulated losses.

The structure of the Bank's equity is presented below:

RSD '000

	2017	2016
Share capital	17,517,484	17,517,484
Share premium	3,027,810	4,306,318
Fair value reserves	181,901	168,077
Current year's loss	–	(1,278,508)
Current year's profit	1,218,248	–
Balance at December 31	21,945,443	20,713,371

a) Share Capital and Share Premium

As of December 31, 2017 the Bank's subscribed capital paid in comprised 8,758,742 common stock shares (December 31, 2016: 8,758,742 shares) with the par value of RSD 2,000 per share.

Each share entitles the holder to one vote. All shares outstanding were fully paid in.

The shares are registered with the Securities Commission:

CFI code: ESVUFR

ISIN no: RSHYPOE 68424

On March 27, 2014 a change to the majority shareholder of Hypo Alpe-Adria-Bank a.d. Beograd was registered in the Central Securities Depository and Clearing House. Instead of the majority shareholder Hypo Alpe-Adria-Bank International AG Klagenfurt, Hypo SEE Holding AG Klagenfurt was registered as the majority shareholder. On October 30, 2014 Hypo SEE Holding AG changed its name to Hypo Group Alpe Adria AG.

As of December 31, 2014 Hypo Group Alpe Adria AG owned 7,159,669 Bank's shares while Industrija kotrljajućih ležajeva a.d. u stečaju, Beograd owned 73 shares.

On November 13, 2015, the Commercial Court in Belgrade approved the sale of 73 shares owned by the bankruptcy debtor Industrija kotrljajućih ležajeva ad, Beograd. The shares were purchased by Hypo Group Alpe Adria AG, which thus became the sole shareholder of Hypo Alpe-Adria-Bank a.d. Beograd.

On December 30, 2015 an increase in share capital was registered with the Business Registers Agency. The capital increase was recorded with the Central Securities Depository through 29th issue of 1,599,000 common shares, at the par value of RSD 2,000 per share. The shares were paid by converting a portion of subordinated loan into share capital amounting to RSD 3,198,000,000.

On July 8, 2016, under Decision of the Commercial Court in Vienna no. FN 350921k Hypo Group Alpe Adria AG changed its legal name to Addiko Bank AG, headquartered at the address of Wipplingerstrasse 34/4 Vienna, Austria.

During 2017 there was no increase in the share capital. Hence, the total number of shares outstanding paid in was 8,758,742 and the nominal (par) value per share amounted to RSD 2,000. The Bank has no subscribed capital not paid in.

Each share entitles the holder to one vote. There are no restrictions to the payment of dividend on shares.

The Bank's shareholders as at December 31, 2017 were:

RSD '000

Shareholder	Amount in RSD '000	% Equity interest	Share count
Addiko Bank AG	17,517,484	100%	8,758,742
Total	**17,517,484**	**100%**	**8,758,742**

The Bank's shareholders as at December 31, 2016 were:

RSD '000

Shareholder	Amount in RSD '000	% Equity interest	Share count
Addiko Bank AG	17,517,484	100%	8,758,742
Total	**17,517,484**	**100%**	**8,758,742**

Share Issue Premium

The share issue premium is the difference between the achieved selling price of shares and their par value:

a) From 2002 to 2008 the Bank formed a share issue premium in the amount of RSD 2,790,840 thousand;
b) In 2008, after two issues of shares, the Bank formed a share issue premium in the amount of RSD 4,414,469 thousand;
c) In March 2009 the total of 392,205 shares were issued with the par value of RSD 2,000, which were thereafter sold at RSD 8,500, resulting in the share issue premium of RSD 2,549,332 thousand;
d) In July 2010 the total of 584 shares were issued with the par value of RSD 2,000, which were thereafter sold at RSD 8,500, resulting in the share issue premium of RSD 3,796 thousand;
e) Under Decision of the Bank's Shareholder Assembly no. 11866/16 dated April 26, 2016, the Bank absorbed the loss incurred in 2015 in the amount of RSD 5,452,120 thousand, so that the share premium amounted to RSD 4,306,318 thousand at the end of 2016;
f) Under Decision of the Bank's Shareholder Assembly no. 13115/17 dated April 28, 2017, the Bank absorbed the loss incurred in 2016 in the amount of RSD 1,278,508 thousand, so that the share premium amounted to RSD 3,027,810 thousand as of December 31, 2017.

b) Reserves from Profit

Reserves from profit were formed through allocations of the Bank's retained earnings in prior years. As of December 31, 2015, the reserves from profit amounted to RSD 821,856 thousand.

Under Decision of the Bank's Shareholder Assembly no. 11866/16 dated April 26, 2016, the Bank absorbed the loss incurred in 2015 in the amount of RSD 821,856 thousand against these reserves, so that there were no reserves from profit at December 31, 2016.

c) Fair Value Reserves

Positive effects of fair value adjustments of the Bank's financial assets available for sale (fair value reserves) arose from the adjustment of the investments into financial assets available for sale to their fair values. These reserves were then adjusted for the effects of deferred taxes (Notes 14 and 17).

As of December 31, 2017 the Bank's revaluation reserves totaled RSD 192,542 thousand (December 31, 2016: RSD 214,391 thousand). Unrealized losses from financial assets available for sale amounted to RSD 10,641 thousand (December 31, 2016: RSD 46,314 thousand).

d) Reserves for Estimated Losses Arising on Balance Sheet Assets and Off-Balance Sheet Items

The Bank is obligated to calculate on a quarterly basis risks of potential losses on balance sheet assets and off-balance sheet items pursuant to the Decision of the National Bank of Serbia on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items.

Loans, receivables and other Bank's exposures are classified into categories, in accordance with assessed collectability of loans and receivables, depending on the number of days past due in repayment of the principal and/or interest, borrower's financial position and quality of the obtained collateral.

As of December 31, 2017, the required reserve for estimated losses on balance sheet assets and off-balance sheet items amounted to RSD 7,610,708 thousand (December 31, 2016: RSD 8,461,721 thousand).

Comparative overview of calculated allowance for impairment of balance sheet assets and provisions on potential losses on off-balance sheet items charged to the Bank's income statement in accordance with the Bank's enactments and calculated reserve as required by the National Bank of Serbia as at December 31, 2017:

RSD '000

	NBS methodology	Bank's bylaws	Required reserve
Total per balance sheet assets	14,558,261	8,732,731	7,392,597
Total per off-balance sheet items	248,322	45,214	218,111
Total	**14,806,583**	**8,777,945**	**7,610,708**

Comparative overview of calculated allowance for impairment of balance sheet assets and provisions on potential losses on off-balance sheet items charged to the Bank's income statement in accordance with the Bank's enactments and calculated reserve as required by the National Bank of Serbia as at December 31, 2016 (in accordance with NBS regulations effective at that date):

RSD '000

	NBS methodology	Bank's bylaws	Required reserve
Total per balance sheet assets	20,855,785	14,423,359	8,275,753
Total per off-balance sheet items	235,759	70,759	185,968
Total	**21,091,544**	**14,494,118**	**8,461,721**

30. The bank's regulatory compliance

The Bank is required to align its volume of operations and the structure of its risk-weighted assets with the adequacy and performance ratios prescribed by the Law on Banks and the relevant decisions of the National Bank of Serbia enacted in accordance with the aforecited Law.

As of December 31, 2017 the Bank was in full compliance with all the prescribed ratio values.

The following table presents the adequacy/performance ratios achieved by the Bank:

RSD '000

Adequacy/performance ratios	Prescribed	2017	2016
1. Capital	Minimum EUR 10 million	EUR 121 million	EUR 116 million
2. Capital adequacy ratio	Minimum 8%	21.84%	23.03%
3. Core capital adequacy ratio (Tier 1 ratio)	Minimum 6%	18.69%	
4. Common equity capital adequacy (CET 1) ratio	Minimum 4.5%	18.69%	
5. The sum of the Bank's long-term investments	Maximum 60%	4.30%	5.43%
6. The Bank's investment ratio	Maximum 60%	4.30%	
7. The Bank's investments in non-FSI entities	Maximum 60%	0%	
8. The sum of all large Bank's exposures	Maximum 400%	77.56%	29.49%
9. Liquidity ratios:	Minimum 1	2.39	2.30
– in the first month of the period	Minimum 1	2.41	1.45
– in the second month of the period	Minimum 1	2.13	1.69
– in the third month of the period	Minimum 1	2.49	1.97
10. Rigid liquidity ratios:	Minimum 0.7	2.05	1.95
– in the first month of the period	Minimum 0.7	2.04	1.29
– in the second month of the period	Minimum 0.7	1.87	1.41
– in the third month of the period	Minimum 0.7	2.20	1.63
11. Foreign exchange risk ratio	Maximum 20%	4.32%	1.35%
12. Large Bank's exposures to a single entity or a group of related entities	Maximum 25%	17.86%	12.08%
13. The Bank's exposure to a single entity ratio	Maximum 25%	17.64%	

31. Transactions with related parties and addiko group members

The sole owner of Addiko Bank a.d., Beograd is Addiko Bank AG, holding all (100%) shares of Addiko Bank a.d., Beograd. Related party transactions are performed at arm's length.

a) Statement of the Financial Position (Balance Sheet)

The table below presents balances arising from related party transactions as of December 31, 2017:

Financial assets at Dec, 31, 2017 RSD '000

	Addiko Bank AG, Beč	Addiko Bank Ljubljana	Addiko Bank Zagreb	Addiko Bank Banja Luka	Addiko Bank Mostar	Addiko Bank Podgorica	Total
Receivables per changes in the fair value of derivatives (Note 16)	132,726	–	–	–	–	–	132,726
Loans and receivables due from banks and other financial institutions (Note 18)	78,565	1,592	6,659	829,690	456	–	916,962
Other assets (Note 23)	131,417	39,337	13,517	29,326	13,241	6,312	233,150
Total financial assets	**342,708**	**40,929**	**20,176**	**859,016**	**13,697**	**6,312**	**1,282,838**
Financial liabilities at Dec. 31, 2017							
Financial liabilities at fair value through profit or loss, held for trading (Note 16)	32,345	–	–	–	–	–	32,345
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 24)	1,633,959	7,689	10,696	–	870	824	1,654,038
Subordinated liabilities (Note 26)	3,774,141	–	–	–	–	–	3,774,141
Other liabilities(Note 28)	43,960	684	8,208	–	80	852	53,784
Total financial liabilities	**5,484,405**	**8,373**	**18,904**	**–**	**950**	**1,676**	**5,514,308**

The table below presents balances arising from related party transactions as of December 31, 2016:

Financial assets at Dec. 31, 2016 RSD ’000

	Hypo Group Alpe Adria AG Klagenfurt	Hypo bank Ljubljana	Hypo bank Zagreb	Hypo bank Banja Luka	Hypo bank Mostar	Hypo bank Podgorica	Total
Receivables per changes in the fair value of derivatives (Note 16)	36,962	–	–	–	–	–	36,962
Loans and receivables due from banks and other financial institutions (Note 18)	176,169	9,699	9,942	1,050,288	1,784	–	1,247,882
Other assets (Note 23)	110,359	–	15,518	15,302	543	6,123	147,845
Total financial assets	**323,490**	**9,699**	**25,460**	**1,065,590**	**2,327**	**6,123**	**1,432,689**
Financial liabilities at Dec. 31, 2016							
Financial liabilities at fair value through profit or loss, held for trading (Note 16)	16,290	–	–	–	–		16,290
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 24)	2,312,662	–	16,534	9,765	314,157	21,390	2,674,508
Subordinated liabilities (Note 26)	4,322,187	–	–	–	–	–	4,322,187
Other liabilities(Note 28)	57	–	8,739	900	305	418	10,419
Total financial liabilities	**6,651,196**	**–**	**25,273**	**10,665**	**314,462**	**21,808**	**7,023,404**

b) Income Statement

The table below presents related party transactions for the year ended December 31, 2017:

Income in 2017 RSD ’000

	Addiko Bank AG, Beč	Addiko Bank Ljubljana	Addiko Bank Zagreb	Addiko Bank Ban-ja Luka	Addiko Bank Mostar	Addiko Bank Podgorica	Total
Interest income (Note 5)	307	–	–	3,045	–	–	3,352
Fee and commission income (Note 6)	–	–	11	447	2	–	460
Net gains on financial assets held for trading (Note 7)	346,184	–	–	–	–	–	346,184
Other income (Note 9)	**42,827**	**40,193**	**76,948**	**16,732**	**15,978**	**10,337**	**203,015**
Total income	**389,318**	**40,193**	**76,959**	**20,224**	**15,980**	**10,337**	**553,011**
Expenses in 2017							
Interest expenses (Note 5)	214,026	–	85	–	296	–	214,407
Fee and commission expenses (Note 6)	–	166	1,074	141	–	9	1,390
Other expenses (Note 13)	66,346	–	32,593	–	–	–	98,939
Total expenses	**280,372**	**166**	**33,752**	**141**	**296**	**9**	**314,736**

TaThe table below presents related party transactions for the year ended December 31, 2016:

Income in 2016 RSD '000

	Hypo Group Alpe Adria AG Klagenfurt	Hypo bank Ljubljana	Hypo bank Zagreb	Hypo bank Banja Luka	Hypo bank Mostar	Hypo bank Podgorica	Total
Interest income (Note 5)	135	–	–	675	–	–	810
Fee and commission income (Note 6)	–	–	–	40	7	–	47
Net gains on financial assets held for trading (Note 7)	525,660	–	–	–	–	–	525,660
Other income (Note 9)	110,055	–	–	–	–	–	110,055
Total income	**635,850**	**–**	**–**	**715**	**7**	**–**	**636,572**
Expenses in 2016							
Interest expenses (Note 5)	(445,103)	(357)	(108)	(247)	(2,088)	–	(447,903)
Fee and commission expenses (Note 6)	–	–	(620)	–	–	–	(620)
Other expenses (Note 13)	(39,715)	–	(32,455)	–	–	–	(72,170)
Total expenses	**(484,818)**	**(357)**	**(33,183)**	**(247)**	**(2,088)**	**–**	**(520,693)**

c) Transactions with Related Individuals and Key Management Personnel

In 2017 the Bank paid to the members of the Board of Directors for their engagement gross remuneration in the amount of RSD 3,850 thousand (2016: RSD 4,594 thousand).

In 2017 the Bank paid to the members of the Executive Board gross salaries in the amount of RSD 103,439 thousand (2016: RSD 93,890 thousand).

In 2017 gross salaries of the key management personnel amounted to RSD 152,221 thousand (2016: RSD 176,021 thousand). The key management personnel are persons authorized and responsible for planning, managing and controlling the Bank's activities, directly or indirectly, including all Directors, (whether Executive Directors or not).

There were no other disbursements to the key management personnel other than the above said remunerations.

As of December 31, 2017 the individuals related to the Bank had deposits placed with the Bank totaling RSD 61,792 thousand (December 31, 2016: RSD 183,270 thousand).

As of December 31, 2017 loans extended to the individuals related to the Bank totaled RSD 86,988 thousand (December 31, 2016: RSD 185,449 thousand).

32. Balance reconciliation of receivables and payables

The Bank reconciled amounts receivable and payable with its customers as of October 31, 2017 and another time with the major customers as of December 31, 2017. The reconciliations were made via the outstanding item statements (OIS).

Until this auditors' report date, out of 13,000 OIS requests sent to customers, the unreconciled receivables amounted to EUR 126 thousand and RSD 115,366 thousand. The contested balances mostly relate to those of the customers undergoing the bankruptcy procedures or restructuring. The customers failed to confirm the balances of deposits and other liabilities of the Bank in the aggregate amount of RSD 4,283 thousand.

The Bank has continued to take actions to reconcile balances of receivables and liabilities with its customers and the reconciliation process is underway.

33. Off-balance sheet items

RSD '000

	2017	2016t
Total guarantees and commitments	**14,340,508**	**13,884,173**
Payment guarantees	1,109,068	2,110,518
Performance guarantees	4,691,849	3,124,484
Unsecured letters of credit	–	93,123
Irrevocable commitments	919,661	1,326,400
Revocable commitments for undrawn loans	7,619,930	7,229,648
Total derivatives	**10,2613,654**	**57,989,416**
Receivables for sold currencies	51,379,193	29,025,839
Liabilities for purchased currencies	51,234,461	28,963,577
Other off-balance sheet items	**453,110,029**	**454,400,862**
Managed funds	1,105,283	1,178,782
Other commitments	3,183,634	2,791,184
Guarantees and sureties received	10,719,104	11,966,335
Collaterals	428,990,037	428,990,038
Other off-balance sheet items	9,111,971	9,474,523
Total off-balance sheet items	**570,064,191**	**526,274,451**

At the end of each accounting period, the Bank calculates provisions for commitments and contingent liabilities. The amount recognized as a provision is the best estimate of outflow of resources required to settle the existing liabilities as at the reporting date. Breakdown of provisions per off-balance sheet items is presented in the Note 27.

Derivative Financial Instruments

Within off-balance sheet items derivatives are presented as receivables and liabilities under FX swaps. Swaps represent contracts between two parties on exchange of payments in a period, with amounts of payments depending on the change of a relevant index, such as an interest rate or an exchange rate.

Derivatives, including currency contracts, currency swaps and other derivative financial instruments, are initially recognized at fair value within the off-balance sheet items at the date of contract execution and are subsequently remeasured at fair value.

Derivatives are initially recognized at the moment when derivative contract has been agreed with the counterparty (date of agreement). The notional amount of principal, to which derivatives are agreed, are recorded as off-balance sheet items.

Positive or negative changes in the fair value of derivatives are recorded within balance sheet assets or liabilities, and presented in the Note 16.

34. Exchange rates

The official middle exchange rates of the National Bank of Serbia, determined in the interbank foreign exchange market and used in in the translation of the statement of financial position components denominated in foreign currencies into dinars (RSD) as of December 31, 2017 and 2016 were as follows:

	2017	2016
USD	**99.1155**	**117.1353**
EUR	118.4727	123.4723
CHF	101.2847	114.8473
GBP	133.4302	143.8065
JPY	0.8791	1.0044

35. Events after the reporting period

The Bank is planning to make dividend payments to the shareholder form profit realized for 2017.

At ist session held on March 20, 2018, the Bank's Executive Board proposed to the Board of Directors to prepare a proposal at it session to be held on March 23, 2018 for the Shareholder Assembly for enactment of a decision on distiribution of 60% of the profit after taxes in the amount of RSD 730,948,977.71 to dividend payment liability toward the Bank's shareholder.

The dividend ex date is to be set at December 31, 2017.

Except for the foregoing, there have been no significant events after the reporting period that would require disclosure in the notes to the accompanying financial statements of the Bank for 2017.

Gordana Ivanković Head of Accounting and Reporting Department	Vladimir Stanisavljević Executive Board Member	Vojislav Lazarević Executive Board Chairperson

Addiko Bank