BANCA INTESA a.d. BELGRADE

Separate Financial Statements
as of and for the Year Ended
31 December 2017

and

Independent Auditor's Report

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This is an English translation of Independent Auditor's Report and 2017 Separate Financial Statements originally issued in the Serbian language

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This is an English translation of Independent Auditor's Report originally issued in the Serbian language

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF BANCA INTESA a.d. BELGRADE

Report on Separate Financial Statements

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

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing ("RS Official Gazette", no. 62/2013) 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 separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as of 31 December 2017, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF BANCA INTESA a.d. BELGRADE (Continued)

Report on Separate Financial Statements (Continued)

Other Matters

The separate financial statements of the Bank as of and for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on those financial statements on 14 February 2017.

Report on Other Legal and Regulatory Requirements

Management of the Bank is responsible for the preparation and fair presentation of the accompanying separate annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia. Pursuant to the Law on Auditing and Decision on External Bank Audit, our responsibility is to express an opinion on the consistency of the Bank's annual business report for the year ended 31 December 2017 with the audited separate financial statements for the same year. Our procedures in this regard were performed in accordance with the applicable Standard on Auditing 720 "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements", and are only limited to the assessment of the consistency of financial information disclosed in the annual business report with the audited separate financial statements.

In our opinion, financial information disclosed in the Bank's annual business report for the year ended 31 December 2017 is consistent, in all material respects, with the audited separate financial statements of the Bank for the year ended 31 December 2017.

Belgrade, 14 February 2018

Ksenija Ristic Kostic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

SEPARATE BALANCE SHEET
As of 31 December 2017

In RSD thousand	Note	31 December 2017	31 December 2016
ASSETS			
Cash and balances with central bank	16, 2.10	82,851,636	102,370,900
Financial assets at fair value through profit and loss held for trading	17, 2.7	1,555,694	1,984,720
Financial assets initially carried at fair value through profit and loss	17, 2.7	46,143	46,068
Financial assets available for sale	17, 2.7	128,626,361	120,358,790
Loans and receivables from banks and other financial organizations	18, 2.7	29,253,557	37,591,812
Loans and receivables from customers	18, 2.7	301,894,205	271,749,929
Investments in subsidiaries	17, 2.11	962,496	962,496
Intangible assets	19, 2.12	2,610,573	1,347,422
Property, plants and equipment	20, 2.13	7,871,143	7,398,719
Investment property	20, 2.13	51,251	174,147
Deferred tax assets	14, 2.20	153,397	237,494
Non-current assets held for sale and discontinued operations	20, 2.13	1,653,117	1,697,057
Other assets	21	7,330,005	5,496,218
TOTAL ASSETS		**564,859,578**	**551,415,772**
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit and loss held for trading	22, 2.7	4,847	2,594
Deposits and other liabilities due to banks, other financial organizations and central bank	23, 2.7	32,375,037	34,055,459
Deposits and other liabilities due to customers	23, 2.7	397,705,235	383,452,558
Provisions	24, 2.17	1,277,294	1,753,517
Current tax liabilities	14, 2.20	387,008	55,668
Other liabilities	25	14,103,355	7,955,164
TOTAL LIABILITIES		**445,852,776**	**427,274,960**
EQUITY			
Share capital	26, 2.18	41,759,627	41,759,627
Retained earnings	26, 2.18	28,220,984	34,484,276
Reserves	26, 2.18	49,026,191	47,896,909
TOTAL EQUITY		**119,006,802**	**124,140,812**
TOTAL LIABILITIES AND EQUITY		**564,859,578**	**551,415,772**

Belgrade, 14 February 2018

Rada Radović Head of Accounting Department	Dragica Mihajlović Chief Financial Officer	Draginja Djurić President of the Executive Board

SEPARATE INCOME STATEMENT
For the Year Ended 31 December 2017

In RSD thousand	Note	2017	2016
Interest income	3, 2.4	22,840,992	22,618,727
Interest expenses	3, 2.4	(3,592,295)	(3,704,345)
Net interest income		**19,248,697**	**18,914,382**
Fee and commission income	4, 2.5	10,595,219	9,350,652
Fee and commission expenses	4, 2.5	(4,019,393)	(3,722,472)
Net fee and commission income		**6,575,826**	**5,628,180**
Net gains on financial assets held for trading	5, 2.7	791,329	671,814
Net gains/(losses) on financial assets initially carried at fair value through profit and loss	6, 2.7	3,063	(8,642)
Net gains/(losses) on financial assets available for sale	7, 2.7	165,169	(5,626)
Net foreign exchange gains and effects of contracted foreign currency clause	8, 2.6	2,059,207	2,656,599
Other operating income	9	1,246,092	1,200,820
Net impairment loss on financial assets and provisions for credit risk-weighted off-balance sheet items	10, 2.7	(3,071,947)	(4,381,721)
TOTAL NET OPERATING INCOME		**27,017,436**	**24,675,806**
Salaries, compensations and other personal expenses	11, 2.19	(5,701,726)	(5,738,671)
Amortisation and depreciation	12, 2.12, 2.13	(987,173)	(901,852)
Other expenses	13	(7,316,779)	(7,253,887)
PROFIT BEFORE INCOME TAXES		**13,011,758**	**10,781,396**
Income taxes	14, 2.20	(1,164,064)	(857,053)
PROFIT FOR THE YEAR		**11,847,694**	**9,924,343**
Basic earnings per share (in RSD)	15	**55,581**	**46,558**

Belgrade, 14 February 2018

Rada Radović	Dragica Mihajlović	Draginja Djurić
Head of Accounting Department	Chief Financial Officer	President of the Executive Board

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2017

In RSD thousand	2017	2016
PROFIT FOR THE YEAR	**11,847,694**	**9,924,343**
Other comprehensive income		
Items that cannot be reclassified to profit and loss:		
Increase in revaluation reserves based on valuation of intangible assets and property. plant and equipment	721,294	-
Items that may be reclassified to profit and loss:		
Unrealized gains/(losses) – fair value adjustment of available-for-sale financial assets	516,182	(381,475)
Related tax	(108,194)	-
Other comprehensive income/(loss), net of tax	***1,129,282***	***(381,475)***
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**12,976,976**	**9,542,868**

Belgrade, 14 February 2018

Rada Radović Head of Accounting Department	Dragica Mihajlović Chief Financial Officer	Draginja Djurić President of the Executive Board

SEPARATE STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2017

In RSD thousand	Share capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Retained earnings	Total equity
Balance as of 1 January 2016	**21,327,058**	**20,432,569**	**47,484,121**	**794,263**	**24,559,933**	**114,597,944**
Profit for the year	-	-	-	-	9,924,343	9,924,343
Other comprehensive income:						
Unrealized losses – fair value adjustment of available-for-sale financial assets	-	-	-	(381,475)	-	(381,475)
Balance as of 31 December 2016	**21,327,058**	**20,432,569**	**47,484,121**	**412,788**	**34,484,276**	**124,140,812**
Balance as of 1 January 2017	**21,327,058**	**20,432,569**	**47,484,121**	**412,788**	**34,484,276**	**124,140,812**
Profit for the year	-	-	-	-	11,847,694	11,847,694
Dividends paid	-	-	-	-	(18,110,986)	(18,110,986)
Other comprehensive income:						
Positive effects of valuation of property, plant and equipment (Note 20)	-	-	-	721,294	-	721,294
Unrealized gains – fair value adjustment of available-for-sale financial assets	-	-	-	516,182	-	516,182
Deferred taxes recognized in equity (Note 14(c))	-	-	-	(108,194)	-	(108,194)
Balance as of 31 December 2017	**21,327,058**	**20,432,569**	**47,484,121**	**1,542,070**	**28,220,984**	**119,006,802**

Belgrade, 14 February 2018

Rada Radović	Dragica Mihajlović	Draginja Djurić
Head of Accounting Department	Chief Financial Officer	President of the Executive Board

SEPARATE STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2017

In RSD thousand	**2017**	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from operating activities	**35,518,800**	**33,829,173**
Interest receipts	21,310,170	21,280,834
Fee and commission receipts	10,692,838	9,421,434
Receipts from other operating activities	2,724,267	2,999,242
Receipts from dividends and equity investments	791,525	127,663
Cash outflows from operating activities	**(20,757,238)**	**(19,567,873)**
Interest paid	(2,849,121)	(2,286,837)
Fees and commissions paid	(4,062,104)	(3,740,329)
Payments for gross salaries, compensations and other personal expenses	(5,940,716)	(5,824,439)
Taxes, contributions and other duties paid	(260,155)	(466,318)
Outflows for other operating expenses	(7,645,142)	(7,249,950)
Net cash from operating activities before increase or decrease in placements and deposits	***14,761,562***	***14,261,300***
Decrease in placements and increase in deposits and other liabilities	**27,938,588**	**76,293,554**
Decrease in loans to and receivables from banks, other financial organizations, central bank and customers	-	21,605,866
Increase in deposits and other liabilities due to banks, other financial organizations, central bank and customers	27,938,588	54,687,688
Increase in placements and decrease in deposits and other liabilities	**(39,691,672)**	**(40,467,491)**
Increase in loans to and receivables from banks, other financial organizations, central bank and customers	(32,916,822)	-
Increase in financial assets initially carried at fair value through profit and loss, financial assets held for trading and other securities not held with investment purposes	(6,773,522)	(40,391,867)
Decrease in financial liabilities initially carried at fair value through profit and loss and financial liabilities held for trading	(1,328)	(75,624)
Net cash from operating activities before income tax	**3,008,478**	**50,087,363**
Income tax paid	(856,823)	(1,418,366)
Dividends paid	(18,110,986)	-
Net cash (used in)/from operating activities	***(15,959,331)***	***48,668,997***

SEPARATE STATEMENT OF CASH FLOWS (Continued)
For the Year Ended 31 December 2017

In RSD thousand	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	**169,817**	**10,404**
Proceeds from placements in investment securities	505	194
Proceeds from the sale of intangible assets, property, plant and equipment	4,220	10,210
Proceeds from the sale of investment property	165,092	-
Cash outflows from investing activities	**(1,500,203)**	**(1,770,073)**
Purchase of intangible assets and property, plant and equipment	(1,500,203)	(1,770,073)
Net cash used in investing activities	***(1,330,386)***	***(1,759,669)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**13,111,001**	**37,127,868**
Receipts from borrowings	13,111,001	37,127,868
Cash outflows from financing activities	**(12,325,998)**	**(40,973,986)**
Repayment of borrowings	(12,325,998)	(40,973,986)
Net cash from/(used in) financing activities	***785,003***	***(3,846,118)***
Total cash inflows	**76,738,206**	**147,260,999**
Total cash outflows	**(93,242,920)**	**(104,197,789)**
Net (decrease)/increase in cash	**(16,504,714)**	**43,063,210**
Cash and cash equivalents at beginning of the year	**67,541,229**	**23,826,789**
Foreign exchange gains	443,337	1,423,794
Foreign exchange losses	(2,120,970)	(772,564)
Cash and cash equivalents at end of the year (Note 16)	**49,358,882**	**67,541,229**

Belgrade, 14 February 2018

Rada Radović Head of Accounting Department	Dragica Mihajlović Chief Financial Officer	Draginja Djurić President of the Executive Board

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the Year Ended 31 December 2017

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

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1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Belgrade (hereinafter referred to as the "Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD Belgrade dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permission for the foundation of Delta banka DD Belgrade.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations.

Pursuant to the General Manager's Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Companies Register no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Belgrade.

During the year ended 31 December 2007, the legal status change was carried out through a merger by absorption, whereby the acquirer was Banca Intesa a.d. Belgrade, and the acquired bank was Panonska banka a.d. Novi Sad. Upon registration of the procedure of merger by absorption with the Serbian Business Registers Agency, the Bank as the acquirer and the legal successor has continued to operate under its existing business name, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and cancelled.

During 2012, upon receipt of the previous approval of the National Bank of Serbia, the Bank's Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Companies. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 85268/2012 dated 27 June 2012.

During 2015, upon receipt of the previous approval of the National Bank of Serbia, the Bank's Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Banks. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 56475/2015 dated 26 June 2015.

Furthermore, in August 2015, shareholding structure of the Bank was changed and it reflects in the fact that the minority shareholder International Finance Corporation (IFC) sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank had two shareholders, Intesa Sanpaolo Holding International S.A. and Intesa Sanpaolo S.p.A. Based on the previous change in the shareholding structure and upon the previous approval of the National Bank of Serbia, Bank's Assembly has adopted changes and amendments to the Memorandum of Association, which was registered with the Decision of the Serbian Business Registers Agency no. BD 2238/2016 dated 18 January 2016.

In December 2016, the shareholding structure of the Bank was changed once more and it reflects in the fact that the minority shareholder Intesa Sanpaolo S.p.A. sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank has one shareholder and it is Intesa Sanpaolo Holding International S.A.

Based on the previous change of the shareholders structure of the Bank and upon receipt of the consent of the National Bank of Serbia, the Shareholders' Assembly has adopted changes and amendments of the Memorandum on Association. The change was registered at the Business Registers Agency under the decision no. BD 37271/2017 dated 5 May 2017.

As of 31 December 2017, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b. The Bank network consists of associated organizational units as follows: 4 regional centers and 158 branches.

The Bank had 2,934 employees as of 31 December 2017 (31 December 2016: 3,032 employees).

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for the preparation and presentation of the separate financial statements

The separate financial statements of the Bank for the year ended 31 December 2017 (hereinafter: the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRSs).

In accordance with the Law on Accounting, banks must keep their books of accounts and prepare financial statements in accordance with translated IFRSs, while, by the Law on Banks (article 50.2), it has been designated that, when compiling Annual Financial Statements, a bank should apply the IFRSs as of date which the competed authority has designed as the date of the application of these standards.

(a) New standards, amendments and interpretations to existing standards mandatory for the first time for the financial year beginning on 1 January 2017

The application of the following and amended standards and IFRIC interpretations to existing standards mandatory for the first time for the financial year beginning on 1 January 2017, did not result in substantial changes to the Bank's accounting policies and did not have an impact on the Bank's accompanying separate financial statements:

- Amendment to IAS 7 "Statement of Cash Flows" - Disclosure Initiative. Amendment to IAS 7 clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses. Amendments to IAS 12 clarify the following aspects:
  - Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
  - The carrying amount of an asset does not limit the estimation of probable future taxable profits.
  - Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
  - An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
- Annual Improvements to IFRSs "2014-2016 Cycle" – IFRS 12. Amendment to IFRS 12 "Disclosure of Interests in Other Entities" clarifies the scope of the standard by specifying that the disclosure requirements in the standard apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

(b) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

At the time of the approval of the accompanying financial statements, the following new standards and interpretations that are applicable in the following reporting periods, as well as standards that have not been translated, have been issued:

- Amendment to IAS 40 "Investment Property" relating to transfers of investment property (effective for annual periods beginning on or after 1 January 2018).
- Amendments to various standards (IFRS 1 and IAS 28) as a result of annual improvements project standards, "2014-2016 Cycle", published by the International Accounting Standards Board in December 2016, primarily through removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transaction (effective for annual periods beginning on or after 1 January 2018).

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

(b) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (Continued)

- Amendments to IFRS 4 “Insurance Contracts” regarding the implementation of IFRS 9 Financial Instruments” (effective for annual periods beginning on or after 1 January 2018).
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018). IFRS 9 “Financial Instruments” and subsequent supplements, replaces the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”, for classification and measurement of financial assets.
- IFRS 15 “Revenue from Contracts with Customers” and subsequent amendments (effective for annual periods beginning on or after 1 January 2018). IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. It replaces the existing guidance on revenue recognition, including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations.
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019). IFRS 16 defines the recognition, measurement, presentation and disclosure of leasing. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, in accordance with guidelines on accounting of lease specified by IFRS 16 replacing the existing guidelines for IAS 17 “Leasing”.
- Annual improvements to IFRSs, "Cycle 2015-2017" - IFRS 3, IFRS 11, IAS 12 and IAS 23, published by the International Accounting Standards Board in December 2017 (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Long-term Interests in Asscociates and Joint Vntures (effective for annual periods beginning on or after 1 January 2019).
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021).

The Bank’s Management is currently in the process of assessing the potential impact of the aforementioned standards and interpretations to the Bank’s financial statements, as well as the date of their entering into force.

The Bank's management believes that the most significant impact on the financial statements in the next reporting period will have IFRS 9 "Financial Instruments", which is effective for annual periods beginning on or after 1 January 2018 (with early adoption permitted) and which the Bank will apply from 1 January 2018.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

– *IFRS 9 "Financial Instruments" (Revised versions 2009, 2010, 2013 and 2014)*

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 "Financial Instruments".

Classification – Financial assets

IFRS 9 is based on a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics.

In accordance with IFRS 9, financial asset is classified within one of the following methods of measurement: at amortized cost, fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Initially, financial asset is measured at fair value plus transaction costs directly attributable to its acquisition, except in case of financial assets at FVTPL for which such costs are expensed through profit and loss.

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

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

A debt instrument is measured at FVOCI only if it meets both of the following criteria and is not designated as at FVTPL:

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

On initial recognition of an equity instrument that is not held for trading, entity may irrevocably elect to present subsequent changes in fair value in OCI.

Subsequently, gain or loss on FVOCI shall be recognized in other comprehensive income, except for gains or losses on impaired financial assets and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.

When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognized in profit or loss.

All other financial assets are classified as measured at FVTPL.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

– ***IFRS 9 "Financial Instruments" (Continued))***

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

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

Impairment – Financial assets and contract assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a *"forward-looking"* expected credit loss (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments and to contract assets.

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

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition, and in the opposite case 12-month ECL measurement applies. The Bank may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Bank may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

Status of implementation of IFRS 9 in the Bank

The Bank initiated project of implementation of IFRS 9 in June 2016 that is closely monitored by the management of the Bank and the Parent Bank. During the project, the Bank analyzed the impact of IFRS 9 on various processes, including accounting treatment of financial instruments, risk assessment, information system, lending and product development. The project is dividend in two streams, classification and measurement stream and impairment stream. The project is in the final implementation phase.

Classification and measurement

In order to determine classification and measurement, IFRS 9 requires that all financial assets, except derivatives and equity instruments, should be analyzed through combination of business model of financial asset's management on one side, and characteristics of contractual cash flows on the other side.

The Bank approached analysis of business model at the level of portfolio of financial assets. Current policies and strategies relating to portfolio and their application in practice have been analyzed. Also, analysis has been performed over information on assessment and reporting on portfolio performances, information on risks that affect performances of portfolios as well as how they are managed. Besides, frequency, volume and timing of sales of financial assets in prior periods, reasons for sale, as well as expectations on future sales were analyzed.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

– ***IFRS 9 "Financial Instruments" (Continued))***

Classification and measurement (Continued)

When assessing whether contractual cash flows present solely payments of principal and interest, the Bank analyzed contractual terms of financial instruments as well as if they contain clauses that could modify timing or the amount of contractual cash flows that could result in fair measurement of instruments. The analyses concluded that that the Bank does not grant loan products with agreed terms that result in cash flows, which do not present solely payments of principal and interest on outstanding principal at specified dates, which would require fair value measurement.

Based on performed analysis, the Bank does not expect that new classification requirements will have material impact on accounting measurement of receivables, loans, debt securities or equity investments.

The Bank has not designated any financial liabilities at FVTPL and has no current intention to do so. Performed analysis does not show any material effects of IFRS 9 requirements in respect of classification of financial liabilities.

Impairment

The Bank has defined the criteria for classifying financial instruments into corresponding impairment stages (Stage 1, 2 and 3), depending on the level of increase in credit risk since initial recognition. The criteria have been determined in accordance with the requirements of IFRS 9, taking also into account the guidelines of the Parent Bank. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments valued at fair value through other comprehensive income (FVOCI). While Stage 3 corresponds to the existing NPL exposures, Stage 1 and Stage 2 represent "subclasses" within the *Performing*, where Stage 2 relates to Performing exposures with a significant increase in credit risk (compared to the moment of initial recognition). The criteria defined by the Bank for detecting a significant increase in credit risk are: 1.) days past due over 30 days, 2.) forborne status, 3.) PM (*Proactive Management*) status and 4.) significant increase in PD (*Probability of Default*).

Since different impairment stages result in different ways of calculating the expected credit losses (the 12-month expected credit losses are calculated for Stage 1 exposures, while the *"lifetime"* expected credit losses are calculated for exposures belonging to Stage 2 and Stage 3), the Bank has developed an internal methodology and calculated the risk parameters (EAD, PD, LGD) in accordance with the IFRS 9. The discount rate used in the calculation is the effective interest rate of the individual contract.

In the context of calculating the lifetime expected credit losses, the Bank has developed a methodology for determining EAD (Exposure at Default) for all periods until the final maturity of a financial instrument. For amortizing products for which repayment plans are available, the future EAD is determined on the basis of repayment plans. For other products, EAD on the reporting date is used, with the credit conversion factors applied. Credit conversion factors, depending on the type of products and segments, can be regulatory or internally calculated on the basis of historical data on usage of available limits.

As the basis for calculating the *"lifetime"* PD parameter, the existing (Basel II) PD models have been used. The models have been adjusted in accordance with the requirements of IFRS 9: 1.) transition from TTC (Through the cycle) to PIT (Point in time) concept, 2.) introduction of coefficients (as PD corrections) that reflect the macroeconomic impact on the parameter for future periods, using three scenarios (baseline, best, adverse), 3.) *"lifetime"* projection (Markovian approach is used). For segments not covered by PD models, the historical default rates have been used as approximation, with additional (above mentioned) adjustments in accordance with the standard.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

– ***IFRS 9 "Financial Instruments" (Continued))***

Impairment (Continued)

For clients/exposures subject to collective assessment, the LGD (*Loss Given Default)* parameter is calculated on the basis of average historical loss rates for defined segments, whereby, as required by IFRS 9, obtained values are additionally corrected by coefficients representing a measure of the estimated macroeconomic impact on LGD for future periods. For the purpose of macroeconomic adjustment of the LGD parameter, three scenarios are used (baseline, best, adverse). The discounting of the obtained LGD is carried out by using the effective interest rate of an individual contract. For clients/exposures subject to individual assessment, a different scenarios (weighted by probability) for the estimated future cash flows has been introduced in the calculation of expected losses, with additional correction taking into account the estimated macroeconomic impact (add-on application).

For exposures belonging to the *"Low Default Portfolio"* segment (states, municipalities and banks), the risk parameters obtained from the internal models of the Parent Bank are used, since the Bank does not have sufficient historical data to internally estimate parameters for these segments.

For the purposes of classification and calculation of expected credit losses, the Bank uses the Finevare software solution. Implementation of the solution is in the final stage.

Based on the analysis carried out by the date of preparation of these financial statements, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Bank's retained earnings from previous years aa of 1 January 2018 is approximately RSD 4,765,549 thousand, representing a reduction related to the increase in impairment of financial assets.

The first-time adoption of IFRS 9 as of 1 January 2018 could not cause the decrease in capital adequacy ratio due to the fact that the retained earnings from previous years, which are not an integral part of the regulatory capital, will be adjusted by the effects of the first application. The capital adequacy ratio could slightly increase due to decrease in the risk weighted assets, and slight increase in the regulatory capital caused by a reduction in the amount of required reserves for estimated losses on balance sheet assets and off-balance sheet items.

The above estimate is preliminary, since the activities of completing the implementation of the standard in the Bank are still in progress. The final effect of IFRS 9 application on 1 January 2018 may differ from the estimated one due to the following reasons:

- IFRS 9 requires the Bank to modify processes, internal acts and internal controls,
- The new solution for the calculation of expected losses requires the expected stabilization period; and
- New accounting policies, assumptions and estimates may be subject to changes until the finalization of the first following financial statements, including the date of first application.

First time adoption of IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, with the following exception. The Bank intends to apply the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement, as well as impairment. The differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in equity as at 1 January 2018.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Bank is performing analysis to identify data gaps against current processes. Implementation of changes in systems and controls have been initiated, necessary to capture the required data.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

The accompanying financial statements are separate financial statements, since they include receivables, liabilities, operating results, changes in equity cash flows of the Bank, excluding its subsidiary – Intesa Leasing d.o.o. Belgrade, which is fully (100%) owned by the Bank. The Bank recognizes its investment in this subsidiary at cost. Total asset of subsidiary is 2.35 % of the total Bank`s assets as at 31 December 2017.

In accordance with the provisions of IFRS 10 "Consolidated financial statements", the Bank is exempted from preparation of consolidated financial statements in accordance with IFRS.

The ultimate parent company, Intesa Sanpaolo S.p.A., regularly prepares and disclosed consolidated financial statements in accordance with IFRS adopted by EU. These financial statements are published on the official website of Intesa Sanpaolo Group: www.group.intesasanpaolo.com.

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

The accompanying financial statements have been prepared under the going concern principle, which implies that the Bank will continue its operations in the foreseeable future.

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2.

2.2. Comparative data

Accounting policies and estimates applied in the preparation of these financial statements are consistent with those applied in the preparation of the annual financial statements of the Bank for the year31 December 2016, except for the changes in measurement of the functional property the Bank utilizes for its own needs and investment property.

The Rulebook on Accounting and Accounting Policies has been changed in the part relating to the criteria for the measurement of the functional property the Bank utilizes for its own needs, thus from 31 December 2017, for the measurement of the functional property, being the subject of IAS 16 "Property, plant and equipment", the Bank applies the revaluation model instead of the cost model (Note 20).

Similarly, the investment property being the subject of IAS 40 is also accounted at fair value.

2.3. Significant accounting estimates and judgments

Use of estimates

The preparation and presentation of the financial statements requires the Bank's management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of preparation of the financial statements, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as of the date of the preparation of the financial statements. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the income statement in the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Significant accounting estimates and judgments (Continued)

Impairment of financial assets

The Bank assesses, at the end of each reporting period, 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 impaired, and impairment losses are incurred, if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Concerning the loss assessment due to loan impairment, The Bank reviews its loan portfolio at least on a quarterly basis, in order to assess impairment.

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any reliable evidence indicating that there is a measurable decrease in estimated future cash flows from a loan portfolio before the decrease can be identified with an individual loan in that portfolio.

The evidences could include available data indicating adverse changes in respect of the client's ability to timely settle its liabilities toward the Bank.

The Bank's management performs estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those that existed in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between estimated and actual losses.

Useful lives of intangible assets, property, plant and equipment

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

Due to the significant share of intangible assets and property, plant and equipment in the total assets of the Bank, the impact of each change in these assumptions could materially affect the Bank's financial position, as well as the results of its operations.

Impairment of non-financial assets

At each reporting date the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires from management to make judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Provisions for litigations

The Bank is subject to a number of legal proceedings arising from its daily operations which relate to commercial, contractual and labor disputes, which are resolved and considered in the course of regular business activity. The Bank regularly estimates the probability of negative outcomes to these matters, as well as the amounts of probable or reasonable estimated losses.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Significant accounting estimates and judgments (Continued)

Provisions for litigations (Continued)

Reasonable estimates include judgments made by management, after considering information including notifications, settlements, estimates performed by the legal department, available facts, identification of other potentially responsible parties and their ability to contribute as well as prior experience.

A provision for litigation is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (Note 24). The required provision may change in the future, due to new developments and as additional information becomes available.

Matters that are either possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

Deferred tax assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax credits can be utilized. The Bank's management necessarily performs significant estimate in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence, the amount of future taxable profit and strategy of tax planning strategy (Note 14(c)).

Retirement and other post-employment benefits

The costs of defined employee benefits payable upon termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information are disclosed in Note 24.

2.4. Interest income and expenses

Interest income and expenses, including penalty interest and other income and other expenses from interest-bearing assets, as well interest bearing liabilities are recognized on an accrual basis, based on obligatory terms defined by a contract between the Bank and its customers.

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

The loan origination fee, which is a part of the effective interest rate, is recorded within "Interest income". Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and discounted over the life of the loan.

After objective evidence of impairment have been identified and impairment recognized, interest income on these receivables is calculated on the net basis and by applying effective interest rate, which has been used to discount future cash flows for determining impairment losses.

In order to determine full amount of interest receivables, the Bank continues to calculate interest, however calculated interest is not recognized as an interest income, but it is recorded as an off-balance sheet item. Suspended interest is calculated and recorded as an off-balance sheet item until the final settlement of bad debt.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Fee and commission income and expenses

Fees and commissions originating from banking services are generally recognized on an accrual basis when the service has been provided. Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other banking services.

2.6. Foreign currency translation

The items included in the Bank's financial statements are measured by using currency of the Bank's primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date (Note 32).

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies and transactions in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses within Foreign exchange gains/losses and effects of contracted foreign currency clause (Note 8).

Gains and losses arising on translation of financial assets and liabilities indexed with the contracted foreign currency clause are credited or charged as appropriate, to the income statement, and presented within Foreign exchange gains/losses and effects of contracted foreign currency clause (Note 8).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official median exchange rate prevailing at the balance sheet date.

2.7. Financial instruments

All financial instruments are initially recognized at fair value including any directly attributable incremental costs of acquisition or issue, except for financial assets and financial liabilities at fair value through profit and loss.

Financial assets and financial liabilities are recorded in the balance sheet of the Bank on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular purchases and sales of financial assets are recognized on the settlement date, which is the date the asset is delivered to the counterparty.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- either the Bank has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

Derecognition of financial assets and financial liabilities (Continued)

Financial assets (Continued)

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

2.7.1. Financial assets at fair value through profit or loss

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

Financial assets are classified as held for trading if acquired or incurred principally for the purpose of selling or repurchasing in the near term and generating profit from short-term price fluctuations. These assets are stated at fair value in the balance sheet.

Financial instruments held for trading comprise HFT debt securities and HFT financial derivatives.

All realized or unrealized gains and losses from changes in fair value of trading financial assets are recognized in the income statement.

During 2007, the Bank introduced several types of financial instruments which met the definition of financial derivatives according to IAS 39 "Financial Instruments: Recognition and Measurement" and for which basic underlying variable is the foreign exchange rate. Derivatives used by the Bank are FX swap and FX forward contracts. For accounting purposes and in accordance with the requirements of IAS 39, derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value, while all fair value changes are recorded in the income statement within unrealized foreign exchange gains or losses.

Derivatives are initially recognized when the Bank becomes a party to an agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in the off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as an asset or a liability. The initial recognition of fair value applies to cases when the market price for the same or a similar derivative on an organized market is available, and when the price differs from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognized fair value, since there is no active market for similar derivatives in the country.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.1. Financial assets at fair value through profit or loss (Continued)

When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognize in the balance sheet (as assets or liabilities) and the income statement (initially positive or negative fair value) the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques.

In accordance with the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognized at the end of each month, and the effect of changes in fair value are recognized in the income statement as the increase or decrease of fair value. Derivatives are recognized as assets or liabilities depending on whether their fair value is positive or negative. Derivatives are derecognized at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at termination date. At that moment, the ultimate effect of foreign exchange differences is recorded against realized foreign exchange differences, and all previously recognized changes in fair value (monthly recorded through unrealized foreign exchange gains/losses) are reversed.

Since there is neither an active market for derivatives in Serbia, nor a possibility for determining fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries that have developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value of derivatives which would be achieved on an active market.

The methodology incorporates market factors (median exchange rate, interest rates and similar) to the best possible extent and is consistent with generally accepted methodologies for valuation of derivatives. At least once per month, the Bank performs back-testing and calibration of the implemented methodology for calculation of fair value by using market variables and alternative calculation methods.

2.7.2. Loans and receivables

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

All loans and receivables from banks and customers approved by the Bank are recognized in the balance sheet when cash is advanced to debtors. Loans and receivables are initially recognized at fair value. After the initial recognition, loans are measured at amortized cost using the effective interest rate method, less allowance for loan impairment and any amounts written off.

Interest income and receivables in respect of these instruments are recorded and presented under interest income and interest, fees and commissions receivable, respectively, which are all comprised within the Balance Sheet position – Loans and receivables from banks and other financial organizations/customers. The fees which are part of effective yield on these instruments are recognized as deferred income and also comprised within the Balance Sheet position – Loans and receivables from banks and other financial organizations/customers and credited to the income statement as interest income over the life of a financial instrument using the straight-line method, which approximates the effective yield.

The Bank negotiates a foreign currency clause with the beneficiaries of the loans. Loans and receivables in dinars, with contracted foreign currency clause, i.e. dinar-eur, dinar-usd and dinar-chf foreign exchange rate, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated from foreign currency clause applied is disclosed within Loans and receivables from banks and other financial organizations/customers. Gains and losses resulting from the application of foreign currency clause are recorded in the income statement, within Foreign exchange gains/losses and effects of contracted foreign currency clause

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.2. Loans and receivables (Continued)

Impairment of financial assets and provisions for risks

In accordance with its internal policy, the Bank assesses at each reporting date 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 that have occurred 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.

The evidence of impairment may include indications that the borrower 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 or economic conditions that correlate with defaults.

For loans and placements with banks and customers, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank identifies that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it is included in a group of financial assets with similar credit risk characteristics that are collectively assessed 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 estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account, while impairment losses on loans and receivables and other financial assets carried at amortized cost are charged to the income statement as impairment losses on financial assets and provision for credit risk-weighted off-balance sheet items (Note 10). Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collaterals have been realized or have been transferred to 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 was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement as income from reversal of impairment of financial assets and release of provision for credit risk-weighted off-balance items (Note 10).

The present value of the estimated future cash flows is discounted using the financial asset's original effective interest rate. 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 foreclosure less costs for obtaining and selling that collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that takes into account credit risk characteristics. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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 balance sheet date. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Direct 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. impairment is recognized and documented. Write off is made based on the court decisions, or based on decisions made by the Bank's authorities.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.2. Loans and receivables (Continued)

Uncollectable receivables write-off

Receivables write-off / transferring to off-balance sheet is performed in accordance with the Procedure on Write-off of Uncollectable Receivables. The procedure relates to the write-off / transferring to off-balance sheet of receivables that meet the following requirements: delay in payment of receivable is more than 360 days; the Bank has failed to collect receivables despite the implementation of all activities of collection specified by its policies and procedures; judicial or extrajudicial procedures of settlement of receivables have been initiated; receivables are fully impaired.

Exceptionally, receivables that do not fulfil the above mentioned requirements may be written-off / transferred to off-balance sheet if such decision is made by the competent authority, PAC (Problem Asset Committee), in accordance with the authorizations delegated by the Board of Directors.

2.7.3. Renegotiated loans

If the Bank estimates that the clients delay in payment is temporary and that, under adjusted agreed conditions, the client could fulfil obligations toward Bank regularly, the Bank seeks to restructure loans rather than to activate collaterals. This may involve extending repayment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur.

2.7.4. Financial assets held-to-maturity

Financial assets held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity.

After the initial recognition, financial assets held-to-maturity is 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 financial assets 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 interest rate.

As of 31 December, the Bank has no financial instruments classified within this category and did not invest in these financial assets during 2017.

2.7.5. 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".

They comprise shares and investments in shares of other banks and companies, as well as treasury bills, government bonds of the Republic of Serbia and Italian government bonds.

Upon initial recognition, financial assets available for sale are measured at fair value. Investments in shares that are not quoted, and whose value cannot be determined with certainty, are measured at cost less any allowance for impairment. The fair values of quoted financial assets in active markets are based on current bid prices. If secondary market for the quoted financial assets is non-existent or highly illiquid and if those positions are material, the Bank will apply certain haircuts on quoted prices for the reduction for illiquid/non-existent market if the need for their sale arises.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial Instruments (Continued)

2.7.5. Financial assets available-for-sale (Continued)

Unrealized gains and losses arising from financial assets available for sale are recognized directly in fair value reserves within equity, until the financial asset is sold, collected or otherwise realized, or until the financial asset is impaired. In the case of disposal or impairment of financial asset, accumulated gains or losses, previously recognized in equity, are recognized in gains or losses from sales of financial assets in the income statement. For all estimated risks that investments in shares and other financial assets available for sale will not be collected, the Bank recognizes allowances for impairment.

Interest income on treasury bills and government bonds of the Republic of Serbia and Republic of Italy is calculated and recognized monthly in the income statement.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities is recognized as income when the shareholder's right to receive payment is established.

In case of financial assets available for sale, the Bank assesses on an individual basis whether there is objective evidence of impairment, based on the same criteria applied to financial assets carried at amortized cost (loans and receivables). Also, impairment already recognized represents cumulative loss valued as the difference between amortized cost and current fair value, less any impairment loss previously recognized in the income statement. The Bank records impairment changes on available-for-sale equity investments when there has been a significant of prolonged decline in fair value below cost. When there is evidence of impairment, the cumulative loss, measured as the difference between cost and current fair value, decreased for any impairment of investment previously recognized in the income statement, is transferred from equity and recognized in the income statement, while the increase in fair value, after recognition of impairment, is recognized in equity.

2.7.6 Deposits from banks and customers

All deposits from banks and customers, as well as other interest-bearing financial liabilities are initially recognized at fair value decreased by transaction costs, except for 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 method.

2.7.7. 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 unconditional right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.7.8. Operating liabilities

Trade payables and other short-term operating liabilities are stated at nominal value.

2.8. Offsetting financial instruments

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

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Reserves for estimated losses on bank balance sheet assets and off-balance sheet items

Special reserves for estimated losses on balance sheet assets and off-balance sheet items are 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", no. 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).

Total receivables from a single borrower (balance sheet and off-balance sheet exposure) are classified in categories from A to D, in accordance with the assessment of their recoverability. Collectability of receivables from a single borrower is assessed based on the borrower's payment record and his financial position, number of days past for principal and interest repayment, as well as based on the quality of collaterals pledged.

In addition, to monitor asset quality, the Bank classifies its balance sheet assets and off-balance sheet items either in the group of non-performing exposures or in the group of performing exposures, whereby each of these groups also includes a sub-group of forborne exposures.

Based on the classification of receivables and pursuant to the aforementioned Decision of the National Bank of Serbia, the amount of the special reserves against potential losses is calculated by applying the following percentages: A (0%), B (2%), V (15%), G (30%) and D (100%).

Through its internal act, the Bank has defined the criteria and methodology for determining classification of receivables and calculation of special reserves for estimated losses in accordance with the criteria defined in the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items. The basic criteria for classification of receivables include the borrower's defaults in settlement of liabilities, financial position and business performance, adequacy of cash flows and collaterals.

The calculated special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.7.2. and charged to the income statement (Note 10).

The amount of special reserves for estimated losses, after being reduced by allowances for impairment of balance sheet assets and provisions for losses on off-balance sheet items, represents a deductible item from the Bank's capital when calculating the Bank's regulatory capital.

2.10. Cash and balances with central bank

Cash and balances with central bank are comprised of cash in RSD and in foreign currency, i.e. is cash at gyro and current accounts, cash on hand and other cash in RSD and foreign currency, gold and other precious metals, deposited liquid surpluses and obligatory reserves in foreign currency held at accounts with the National Bank of Serbia.

2.11. Consolidated financial statements

Basic principles for the preparation and presentation of the consolidated financial statements, if one entity controls one or more other entities, are determined by IFRS 10 "Consolidated Financial Statements".

IFRS 10 requires from an entity (the parent) which controls one or more entities (subsidiaries) to present consolidated financial statements, define control principles and determine control as the basis for consolidation.

As of 31 December 2017, the Bank owns 100% of capital of Intesa Leasing d.o.o. Belgrade, and therefore, has the full control over it. The equity investment in the aforementioned subsidiary is stated at cost, less any allowance for impairment (Note 17(c)).

Except for Intesa Leasing, d.o.o. Belgrade, the Bank has no control over any other entity.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11. Consolidated financial statements (Continued)

Considering that the ultimate parent entity, Intesa Sanpaolo S.p.A., prepares the consolidated financial statements in accordance with IFRS adopted by EU, as well as with other requirements of IFRS 10.4. and publishes them on the website of Intesa Sanpaolo Group: www.group.intesasanpaolo.com, the Bank does not prepare the consolidated financial statements.

2.11.1 Investments in associates

In accordance with IAS 28 "Investments in Associates and Joint Ventures", investments in associates are neither investments in an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Investments in associates are stated using the equity method and classified as financial assets available for sale.

Investments in associates and joint ventures are classified as financial assets available for sale and are recognized at cost less any allowance for impairment.

The Bank has no investments in associates or joint ventures.

2.12. Intangible assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are carried at cost less any accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Acquired computer software licenses are capitalized on the basis of the costs incurred in acquiring and brining the specific software into use. These costs are amortized over their estimated useful lives (from 2 to 5 years).

Costs associated with software maintenance are recognized as an expense when incurred.

Costs that are directly associated with identifiable and unique software controlled by the Bank, and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the salaries of the team that developed the software, as well as appropriate portion of related overheads.

Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives, in all accounting periods, as follows:

- Licenses and similar rights	10% - 20%
- Software	20% - 50%

Intangible assets include unamortized software in progress, since it is still not in use.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Property, plant, equipment and investment property and non-current assets held for sale

2.13.1. Property, plant and equipment and investment property

(a) Property, plant and equipment

Fixed assets (property, plant and equipment) are tangible assets:

- that are held by the Bank for the own use in providing services within its registered business or for administrative purposes; and
- for which it is expected that they will used over one year.

Property, plant and equipment are recognized as an asset:

- when it is probable that future economic benefits on the basis of such asset will inflow to the Bank, and
- when the cost of such asset can be reliably measured.

Once recognized as an asset, the property, plant and equipment are stated at cost.

Cost includes expenditure that is directly attributable to the acquisition of an 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. All other repairs and maintenance are charged to the income statement of the financial period in which they are incurred.

Property, plant and equipment are subsequently measured at fair value using the revaluation model or at cost.

As of 31 December 2017 the revaluation model (fair value) was used for the subsequent measurement of real estate, while other tangible assets were subsequently measured at cost.

Revaluation is performed regularly, in a frequency sufficient for providing that the carrying amount does not differ significantly from the amount that would be obtained by applying the fair values model at the end of the reporting period. It is not necessary to engage a professionally qualified appraiser for the purposes of land and real estate appraisal.

(b) Investment property

As of 31 December 2017 the Bank owns property as investments for generating rental income and/or increase in the market value of the property.

In accordance with IAS 40, investment property is recognized as an asset if and only if:

- it is probable that the entity will in the future realize the economic benefits from investment property, and
- when the cost such asset can be reliably measured.

Investment property is initially measured at cost. Transaction costs are included in the initial measurement. Upon initial recognition, the investment property is measured at fair value. The gain or loss arising from the change in the fair value of an investment property is recognized in the income statement of the period in which it is incurred.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Property, plant, equipment and investment property and non-current assets held for sale (Continued)

2.13.1. Property, plant and equipment and investment property (Continued)

Depreciation

As of 31 December 2017 depreciation was calculated using the straight-line method applied to the cost of property, plant and equipment, using the following prescribed annual rates in order to write them off over their useful lives, in all accounting periods:

Buildings	2.5%
Computer equipment	20%
Furniture and other equipment	7% - 25%

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount, which are not decreased by residual value, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation of property and equipment commences at the beginning of the month following the month when an asset is put into use. Depreciation charge is recognized as expense for the period when incurred.

The useful lives of assets are reviewed periodically, and adjusted if necessary at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains or losses from the disposal of property, plant and equipment are credited or debited in the income statement, included in Other operating income or Other expenses, respectively.

The calculation of depreciation for tax purposes is determined in accordance with the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes, which gives rise to deferred taxes (Note 14(c)).

2.13.2. Non-current assets held for sale

In accordance with IFRS 5 “Non-current assets held for sale and discontinued operations”, the Bank classifies a fixed asset as a non-current asset held for sale if its carrying amount will be recovered primarily through a sales transaction, rather than through further use. An asset classified as held for sale must be available for immediate sale in its present condition and its sale must be probable.

In order to make sale probable management of the Bank must be committed to a plan to sell the asset and an active program to locate a buyer and completion of the plan must have been initiated, and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected, to qualify for recognition, as a completed sale within one year from the date of classification. Events or circumstances out of the Bank’s control may prolong sale completion period to more than one year.

A non-current asset classified as held for sale is measured at the lower of: the:

- carrying amount; or
- fair value less costs to sell.

Once a non-current asset is recognized as a held-for sale it is no longer depreciated (Note 20).

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14. Impairment of non-financial assets

In accordance with the adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property, plant and equipment and investment property.

If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing the difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

2.15. Finance leases

Bank as a lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the cost and included in property, plant and equipment with the corresponding liability to the lessor included in other liabilities.

Lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as interest expense.

The lease Agreement specifies that the Bank can, but does not have to, obtain ownership of the leased asset after the expiration of the Lease Agreement.

2.16. Operating leases

A lease is classified as an operating lease if it does not transfer to the Bank substantially all the risks and rewards incidental to ownership.

The total payments made under operating leases are recognized as expenses within the income statement, when incurred, using a straight-line basis over the period of the lease.

2.17. Provisions and contingencies

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognized in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements (Note 30), unless the possibility of outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Equity

Equity consists of share capital (ordinary shares), other capital, share premium, reserves from profit and retained earnings.

Dividends on ordinary shares are recognized as a liability in the period in which the decision on their payment has been made. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the reporting period.

2.19. Employee benefits

(a) Employee taxes and contributions for social security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank is obliged to pay taxes and contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee and by the employer, in an amount calculated by applying specific rates prescribed by law. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

(b) Termination benefits arising from restructuring

Termination benefits are payable when employment is terminated or employee is voluntarily retired, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal; or provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Other employee benefits - retirement benefits

In accordance with the Labor Law and Article 28 of the General Collective Agreement, the Bank is obligated to pay retirement benefits in the amount equal to 3 average salaries realized in the Republic of Serbia, according to the latest data published by the state authority responsible for statistics. 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 accumulated over the period of employment.

Provision for retirement benefits and unused days of vacation are calculated by an independent actuary and are recognized in the balance sheet at the present value of discounted estimated future outflows (Note 24(c)).

2.20. Taxes and contributions

(a) Income tax

Current income tax

Current income tax represents the amount that is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, based on the prior year's Tax return. Final tax base used for calculating income tax at the prescribed rate of 15% is disclosed in the Tax return.

In order to determine the amount of taxable income, accounting profit is adjusted for certain permanent differences, as defined by the tax regulations through Tax balance, which is to be submitted within 180 days after the end of the period for which the tax liability is determined, except in the case of status changes, liquidation or bankruptcy of the taxpayer, when it is submitted within 15 days after the end of the period prescribed for summiting the financial statements.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. Taxes and contributions (Continued)

(a) Income Tax (Continued)

Deferred income tax

Deferred income tax is recognized using the balance sheet method on temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the balance sheet date is used to determine the deferred income tax amount.

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 be reversed 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 profits 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 be reversed 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 balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the official tax rates and regulations that have been enacted or substantively enacted as of the balance sheet date.

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

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

(b) Taxes and contributions not related to operating result

Taxes and contributions not related to operating result include property tax, value added tax, contributions on salaries charged to employer, as well as other taxes and contributions that are paid in accordance with the tax regulations of the Republic of Serbia and local tax regulations. These taxes and contributions are included within other expenses (Note 13).

2.21. Funds managed on behalf of third parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 27). The Bank bears no risk in respect of repayment of these placements.

3. INTEREST INCOME AND INTEREST EXPENSES

(a) Interest income and expenses by sector structure are presented as follows:

In RSD thousand

	2017	2016
Interest income		
– Central bank and other banks	1,020,905	746,175
– Holding companies	-	1
– Corporate customers	5,551,206	6,782,729
– Retail customers	10,551,961	9,280,274
– Public sector	5,080,661	4,806,736
– Foreign banks and financial organizations	59,521	42,037
– Foreign entities	226,999	338,995
– Other customers	349,739	621,780
Total	**22,840,992**	**22,618,727**
Interest expenses		
– Central bank and other banks	(101,785)	(100,588)
– Corporate customers	(1,074,774)	(1,055,208)
– Retail customers	(517,049)	(1,076,726)
– Public sector	(1,448,337)	(991,010)
– Foreign banks and financial organizations	(235,173)	(297,791)
– Foreign entities	(95,453)	(115,453)
– Other customers	(119,724)	(67,569)
Total	**(3,592,295)**	**(3,704,345)**
Net interest income	**19,248,697**	**18,914,382**

Total interest income on impaired loans for the year ended 31 December 2017 amounts to RSD 525,912 thousand (2016: RSD 898,179 thousand).

(b) Interest income and expenses by type of financial instruments are presented as follows:

In RSD thousand

	2017	2016
Interest income		
Loans	16,875,128	17,244,402
REPO transactions	427,252	163,977
Obligatory reserves	460,316	415,008
Deposits	117,629	114,164
Securities	4,785,232	4,474,548
Other placements	175,435	206,628
Total	**22,840,992**	**22,618,727**
Interest expenses		
Loans	(260,727)	(452,099)
Deposits	(2,180,380)	(2,529,828)
Securities	(1,141,673)	(719,648)
Other interest expenses	(9,515)	(2,770)
Total	**(3,592,295)**	**(3,704,345)**
Net interest income	**19,248,697**	**18,914,382**

4. FEE AND COMMISSION INCOME AND EXPENSES

In RSD thousand

	2017	2016
Fee and commission income		
Fee for banking services:		
– Domestic payment transaction services	2,855,540	2,423,179
– International payment transaction services	794,669	717,349
– Loan operations	159,089	147,536
– Cards operations	3,929,626	3,350,515
	7,738,924	**6,638,579**
Commissions related to issued guaranties and letter of credits	671,136	620,316
Current accounts maintenance	1,654,431	1,503,394
Fees slips, EDB and Telekom	248,312	293,558
Other fee and commission	282,416	294,805
Total	**10,595,219**	**9,350,652**
Fee and commission expenses		
Payment services fee:		
– Domestic	(175,354)	(200,687)
– International	(156,938)	(139,009)
National Bank of Serbia's fee and commission	(59,995)	(67,356)
Credit Bureau's fees	(141,374)	(122,400)
Cards operations fee	(3,249,667)	(2,887,954)
Other fees and commissions	(236,065)	(305,066)
Total	**(4,019,393)**	**(3,722,472)**
Net fee and commission income	**6,575,826**	**5,628,180**

5. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

In RSD thousand

	2017	2016
Gains from changes in value of:		
- currency swap	800,177	690,902
- forward	2,123	2,401
- debt securities	4,379	13,022
Total	**806,679**	**706,325**
Losses from changes in value of:		
- currency swap	(4,847)	(1,266)
- forward	-	(1,328)
- debt securities	(10,503)	(31,917)
Total e	**(15,350)**	**(34,511)**
Net gains	**791,329**	**671,814**

6. NET GAINS/(LOSSES) ON FINANCIAL ASSETS INITIALLY CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

In RSD thousand

	2017	2016
Gains from changes in value of financial assets initially carried at fair value through profit and loss		
- gold and silver	5,973	19,470
- equity securities	5,727	-
Total	**11,700**	**19,470**
Loses from changes in value of financial assets initially carried at fair value through profit and loss		
- gold and silver	(8,637)	(12,184)
- equity securities	-	(15,928)
Total	**(8,637)**	**(28,112)**
Net gains/(losses)	**3,063**	**(8,642)**

7. NET GAINS/(LOSSES) ON FINANCIAL ASSETS AVAILABLE FOR SALE

In RSD thousand

	2017	2016
Gains on sale of:		
- debt securities	175,711	3,811
Total	**175,711**	**3,811**
Losses on sale of:		
- debt securities	(10,542)	(9,437)
Total	**(10,542)**	**(9,437)**
Net gains/(losses)	**165,169**	**(5,626)**

8. NET FOREIGN EXCHANGE GAINS AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

In RSD thousand

	2017	2016
Foreign exchange gains	40,570,531	21,659,409
Positive effects of contracted foreign currency clause application	3,188,459	7,913,089
Total	**43,758,990**	**29,572,498**
Foreign exchange losses	(29,635,623)	(22,087,301)
Negative effects of contracted foreign currency clause application	(12,064,160)	(4,828,598)
Total	**(41,699,783)**	**(26,915,899)**
Net gains	**2,059,207**	**2,656,599**

9. OTHER OPERATING INCOME

In RSD thousand

	2017	2016
Release of unused provisions of liabilities	168,121	20,459
Property rental income	68,578	54,895
Gains on sales of fixed assets and surpluses	50,193	6,909
Reimbursed expenses	18,261	14,863
Income from dividends and equity interests	142,138	791,550
Income from decrease of liabilities	7,459	-
Other income	791,342	312,144
Total	**1,246,092**	**1,200,820**

10. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS AND PROVISIONS FOR CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS

(a) Overview by classes

In RSD thousand

	2017	2016
Reversal of impairment losses and release of provisions		
Reversal of indirect write-offs of placements	2,771,663	4,137,628
Reversal of provisions for off-balance sheet items	374,947	426,289
Recovered written-off receivables	163,027	173,543
Total	**3,309,637**	**4,737,460**
Impairment losses and provisions		
Indirect write-off of placements	(5,988,103)	(8,852,110)
Indirect write-off of equity investments	(1,687)	(996)
Provisions for risky off-balance sheet items	(244,622)	(208,398)
Written-off uncollectible receivables	(147,172)	(57,677)
Total	**(6,381,584)**	**(9,119,181)**
Net impairment loss	**(3,071,947)**	**(4,381,721)**

10. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS AND PROVISIONS FOR CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS (Continued)

(b) Movements in the allowance for impairment of financial assets and provisions for credit risk-weighted off-balance sheet items

Movements in the allowance for impairment of balance-sheet items and provisions during the years ended 31 December 2017 and 2016 were as follows:

Movements in the allowance for impairment and provisions in 2017	In RSD thousand
Opening balance - 1 January 2017	**24,450,928**
Charge for the year	6,232,724
Reversal of impairment losses and release of provisions during the year	(3,142,716)
Increase in provisions due to exchange rate changes	94,624
Reversal of provisions due to exchange rate changes	(602,314)
Transfer to off-balance sheet items	(4,683,846)
Transfer from off-balance sheet items	38,036
Sale (transfer) of receivables	(5,784,505)
Reversal of provisions due to passage of time (unwinding)	(525,912)
Closing balance - 31 December 2017	**16,077,019**

Movements in the allowance for impairment and provisions in 2016	In RSD thousand
Opening balance - 1 January 2017	**27,573,723**
Charge for the year	9,060,507
Reversal of impairment losses and release of provisions during the year	(4,563,917)
Increase in provisions due to exchange rate changes	376,091
Reversal of provisions due to exchange rate changes	(143,175)
Transfer to off-balance sheet items	(2,801,763)
Transfer from off-balance sheet items	15,127
Sale (transfer) of receivables	(4,167,486)
Reversal of provisions due to passage of time (unwinding)	(898,179)
Closing balance - 31 December 2016	**24,450,928**

11. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

		In RSD thousand
	2017	**2016**
Net salaries	3,480,971	3,566,435
Tax on employee benefits	441,993	449,270
Contributions on employee benefits	1,723,092	1,670,618
Expenses for temporary and occasional work	14,705	5,175
Other personal expenses	22,704	45,159
Provisions for retirement benefits and other employee benefits	18,261	2,014
Total	**5,701,726**	**5,738,671**

12. DEPRECIATION AND AMORTIZATION

In RSD thousand

	2017	2016
Depreciation and amortization:		
– Amortization of intangible assets (Note 19)	457,555	412,566
– Depreciation of fixed assets and investment property (Note 20)	529,618	489,286
Total	**987,173**	**901,852**

13. OTHER EXPENSES

In RSD thousand

	2017	2016
Material, energy and spare parts	387,898	393,849
Professional services	819,663	664,356
Advertising, marketing and entertainment expenses	264,023	271,304
Mail and telecommunication expenses	283,108	321,843
Insurance premiums	2,472,037	2,130,482
Maintenance of property, plant and equipment	656,656	545,871
Rental cost	962,365	1,153,891
Fees and commissions	171,793	168,600
Taxes and contributions	206,343	174,743
Physical-technical security	212,166	237,092
General and administrative expenses	272,986	280,197
Losses from write-offs, disposals and shortage of property, plant equipment and intangible assets	1,824	4,576
Other expenses	545,064	581,745
Expenses for provisions for liabilities	60,853	303,581
Impairment of lend (Note 20)	-	21,757
Total	**7,316,779**	**7,253,887**

14. INCOME TAXES

(a) Components of income taxes

The components of income taxes are:

In RSD thousand

	2017	2016
Current income tax	1,188,161	873,985
Income from deferred tax assets and reduction of deferred tax liabilities	(24,309)	(31,693)
Expenses from reduction of deferred tax assets and creation of deferred tax liabilities	212	14,761
Total income tax expense	**1,164,064**	**857,053**

14. INCOME TAXES (Continued)

(b) Numerical reconciliation of income tax recognised in the income statement and profit for the year before tax multiplied by the prescribed income tax rate

In thousand RSD

	2017	2016
Profit before tax	**13,011,758**	**10,781,396**
Income tax at the rate of 15%	**1,951,764**	**1,617,209**
Tax effects of expense reconciliation – permanent differences	7,639	10,110
Tax effects of revenue reconciliation – permanent differences	(815,721)	(794,917)
Tax effects of depreciation differences recognized for tax and statutory reporting – temporary differences	14,294	15,030
Tax effects of expenses that will be recognized in subsequent period – temporary differences	28,358	26,553
Other (capital gains)	1,827	-
Current income tax stated in the income statement	**1,188,161**	**873,985**
Effective tax rate	***9.13%***	***8.11%***

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2017, the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions. Consequently, the tax base increased for the amount of provisions totaling RSD 79,114 thousand (31 December 2016: RSD 305,596 thousand), due to:

- provisions for litigations in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” in the amount of RSD 60,583 thousand (31 December 2016: RSD 69,693 thousand and for restructuring in 2016 in the amount of RSD 233,889 thousand); and
- provisions in accordance with IAS 19 “Employee Benefits” in the amount of RSD 18,261 thousand (31 December 2016: RSD 2,014 thousand)

In accordance with the regulations, the Bank made an adjustment on the revenue side by excluding interest income generated by debt securities issued by the Republic, local government and the National Bank of Serbia from the tax base, for a total of RSD 5,130,021 thousand (31 December 2016: RSD 4,490,890 thousand).

(c) Deferred Tax Assets

In accordance with IAS 12, ″Income Tax″, deferred tax assets and liabilities relate to taxable temporary differences between carrying amounts of tangible and intangible assets and their tax bases, temporary differences based on unpaid taxes that will be recognized in subsequent period.

Effects of the temporary differences determined in 2017 relate to:

- increase due to difference between the accounting and tax depreciation in the amount of RSD 4,583 thousand,
- increase in tax assets based on difference between carrying amount and tax amount of Bank’s real estate property (functional and investment property), in the amount of RSD 7,352 thousand,
- increase in tax assets based on difference between carrying amount and tax amount of repossessed real estate property - restaurant ″Devetka″, evidenced at inventory accounts, in the amount of RSD 4,874 thousand,
- increase in tax assets relating to impairment of shares in Panon Crvenka, and Tržište novca in the amount of RSD 253 thousand,

14. INCOME TAXES (Continued)

(c) Deferred Tax Assets (Continued)

- increase in tax assets relating to calculated taxes, contributions and other public levies that do not depend on the profit and which are not paid in the period, as well as the one paid, relating to previous tax period, in the amount RSD 7,247 thousand,
- decrease in tax assets relating to retirement benefits and termination benefits, calculated but not paid in the tax period, in the amount RSD 209 thousand, and
- decrease in tax assets relating to employee benefits in line with article 9, paragraph 2 of the Law, calculated but not paid in the tax period, in the amount RSD 2 thousand.

Bank has recognized deferred tax liabilities within revaluation reserves, incurred from appraised fair value of real estate properties as of 31 December 2017, in the amount of RSD 108,194 thousand.

Movements in deferred tax assets during the year were as follows:

In RSD thousand

	2017	2016
Balance as of 1 January	**237,494**	**220,562**
Effect of temporary differences credited to income statement	24,097	16,932
Effect of temporary differences credited to equity	(108,194)	
Balance as of 31 December	**153,397**	**237,494**

Finally calculated current tax liabilities reported in the balance sheet at 31 December 2017 amount to RSD 387,008 thousand (31 December 2016: RSD 55,668 thousand), and has been created by decreasing the amount of current income tax liability by the amount of prepaid income taxes for 2017, paid during 2017.

15. BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit by the weighted average number of shares during the year. As of 31 December 2017 the Bank has no preferred shares.

	2017	2016
Net profit for the year (in thousand RSD)	11,847,694	9,924,343
Weighted average number of ordinary shares during the year	213,159	213,159
Basic earnings per share in RSD (no decimals)	**55,581**	**46,558**

16. CASH AND BALANCES WITH CENTRAL BANK

(a) Cash and balances with central bank

In RSD thousand

	2017	2016
In RSD		
Gyro account	34,170,673	36,923,055
Cash on hand	5,767,453	5,732,166
Receivables for calculated interest, fee and commission based on cash and balances with central bank	18,404	17,072
Accruals related to cash and balances with central bank	3,583	-
	39,960,113	**42,672,293**
In foreign currency		
Cash on hand	5,429,729	3,225,829
Other monetary assets	59,443	18,857
Obligatory reserves with the National Bank of Serbia	37,345,430	56,394,336
	42,834,602	**59,639,022**
Gold and precious metals	56,921	59,585
Balance as of 31 December	**82,851,636**	**102,370,900**

Obligatory dinar reserves with the National Bank of Serbia

The obligatory reserves in dinars is the minimal reserve in dinars allocated in accordance with the National Bank of Serbia's Decision on Banks' Required Reserves with the National Bank of Serbia ("Official Gazette of Republic of Serbia", no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015).

The Bank is required to calculate and allocate the obligatory reserves in RSD by applying 5% rate on the average daily balance of liabilities in RSD with contractual maturity up to 730 days, while 0% rate is applied on the average daily balance of liabilities in RSD with contractual maturity of over 730 days. These percentages are calculated on the average daily balance of liabilities in local currency during the preceding calendar month, and the bank allocates the calculated amount to its gyro account with the National Bank of Serbia. The Bank calculates the obligatory reserves in RSD on deposits in RSD, loans and securities, and other obligations in RSD, excluding dinar deposits received under transactions performed on behalf and for the account of third parties that are not in excess of the amount of the investment made from such deposits as defined by the Decision. The obligatory reserves in RSD is also calculated as part of the foreign currency obligatory reserves by applying 38%, as the dinar equivalent, to the calculated foreign currency obligatory reserves on liabilities in foreign currency, and on foreign currency clause- indexed dinar liabilities denominated in foreign currency with contractual maturity of up to 730 days, while 30% as the dinar equivalent, is applied on the calculated foreign currency obligatory reserves on liabilities in foreign currency and on foreign currency clause-indexed dinar liabilities denominated in foreign currency with contractual maturity of over 730 days.

During the accounting period, the Bank is required to maintain the average daily balance of the allocated obligatory reserves in dinars in the amount equal to the calculated obligatory reserves in dinars.

As of 31 December 2017, calculated obligatory reserves in dinars amounted to RSD 27,042,772 thousand (31 December 2016: RSD 25,085,664 thousand) and were in accordance with the above mentioned National Bank of Serbia's Decision.

At 31 December 2017 interest rate applied on the average amount of the allocated obligatory reserves in dinars, which does not exceed the amount of calculated obligatory reserves, was 1.75% per annum.

16. CASH AND BALANCES WITH CENTRAL BANK (Continued)

(a) Cash and balances with central bank (Continued)

Foreign currency obligatory reserves with the National Bank of Serbia

In accordance with the Decision on Banks' Required Reserves with the National Bank of Serbia ((“Official Gazette of Republic of Serbia”, no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015), the Bank calculated foreign currency obligatory reserves on 31 December 2017, by applying 20% rate on the amount of the average daily balance of the liabilities in foreign currency, while 100% rate is applied on the average daily balance of foreign currency clause-indexed dinar liabilities denominated in foreign currency during the preceding calendar month with contractual maturity of up to 730 days (with the exceptions defined by the Decision), while 13% rate is applied for the liabilities in foreign currency, and 100% rate is applied on the foreign currency clause-indexed dinar liabilities denominated in foreign currency with contractual maturity of over 730 days. Therefore, 62% of the calculated foreign currency obligatory reserves is allocated based on the balance of the liabilities in foreign currency and based on the balance of foreign currency clause-indexed dinar liabilities denominated in foreign currency with contractual maturity up to 730 days, as well as 70% of the calculated foreign currency obligatory reserves based on the balance of the same kind of liabilities denominated in foreign currency with contractual maturity of over 730 days to the National Bank of Serbia's foreign currency accounts in euros.

During the accounting period, the Bank is required to maintain the average daily balance of the allocated foreign currency obligatory reserves in the amount equal to the calculated foreign currency obligatory reserves.

The National Bank of Serbia does not pay interest on the average balance amount of the allocated foreign currency obligatory reserves.

As of 31 December 2017, calculated foreign currency obligatory reserves amounted to EUR 279,977,622,34 (31 December 2016: EUR 258,080,366.51) and were in accordance with the above mentioned National Bank of Serbia's Decision.

(b) Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2017:

In RSD thousand

	Balance sheet	Cash flows	Difference
In RSD			
Gyro account	34,170,673	34,170,673	-
Cash on hand	5,767,453	5,767,453	-
Receivables for calculated interest, fee and commission based on cash and balances with central bank	18,404	-	18,404
Accruals related to the cash and balances with central bank	3,583	-	3,583
	39,960,113	**39,938,126**	**21,987**
In foreign currency			
Cash on hand	5,429,729	5,429,729	-
Other monetary assets	59,443	59,444	(1)
Obligatory reserve with the NBS	37,345,430	-	37,345,430
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	3,840,262	(3,840,262)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	34,400	(34,400)
	42,834,602	**9,363,835**	**33,470,767**
Gold and other precious metals	56,921	56,921	-
Balance as of 31 December 2017	**82,851,636**	**49,358,882**	**33,492,754**

16. CASH AND BALANCES WITH CENTRAL BANK (Continued)

(b) Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2016 (Continued):

In RSD thousand

	Balance sheet	Statement of cash flows	Difference
In RSD			
Gyro account	36,923,055	36,923,055	-
Cash on hand	5,732,166	5,732,166	-
Receivables for calculated interest, fee and commission based on cash and balances with the Central Bank	17,072	-	17,072
	42,672,293	**42,655,221**	**17,072**
In foreign currency			
Cash on hand	3,225,829	3,225,829	-
Other cash assets	18,857	18,857	-
Obligatory reserves with NBS	56,394,336		56,394,336
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	21,553,182	(21,553,182)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	28,555	(28,555)
	59,639,022	**24,826,423**	**34,812,599**
Gold and other precious metals	59,585	59,585	-
Balance as of 31 December 2016	**102,370,900**	**67,541,229**	**34,829,671**

17. FINANCIAL ASSETS CLASSIFICATION

(a) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS HELD FOR TRADING

In RSD thousand

	2017	2016
In RSD		
Financial derivatives	802,299	693,302
Debt securities held for trade	642,812	1,247,415
	1,445,111	**1,940,717**
In foreign currency		
Debt securities held for trade	110,583	44,003
	110,583	**44,003**
Balance as of 31 December	**1,555,694**	**1,984,720**

17. FINANCIAL ASSETS CLASSIFICATION (Continued)

(b) FINANCIAL ASSETS INITIALLY CARRIED THROUGH PROFIT AND LOSS, FINANCIAL ASSETS AVAILABLE FOR SALE AND INVESTMENTS IN SUBSIDIARIES

In RSD thousand

	2017				2016			
	Financial assets initially carried at fair value through Profit and Loss	Financial assets available for sale	Investments in subsidiaries	Total	Financial assets initially carried at fair value through Profit and Loss	Financial assets available for sale	Investments in subsidiaries	Total
– Shares and equity investment	37,576	49,342	962,496	1,049,414	35,692	49,342	962,496	1,047,530
– Debt securities issued by the Republic of Serbia	-	120,769,843	-	120,769,843	-	106,160,946	-	106,160,946
- Accrued interest on debt securities issued by the Republic of Serbia	-	6,908,963	-	6,908,963	-	13,764,784	-	13,764,784
	37,576	**127,728,148**	**962,496**	**128,728,220**	**35,692**	**119,975,072**	**962,496**	**120,973,260**
Deviation from the cost	8,567	928,970	-	937,537	10,376	412,788	-	423,164
Gross balance	**46,143**	**128,657,118**	**962,496**	**129,665,757**	**46,068**	**120,387,860**	**962,496**	**121,396,424**
Less: Allowance for impairment	-	(30,757)	-	(30,757)	-	(29,070)	-	(29,070)
Balance as of 31 December	**46,143**	**128,626,361**	**962,496**	**129,635,000**	**46,068**	**120,358,790**	**962,496**	**121,367,354**

17. FINANCIAL ASSETS CLASSIFICATION (Continued)

(c) SHARES, EQUITY INVESTMENT AND INVESTMENT IN SUBSIDIARIES

In RSD thousand

	2017	2016
Investment in subsidiaries:		
INTESA LEASING DOO BELGRADE – 100% shares	962,496	962,496
	962,496	**962,496**
Financial assets initially carried at fair value through profit and loss:		
INTESA SANPAOLO SPA	37,576	35,692
Deviation from the market value	8,567	10,376
	46,143	**46,068**
Financial assets available for sale – at fair value		
KOSMAJ-MERMER AD MLADENOVAC	37	37
ALMA MONS DOO NOVI SAD	30	30
BANCOR CONSULTING GROUP DOO NOVI SAD	34	34
PAN-TRGOVINA DOO NOVI SAD	466	466
IMK 29. NOVEMBAR AD SUBOTICA - U STEČAJU	15,073	15,073
AGENCIJA VEEDA DOO VRANJE	29	29
MENTA DOO PADEJ	5,814	5,814
PANON CRVENKA AD KELEBIJA	25,729	25,729
RAZVOJNA BANKA VOJVODINE AD NOVI SAD - U STEČAJU	1,566	1,566
TRŽIŠTE NOVCA AD BELGRADE	564	564
MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA BONDS	124,111,273	108,690,302
BONDS OF THE REPUBLIC OF ITALY	3,567,654	11,224,758
Deviation from the cost	928,849	423,458
Less: Allowance for impairment	(30,757)	(29,070)
	128,626,361	**120,358,790**
Balance as of 31 December	**129,635,000**	**121,367,354**

18. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS

(a) LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

In RSD thousand

	2017	2016
In RSD		
Loans under reverse repo transactions	10,438,349	906,169
Receivables for calculated interest	2,523	8,176
Current account loans	60	74
Liquidity and current assets loans	1,092,354	73
Investment loans	200,724	1,171,591
Other loans	1,059,685	2,635,105
Receivables arising from purchased placements - forfeting	-	5,692
Other placements	1,540,890	2,689,415
Deferred income on receivables carried at amortized cost using the effective interest rate	(3,366)	(4,065)
Accrued interest calculated on the basis of loans, deposits and other placements	1,543	1,829
Total in RSD	**14,332,762**	**7,414,059**
In foreign currency		
Foreign currency accounts	3,841,323	21,570,204
Cheques	34,400	28,555
Loans approved and due with one day (overnight)	710,836	702,812
Other loans	1,440	1,878
Other non-purpose deposits	3,080,290	5,798,297
Special-purpose deposits	4,739	4,939
Other placements	7,253,320	2,090,286
Accrued interest calculated on the basis of loans, deposits and other placements	1,510	3,316
Total in foreign currency	**14,924,858**	**30,200,287**
Gross loans and receivables	**29,260,620**	**37,614,346**
Less: Allowance for impairment		
– in RSD	(836)	(2,896)
– in foreign currency	(6,227)	(19,638)
	(7,063)	**(22,534)**
Balance as of 31 December	**29,253,557**	**37,591,812**

18. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(b) LOANS AND RECEIVABLES FROM CUSTOMERS

In RSD thousand

	2017	2016
In RSD		
Receivables for calculated interest	2,141,545	2,963,931
Accrued fee and commission	16	34
Current account loans	5,907,087	4,964,034
Consumer loans	1,113,824	784,240
Liquidity and current assets loans	58,586,691	52,651,528
Export loans	-	157,830
Investment loans	81,359,452	88,440,676
Mortgage loans	60,028,302	54,949,516
Cash loans	34,162,030	24,671,106
Other loans	49,966,971	52,589,847
Receivables arising from purchased placements - forfeiting	43,610	256,623
Receivables based on factoring without the right of recourse and reverse factoring	1,196,927	863,172
Receivables based on factoring with the right of recourse	293,597	544,499
Placements based on acceptances, endorsements and payments made under guarantees	196,854	263,677
Placements on ceded receivables on other grounds	2,499,502	2,605,120
Deferred income on receivables carried at amortized cost using the effective interest rate	(1,021,205)	(813,848)
Accrued interest calculated on the basis of loans, deposits and other placements s	554,784	486,089
Total in RSD	**297,029,987**	**286,378,074**
In foreign currency		
Interest receivable	89,312	101,810
Loans for payment of import of goods and services in foreign currency	15,192,415	6,608,011
Loans for the purchase of immovable property in the country approved to a natural person	18,777	20,968
Other loans	4,505,206	881,768
Receivables from factoring without recourse factoring and reverse	119,174	-
Placements based on acceptances, endorsements and payments made under guarantees	-	1,051,765
Accrued interest calculated on the basis of loans, deposits and other placements	56,264	23,266
Total in foreign currency	**19,981,148**	**8,687,588**
Gross loans and receivables	**317,011,135**	**295,065,662**
Less: Allowance for impairment		
– in RSD	(14,05,490)	(22,740,143)
– in foreign currency	(1,064,440)	(575,590)
	(15,116,930)	**(23,315,733)**
Balance as of 31 December	**301,894,205**	**271,749,929**

18. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(c) OVERVIEW BY TYPE OF CLIENT

In RSD thousand

	2017			2016		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	12,766,781	380,980	13,147,761	5,734,766	1,186,053	6,920,819
– Holding companies	260	-	260	-	136	136
– Corporate customers	37,701,435	102,798,583	140,500,018	29,298,216	121,442,576	150,740,792
– Retail customers	6,291,478	131,962,203	138,253,681	4,622,008	109,818,551	114,440,559
– Public sector	276,217	8,462,067	8,738,284	283,638	10,103,958	10,387,596
– Foreign banks and financial organizations	1,185,000	-	1,185,000	493,240	-	493,240
– Foreign entities	(16,983)	228,623	211,640	(1,507)	266,727	265,220
– Other customers	421,669	8,904,434	9,326,103	625,827	9,917,944	10,543,771
Total in RSD	**58,625,857**	**252,736,890**	**311,362,747**	**41,056,188**	**252,735,945**	**293,792,133**
In foreign currency						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	7,826,578	309	7,826,887	5,267,272	1,878	5,269,150
– Holding companies	303	-	303	-	575	575
– Corporate customers	270,860	12,953,359	13,224,219	301,881	5,211,174	5,513,055
– Retail customers	68,699	767,628	836,327	43,446	717,798	761,244
– Public sector	4,785	373,107	377,892	5,420	536,304	541,724
– Foreign banks and financial organizations	7,100,972	-	7,100,972	24,931,136	-	24,931,136
– Foreign entities	1,980,191	3,555,578	5,535,769	1,861,654	1,622	1,863,276
– Other customers	6,627	12	6,639	1,758	5,957	7,715
Total in foreign currency	**17,259,015**	**17,649,993**	**34,909,008**	**32,412,567**	**6,475,308**	**38,887,875**
Gross loans and receivables	**75,884,872**	**270,386,883**	**346,271,755**	**73,468,755**	**259,211,253**	**332,680,008**
Less: Allowance for impairment - banks and other financial organizations	(6,304)	(759)	(7,063)	(19,920)	(2,614)	(22,534)
Less: Allowance for impairment - customers	(2,357,980)	(12,758,950)	(15,116,930)	(2,746,874)	(20,568,859)	(23,315,733)
	(2,364,284)	**(12,759,709)**	**(15,123,993)**	**(2,766,794)**	**(20,571,473)**	**(23,338,267)**
Balance as of 31 December	**73,520,588**	**257,627,174**	**331,147,762**	**70,701,961**	**238,639,780**	**309,341,741**

18. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

Short-term loans have been granted to companies for funding business activities within the following sectors: trade and services, manufacturing, construction, agriculture and food industry, as for the other purposes, with interest rates ranging from 2.86% and 9% per annum on RSD loans, and from 1% and 6.4% per annum on loans with the foreign currency clause and foreign currency loans.

Interest rates on the long-term loans to legal entities in RSD range from 3% and 7.7%, and on RSD long-term loans with the foreign currency clause, as well as on foreign currency loans, from 0.96% and 6% per annum.

Short-term loans to retail customers, have been approved with interest rates ranging from 5.00% to 16.50% per annum for loans with no currency clause.

Short-term loans to small business customers, have been approved with interest rates ranging from 4.9% to 14% per annum for loans with no currency clause, and from 2.5% do 10% per annum for loans with the foreign currency clause.

Interest rates on overdrafts on retail current accounts range from 29.85% per annum and for small corporate customers from 16.26% to 23.24% per annum.

Short-term loans to registered agriculture farmers have been approved with interest rates ranging from 6.5% to 9.9% per annum for loans with no currency clause, and from 5.5% do 6.5% per annum for loans with the foreign currency clause.

Long-term loans to retail customers have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 1.37% to 7.29% per annum for loans with the foreign currency clause, as well as from 4.35% to 23% for the loans with no currency clause.

Long-term loans to small businesses have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 2.4%+3m EURIBOR to 10% per annum for loans with the foreign currency clause, i.e. from 1.6%+3m BELIBOR (or 5.3% fix) to 2.5%+3m BELIBOR for the loans with no currency clause (or 14% fix).

Long-term loans to registered agriculture farmers have been granted as purpose loans (loans for fixed assets) i non-purpose loans (for the period from 13 months to maximum 24 months), and for working capital. Loans with a term of repayment over 24 months have been approved with interest rates ranging from 4.5% to 6.5%+6m EURIBOR, for loans with the foreign currency clause, i.e. from 6.5% to 9.9% for loans from 13 months to 24 months for loans with no currency clause.

19. INTANGIBLE ASSETS

In RSD thousand

	Licenses	Software	Intangible assets under construction	Total
COST				
Balance as of 1 January 2016	**487,455**	**2,399,675**	**47,435**	**2,934,565**
Additions during the year	-	-	941,294	941,294
Transfers	-	466,053	(466,053)	-
Disposals and write offs	(4,132)	(359,464)	-	(363,596)
Balance as of 31 December 2016	**483,323**	**2,506,264**	**522,676**	**3,512,263**
Additions during the year	-		1,720,706	1,720,706
Transfers	-	503,564	(503,564)	-
Balance as of 31 December 2017	**483,323**	**3,009,828**	**1,739,818**	**5,232,969**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2016	**416,157**	**1,699,714**	**-**	**2,115,871**
Amortization charge (Note 12)	35,640	376,926	-	412,566
Disposals and write offs	(4,132)	(359,464)		(363,596)
Balance as of 31 December 2016	**447,665**	**1,717,176**	**-**	**2,164,841**
Amortization charge (Note 12)	35,640	421,915	-	457,555
Balance as of 31 December 2017	**483,305**	**2,139,091**	**-**	**2,622,396**
Carrying value as of:				
– 31 December 2017	**18**	**870,737**	**1,739,818**	**2,610,573**
– 31 December 2016	**35,658**	**789,088**	**522,676**	**1,347,422**

Intangible assets under construction as of 31 December 2017 represent investments in the new CORE system in the amount of RSD 1,739,818.

20. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(a) Property, plant and equipment and investment property

In RSD thousand

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Total property, plant and equipment	Investment property
COST/REVALUATION						
Balance as of 1 January 2016	**8,608,712**	**3,835,834**	**728,753**	**143,982**	**13,317,281**	**250,827**
Additions during the year	(2,583,622)	-	-	3,245,307	661,685	-
Transfers from construction in progress	22,594	314,191	52,971	(389,756)	-	-
Adjustment of carrying value of land to its fair value	(21,757)	-	-	-	(21,757)	-
Transfer to Assets held for sale	(1,472,078)	-	-	-	(1,472,078)	-
Disposals and write offs	-	(189,119)	(43,748)	-	(232,867)	(49,278)
Balance as of 31 December 2016	**4,553,849**	**3,960,906**	**737,976**	**2,999,533**	**12,252,264**	**201,549**
Additions during the year	-	-	-	372,071	372,071	-
Transfers from construction in progress	3,044,119	263,723	45,389	(3,353,231)	-	-
Transfers from investment property	4,138	-	-	-	4,138	(4,138)
Disposals and write-offs	(4,309)	(235,554)	(25,094)	-	(264,957)	(180,579)
Effects of fair value appraisal as of 31 December 2017	(839,404)	-	-	-	(839,404)	34,419
Balance as of 31 December 2017	**6,758,393**	**3,989,075**	**758,271**	**18,373**	**11,524,112**	**51,251**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2016	**1,191,635**	**2,863,885**	**543,300**	**-**	**4,598,820**	**26,469**
Depreciation charge (Note 12)	113,453	303,934	65,628		483,015	6,271
Disposals and write offs	-	(184,546)	(43,744)	-	(228,290)	(5,338)
Balance as of 31 December 2016	**1,305,088**	**2,983,273**	**565,184**	**-**	**4,853,545**	**27,402**
Depreciation charge (Note 12)	163,980	299,764	63,572	-	527,316	2,302
Transfers from investment property	1,151	-	-	-	1,151	(1,151)
Disposals and write/offs	(1,542)	(233,731)	(25,093)	-	(260,366)	(19,968)
Effects of fair value appraisal as of 31 December 2017	(1,468,677)	-	-	-	(1,468,677)	(8,585)
Balance as of 31 December 2016	**-**	**3,049,306**	**603,663**	**-**	**3,652,969**	**-**
Carrying value as of:						
– 31 December 2017	**6,758,393**	**939,769**	**154,608**	**18,373**	**7,871,143**	**51,251**
– 31 December 2016	**3,248,761**	**977,633**	**172,792**	**2,999,533**	**7,398,719**	**174,147**

20. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

(a) Property, plant and equipment and investment property (Continued)

As of 31 December 2017, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

As of 31 December 2017, the carrying value of equipment under finance lease amounts to RSD 12,964 thousand (31 December 2016: RSD 29,930 thousand).

Changes in accounting policies relating to real estate and investment property

Compared to the previous financial reports, while complying the annual financial statements for the year ended 31 December 2017, the Bank has changed the accounting policies for the measurement of the following assets:

- functional property (in accordance with IAS 16 “Property, Plant and Equipment”), and
- investment property (in accordance with IAS 40 “Investment property”).

The aforementioned changes include the following:

- transition from cost model to revaluation model for subsequent measurement of functional property; and
- transition from cost model to fair value model for investment property.

Generally, voluntary changes to the accounting policies, such as the case, require revaluation of initial balances and the provision of comparative data. However, IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” introduces an exception to the usual treatment for this category. More specifically, paragraph 17 of the standard states that a change in an accounting policy shall be treated as a revaluation in accordance with IAS 16, without the need to restate the comparative data.

Nonetheless, IAS 16 prescribes the method of recording the significant effects of property revaluation resulting from the change in accounting policy, so that the positive revaluation effect are to be recognized in balance sheet, within equity, while the negative revaluation effects are to be recorded as expense, through profit and loss account.

Considering the change in the valuation criterion occurred at the end of the business year, depreciation for 2017 has been calculated using the preceding cost criterion, therefore, all property, both functional and investment, has been amortised up to 31 December 2017.

Started from 2018, functional property, valued using the criterion of revaluation according to IAS 16, will continue to be amortised for the useful life. Investment property (under IAS 40), will not be amortised anymore, yet, it will be measured at fair value through profit and loss account.

In accordance with the above changes, the Parent Bank has engaged the independent appraisal company to assess fair value of the properties, at the level of the Intesa Sanpaolo Group, including Banca Intesa a.d. Belgrade. As of 31 December 2017, the independent appraiser carried out the assessment of fair value of properties that Banca Intesa a.d. Belgrade uses for its own business, as well as the investment property.

For the purpose of property fair value assessment, valuation techniques for which sufficient data were available were used, and the income approach and the method of comparative transactions (market approach) have been applied.

Considering that at the real estate market in Serbia quoted or realized prices for identical real estate properties the Bank owns do not exist, for the fair value assessment of such properties Level 3 inputs (unobservable inputs, or the best information available in the circumstances) have been dominantly used, as well as, assumptions of the indicative market prices and rental prices, capitalization rate and utilization degree.

20. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

(a) Property, plant and equipment and investment property (Continued)

Changes in accounting policies relating to real estate and investment property (Continued)

For certain real estate properties, including the most significate Bank's properties at locations Knez Mihailova 30 and Milentija Popovica 7b and 7v, Level 2 inputs have been used. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Those inputs are supported by the market, derived principally from or corroborated by observable market data by correlation or other means, as well as by quoted prices for similar assets in active market.

Sensitivity analysis has been carried out based on the impact of unit prices changes for +/- 10,00% applied on assessed real estate properties value. With other unchanged assumptions, decrease in unit prices by 10%, would lead to the decrease of assessed values by 11.11%, while the increase of 10% in unit prices, would increase assessed values by 10%.

Effects of fair value assessment were recorded in the Bank's books of account by eliminating accumulated depreciation, and the fair value has been recorded as new cost of property.

Upon the revaluation, negative effects amounting to RSD 49,017 thousand have been recorded through the profit and loss account as an expense. Out of this amount, RSD 48,429 thousand relates to the functional property, while RSD 588 thousand relates to investment property.

Positive revaluation effects, amounting to RSD 721,294 thousand, have been recorded though the balance sheet, within revaluation reserves. Out of this amount, RSD 677,701 thousand relates to the functional property, while RSD 43,593 thousand relates to the investment property.

Had the revalued properties been measured on a historical cost basis (less accumulated depreciation), the carrying value (net book value) of the functional property would have been RSD 6,129,121 thousand, while the carrying value of investment property would have been RSD 8,246 thousand as of 31 December 2017.

(b) Non-current assets held for sale and discontinued operations

As it is disclosed in Note 2.13.2, in accordance with the Bank's accounting policies, assets classified as non-current assets held for sale are measured at the lower of the:

- carrying value; or
- market (fair) value less costs to sell.

		In RSD thousand
	2017	2016
Non-current assets held for sale	1,653,117	1,697,057
Balance as of 31 December 2017	**1,653,117**	**1,697,057**

As of 31 December 2017, the Bank has the following non-current assets held for sale that are located in the Republic of Serbia:

- Novi Beograd, Goce Delceva 36 - business premises with surface area of 1.824 m², and
- Novi Beograd, corner of Bulevard Mihajla Pupina and Tresnjinog cveta - plot BLOK 11a, with surface area of 4.784 m².

Non-current assets are not depreciated as long as they are classified as assets held for sale.

21. OTHER ASSETS

		In RSD thousand
	2017	2016
Trade receivables	538	879
Other receivables	140,000	789,387
Receivables from employees	4,871	5,118
Receivables for overpaid taxes, except income tax	1,323	257
Advances paid	260,864	26,076
Other receivables from operating activities	5,535,710	3,296,102
Assets received through collection of receivables	332,395	327,461
Other assets	413,475	438,487
Interest receivable related to other assets:		
– in RSD	290	1,573
Fee and commission receivables related to other assets:		
– in RSD	178,680	169,940
– in foreign currency	19,257	17,230
Accrued interest expenses:		
– in RSD	1,279	2,618
– in foreign currency	27,341	28,495
Accrued other expenses:		
– in RSD	390,039	406,080
– in foreign currency	745	3,122
Other accruals:		
– in RSD	106,530	40,804
– in foreign currency	2	3
Total other assets	**7,413,339**	**5,553,632**
Less: Allowance for impairment	(83,334)	(57,414)
Balance as of 31 December	**7,330,005**	**5,496,218**

Other receivables from operating activities amounting to RSD 5,535,710 thousand as of 31 December 2017 (31 December 2016: RSD 3,296,102 thousand) mostly relate to receivables in RSD with respect to payment cards - Other receivables in RSD from other cards issuers - Master Card, VISA and DINA in the amount of RSD 9661,968,592 thousand (31 December 2016: RSD 1,588,966 thousand).

22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS HELD FOR TRADING

In RSD thousand

	2017	2016
Deviation from nominal value of other placements in RSD held for trading – currency derivatives money exchange - swap	4,847	1,266
Deviation from nominal value of other placements in RSD held for trading – currency derivatives money exchange - forward	-	1,328
ılance as of 31 December	**4,847**	**2,594**

23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

(a) DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

In RSD thousand

	2017	2016
In RSD		
Transaction deposits	1,788,777	1,499,202
Deposits underlying granted loans	18,045	12,235
Special-purpose deposits	21,368	21,485
Other deposits	1,785,474	2,647,288
Deposits and loans due within one day (overnight)	-	7,200
Borrowings	853,000	3,000,000
Other financial liabilities	1,658,713	247,000
Interest payable	7,282	35,197
Fee and commission payable	12	7
Total in RSD	**6,132,671**	**7,469,614**
In foreign currency		
Transaction deposits	779,981	2,911,376
Deposits underlying granted loans	2,843	2,963
Special-purpose deposits	103,380	114,154
Other deposits	6,001	31,525
Borrowings	23,858,565	20,372,689
Other financial liabilities	1,585,370	3,220,618
Interest payable	26,508	19,317
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(120,673)	(86,797)
Fee and commission payable	391	-
Total in foreign currency	**26,242,366**	**26,585,845**
Balance as of 31 December	**32,375,037**	**34,055,459**

23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(b) DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD thousand

	2017	2016
In RSD		
Transaction deposits	96,948,702	87,348,373
Savings deposits	2,898,418	2,051,235
Deposits underlying granted loans	474,487	378,241
Special-purpose deposits	2,382,296	2,791,244
Other deposits	28,496,714	26,360,419
Deposits and loans due within one day (overnight)	551,013	731,562
Borrowings		
Interest payable	597,560	307,610
Total in RSD	**132,349,190**	**119,968,684**
In foreign currency		
Transaction deposits	175,383,409	148,147,026
Savings deposits	65,288,066	78,182,367
Deposits underlying granted loans	5,524,134	6,075,239
Special-purpose deposits	2,046,001	1,777,675
Other deposits	9,326,960	20,929,663
Borrowings	3,976,988	5,642,088
Other financial liabilities	3,285,991	1,935,593
Interest payable	524,496	794,223
Total in foreign currency	**265,356,045**	**263,483,874**
Balance as of 31 December	**397,705,235**	**383,452,558**

23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(c) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY MATURITY

In RSD thousand

	2017			2016		
	Short-term (up to one year)	Long-term (more than one year)	Total	Short-term (up to one year)	Long-term (more than one year)	Total
In RSD						
Transaction deposits	98,737,479	-	98,737,479	88,847,576	-	88,847,576
Saving deposits	2,661,138	237,280	2,898,418	2,050,678	556	2,051,234
Deposits related to granted loans	132,794	359,738	492,532	116,981	273,495	390,476
Special-purpose deposits	2,108,447	295,217	2,403,664	2,302,349	510,381	2,812,730
Other deposits	26,178,163	4,104,025	30,282,188	28,836,597	171,110	29,007,707
Overnight deposits and loans	551,013	-	551,013	738,762	-	738,762
Borrowings	853,000	-	853,000	3,000,000	-	3,000,000
Other financial liabilities	1,658,713	-	1,658,713	247,000	-	247,000
Interest payable	604,791	50	604,841	342,599	208	342,807
Fee and commission payable	12	-	12	7	-	7
Total in RSD	**133,485,550**	**4,996,310**	**138,481,860**	**126,482,549**	**955,750**	**127,438,299**
In foreign currency						
Transaction deposits	176,163,391	-	176,163,391	151,058,403	-	151,058,403
Saving deposits	49,966,360	15,321,706	65,288,066	61,180,766	17,001,601	78,182,367
Deposits related to granted loans	3,891,896	1,635,081	5,526,977	4,073,403	2,004,799	6,078,202
Special-purpose deposits	1,341,665	807,716	2,149,381	1,126,416	765,413	1,891,829
Other deposits	9,166,424	166,537	9,332,961	20,899,452	61,736	20,961,188
Borrowings	-	27,835,553	27,835,553		26,014,777	26,014,777
Other financial liabilities	4,871,362	-	4,871,362	5,156,209	-	5,156,209
Interest payable	551,003	-	551,003	813,540	-	813,540
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(120,673)	-	(120,673)	(86,797)	-	(86,797)
Fee and commission payable	391	-	391	-	-	-
Total in foreign currency	**245,831,819**	**45,766,593**	**291,598,412**	**244,221,392**	**45,848,326**	**290,069,718**
Balance as of 31 December	**379,317,369**	**50,762,903**	**430,080,272**	**370,703,941**	**46,804,076**	**417,508,017**

23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(d) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY TYPE OF CUSTOMERS

In RSD thousand

	2017			2016		
	Short-term (up to one year)	**Long-term (more than one year)**	**Total**	**Short-term (up to one year)**	**Long-term (more than one year)**	**Total**
In RSD						
– Central bank, banks and other financial sector and insurance	5,221,915	130,001	5,351,916	6,442,591	170,000	6,612,591
– Holding companies	3,076	-	3,076	861	-	861
– Corporate customers	71,336,455	4,617,153	75,953,608	70,396,120	749,134	71,145,254
– Retail customers	35,083,993	247,858	35,331,851	31,065,291	24,237	31,089,528
– Public sector	12,309,799	400	12,310,199	11,559,054	11,479	11,570,533
– Foreign banks and financial organizations	780,756	-	780,756	857,023	-	857,023
– Foreign entities	359,033	-	359,033	321,492	-	321,492
– Other customers	8,390,524	900	8,391,424	5,840,117	900	5,841,017
Total in RSD	**133,485,551**	**4,996,312**	**138,481,863**	**126,482,549**	**955,750**	**127,438,299**
In foreign currency						
– Central bank, banks and other financial sector and insurance	976,134	2,843	978,977	5,255,597	2,963	5,258,560
– Holding companies	192	-	192	611	-	611
– Corporate customers	49,352,863	1,813,320	51,166,183	51,362,842	2,047,697	53,410,539
– Retail customers	186,517,067	15,814,981	202,332,048	175,196,876	17,443,796	192,640,672
– Public sector	1,556,118	4,011,116	5,567,234	4,692,721	5,662,379	10,355,100
– Foreign banks and financial organizations	1,404,823	23,858,565	25,263,388	954,596	20,372,689	21,327,285
– Foreign entities	3,853,620	214,233	4,067,853	4,617,135	264,721	4,881,856
– Other customers	2,171,000	51,534	2,222,534	2,141,014	54,081	2,195,095
Total in foreign currency	**245,831,817**	**45,766,592**	**291,598,409**	**244,221,392**	**45,848,326**	**290,069,718**
Balance as of 31 December	**379,317,368**	**50,762,904**	**430,080,272**	**370,703,941**	**46,804,076**	**417,508,017**

23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

On the corporate transaction deposits the Bank pays interest at rates up to 50% of the annual reference interest rate depending on the currency and the amount of deposit.

On the retail transaction accounts in RSD and in foreign currency the Bank does not pay interest.

On term deposits in RSD and foreign currency, the Bank pays interest at rates ranging up to 4% per annum, depending on the maturity period and the currency.

On special-purpose deposits of customers and natural persons the Bank does not pay interest.

On short-term retail deposits in RSD the interest is paid at rates ranging from 0% to 3.60% per annum, depending on the maturity period. Interest rates on short-term retail deposits in foreign currency range from 0.0% to 0.30% per annum, depending on the maturity period and the currency.

Long-term retail deposits in foreign currency are deposited at interest rates ranging from 0.01% to 0.70% per annum, depending on the maturity period and the currency. Long-term retail deposits in RSD are deposited at interest rates ranging from 4.00% to 5.50% per annum, depending on the maturity period.

24. PROVISIONS

		In RSD thousand
	2017	**2016**
Provisions for off-balance sheet items (a)	902,184	1,055,247
Provisions for employee benefits:		
– restructuring (b)	23,525	236,702
– long-term retirement benefits and unused days of vacation (c)	171,191	152,930
Provisions for litigations (Note 30 (a))	180,394	308,638
Balance as of 31 December	**1,277,294**	**1,753,517**

24. PROVISIONS (Continued)

In RSD thousand

	2017	2016
Movements in provisions for off-balance sheet items		
Opening balance	1,055,247	1,261,061
Release of provisions	(371,053)	(426,289)
Release of provisions - exchange rate	(31,728)	(8,129)
Increase of provisions	244,621	208,391
Increase of provisions – exchange rate	5,097	20,213
Balance as of 31 December	**902,184**	**1,055,247**
Movements in provisions for restructuring		
Opening balance	236,702	44,544
Release of provisions directly from provisions	(213,177)	(41,731)
Increase of provisions	-	233,889
Balance as of 31 December	**23,525**	**236,702**
Movements in provisions for employee retirement benefits and unused days of vacation		
Opening balance	152,930	150,916
Increase of provisions	18,261	2,014
Balance as of 31 December	**171,191**	**152,930**
Movements in provisions for litigations		
Opening balance	308,637	272,480
Release of provisions through profit and loss	(168,121)	(20,459)
Release of provisions directly from provisions	(20,975)	(13,076)
Increase of provisions	60,853	69,693
Balance as of 31 December	**180,394**	**308,638**

(a) According to the Bank's internal policy, provisioning for off-balance sheet items exposed to risk is performed in the same manner as for balance sheet assets, i.e. off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables when it comes to outflow of resources and probability of outflow of resources.

(b) The project of considering and analyzing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started, but is still not fully completed, therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that fulfil conditions for retirement or number of employees that potentially could be redundant. For the purpose of estimate, available laws and regulations, as well as internal acts have been observed (Labour Law and Collective agreement).

(c) Long-term provision for retirement benefits has been recognized on the basis of an independent actuary's calculation at the balance sheet date in the amount of present value of estimated future cash outflows. The present value of estimated future cash outflows is calculated using the discount rate of 5.6% per annum, which reflects the long-term rate of return on high quality debt securities, Republic of Serbia bonds and treasury bonds of the National Bank of Serbia. The provision was determined in accordance with the Bank's Collective Agreement, using the assumption of average salary increase rate of 5.4% per annum over the period for which the provision has been formed.

The provision for unused days of vacation is calculated on the basis of an independent actuary's report at the balance sheet date. In accordance with article 114 of the Labour Law in Republic of Serbia, during vacation an employee is entitled to compensation in the amount of average salary for the last twelve months. When calculating the provision for unused vacation days, the following factors are significant:

- average gross salary in the Bank, and
- number of unused days of vacation.

25. OTHER LIABILITIES

In RSD thousand

	2017	2016
Net salaries and compensations	285,579	219,946
Taxes, VAT, contributions and other duties payable, excluding income tax payable	196,819	147,710
Vendor liabilities	783,772	1,032,652
Advances received	658,157	1,538,455
Other liabilities (a)	4,881,329	2,263,576
	6,805,656	**5,202,339**
Accruals and deferred income		
Accrued liabilities for other expenses:		
– in RSD	1,233	1,682
– in foreign currency	8,109	9,049
Deferred interest income:		
– in RSD	70,489	54,536
Other deferred income:		
– in RSD	86,033	79,348
– in foreign currency	14,343	22,654
Other deferrals (b)		
– in RSD	4,577,456	417,098
– in foreign currency	2,419,293	2,068,073
	7,176,956	**2,652,440**
Long-term finance lease liabilities (c)	15,130	28,307
Total	**13,997,742**	**7,883,086**
Other tax liabilities	105,613	72,078
Balance as of 31 December	**14,103,355**	**7,955,164**

(a) Other liabilities in 2017 and 2016 mostly consist of suspense and temporary accounts balances and accrued liabilities.

(b) Other accruals in foreign currency in 2017 and 2016 mostly consist of accruals accounts balances – sales of foreign currency.

(c) Financial liabilities for leased equipment as of 31 December 2017 and 2016 are as follows:

In RSD thousand

	2017		2016	
Minimal lease payments	**Present value**	**Future value**	**Present value**	**Future value**
Up to 1 year	10,509	699	12,538	13,823
From 1 to 5 years	4,621	579	15,769	17,102
Balance as of 31 December	**15,130**	**1,278**	**28,307**	**30,925**

26. EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2017 consists of shares capital, other capital, share premium, reserves, revaluation reserves and current and previous year profit.

Structure of the Bank's equity is presented in table below:

In RSD thousand

	2017	2016
Share capital – ordinary shares	21,315,900	21,315,900
Other capital	11,158	11,158
Share premium	20,432,569	20,432,569
Reserves from profit	47,484,121	47,484,121
Fair value reserves	1,542,070	412,788
Retained earnings	16,373,290	24,559,933
Current year profit	11,847,694	9,924,343
Balance as of 31 December	**119,006,802**	**124,140,812**

/i/ *Share capital*

As of 31 December 2017 the Bank's registered share capital consists of 213,159 ordinary shares with nominal value of RSD 100 thousand per share.

During 2016, the Bank's shareholding structure was changed, considering that the minority shareholder Intesa Sanpaolo S.p.A. sold its entire stake to the majority shareholder Intesa Sanpaolo Holding International S.A., resulting in the fact that Intesa Sanpaolo Holding International S.A. became 100% shareholder of the Bank (Note 1).

The Bank's shareholder as of 31 December 2017 and 2016 is presented in the table below:

Shareholder	Number of shares	Nominal share value (RSD thousand)	Share in %
Intesa Sanpaolo Holding International S.A., Luxembourg	213,159	21,315,900	100.00
Total	**213,159**	**21,315,900**	**100.00**

/ii/ *Share premium*

Share premium amounting to of RSD 20,432,569 thousand as of 31 December 2017 (31 December 2016: RSD 20,432,569 thousand) is the result of the Bank's status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of RSD 2,989,941 thousand, as well as the result of the 4th, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

26. EQUITY (Continued)

(a) Equity structure (Continued)

/iii/ Reserves

	2017	**In RSD thousand 2016**
Reserves from profit for estimated losses	47,484,121	47,484,121
Revaluation reserves arising from fair value changes in securities available for sale	959,830	828,294
Revaluation reserves arising from changes in fair value of buildings	613,100	-
Unrealized losses on securities available for sale	(30,860)	(415,506)
Total	**49,026,191**	**47,896,909**

(b) Performance indicators – compliance with legal requirements

The Bank is required to reconcile the scope and the structure of its operations and risk placements with performance indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia passed on the basis of the aforementioned Law.

As of 31 December 2017, the Bank was in compliance with all prescribed performance indicators.

Performance indicators	**Prescribed**	**Realized 31 December 2017**	**Realized 31 December 2016**
Regulatory capital	Minimum EUR 10 million	EUR 552 million	EUR 492 million
Capital adequacy ratio	Minimum 12%	20.77%	21.5%
Permanent investments indicator	Maximum 60%	12.15%	12.51%
Indicator of large and the largest permissible loans	Maximum 400%	42.94%	79.50%
Liquidity ratio	Minimum 0.8	2.38	2.62
Acid-test ratio (quick ratio)	Minimum 0.5	1.88	2.26
Liquidity coverage ratio – LCR	Minimum 1.0	3.27	-
Foreign currency risk indicator	Maximum 20%	0.88%	1.81%
Exposure to a single entity or to a group of related parties	Maximum 25%	16.34%	15%
Bank's investment in non-financial legal entity	Maximum 10%	0.03%	0.03%

27. OFF-BALANCE SHEET ITEMS

(a) Classification of off-balance sheet items by the classification category

RSD thousand

Off-balance sheet items	2017	2016
Off-balance sheet items to be classified	119,274,736	97,736,263
Off-balance sheet items not to be classified	455,427,491	518,627,876
Balance as of 31 December	**574,702,227**	**616,364,139**

In accordance with the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items, off-balance sheet items, which will not lead to cash outflows, are classified in the off-balance sheet items not to be classified category:

In RSD thousand

	Off-balance sheet items to be classified	Provisions for Off-balance sheet items to be classified	Off-balance sheet items not to be classified	Off-balance sheet items as of 31 December 2017
Funds managed on behalf of third parties (b)	-	3,571,793	3,571,793	-
Guarantees and other irrevocable commitments (c)	47,047,874	42,610,983	89,658,857	(902,122)
Derivatives (d)	-	106,815,216	106,815,216	-
Other off-balance sheet items (e)	72,226,862	302,429,499	374,656,361	(13)
Balance as of 31 December	**119,274,736**	**455,427,491**	**574,702,227**	**(902,135)**

In RSD thousand

	Off-balance sheet items to be classified	Provisions for Off-balance sheet items to be classified	Off-balance sheet items not to be classified	Off-balance sheet items as of 31 December 2016
Funds managed on behalf of third parties (b)	-	3,807,513	3,807,513	-
Guarantees and other irrevocable commitments (c)	60,852,388	14,747,841	75,600,229	(1,055,226)
Derivatives (d)	-	137,781,893	137,781,893	-
Other off-balance sheet items (e)	36,883,875	362,290,629	399,174,504	(21)
Balance as of 31 December	**97,736,263**	**518,627,876**	**616,364,139**	**(1,055,247)**

(b) Funds managed on behalf of third parties

In RSD thousand

	2017	2016
Funds managed on behalf of third parties:		
– Long-term	3,571,794	3,807,513
Balance as of 31 December	**3,571,794**	**3,807,513**

27. OFF-BALANCE SHEET ITEMS (Continued)

(c) Guarantees and other irrevocable commitments

In RSD thousand

	2017	2016
Financial guarantees:		
– in RSD	7,742,986	8,683,819
– in foreign currency	8,592,327	8,620,468
	16,335,313	**17,304,287**
Commercial guarantees:		
– in RSD	17,918,946	15,415,816
– in foreign currency	3,812,229	1,806,059
	21,731,175	**17,221,875**
Uncovered letters of credit in foreign currency	1,705,612	226,306
Sureties and Acceptances	832	832
Sureties	18,234,681	14,931,842
Irrevocable commitments for undisbursed loans	31,648,705	25,912,542
Collateralized securities	2,539	2,545
	51,592,369	**41,074,067**
Balance as of 31 December	**89,658,857**	**75,600,229**

(d) Derivatives

In RSD thousand

	2017	2016
Foreign currency SWAP contracts	106,409,594	135,106,824
Foreign currency Forward contracts	405,622	2,675,069
Balance as of 31 December	**106,815,216**	**137,781,893**

(e) Other off-balance sheet items

In RSD thousand

	2017	2016
Loro guarantees	48,018,240	49,899,905
Foreign currency savings' bonds	176,854	189,854
Suspended interest	5,800,527	8,338,694
Transfer from balance sheet	6,288,627	13,488,816
Revocable commitments for undisbursed loans	47,278,470	36,883,875
Receivables under repurchase agreements	10,458,150	958,150
Other	256,635,493	289,415,210
Balance as of 31 December	**374,656,361**	**399,174,504**

28. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with the shareholder and other related parties in the ordinary course of business. The Bank realizes business transactions with its shareholder and other related party. The Bank enters into business relationship with Parent company and other members of Intesa Sanpaolo Group. Outstanding balances of receivables and liabilities as of 31 December 2017 and 2016, as well as income and expenses for the years then ended, resulting from transactions with the shareholder and other Bank's related parties within Intesa Sanpaolo Group, stated in RSD thousand, are presented as follows:

2017	Intesa Sanpaolo S.p.A., Italy, England, SAD; German; Ireland; Romania;Albania;Group Service	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova bank A.S., Slovakia	Banka Koper d.d., Slovenia	Bank of Alexandria, Egypt	Intesa Sanpaolo Banka D.D. Bosnia and Herzegovina	Intesa Sanpaolo Card d.o.o., Ljubljana	Intesa Sanpaolo Card d.o.o., Zagreb	CIB Bank, Hungary	Soeciete europeenn de banque S.A.	Intesa Sanpaolo Holding International S.A., Luxemburg	Banca IMI S.p.a
Loans and receivables from banks and other financial organisations	310,129	13,048	2,747,787	4,675	13,968	-	2,492	-	-	-	-	798	-
Loans and receivables from customers	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	800,177	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	40,775	271	156,383	6	-	-	10	-	-	-	-	-	-
Total assets	**1,151,081**	**13,319**	**2,904,170**	**4,681**	**13,968**	**-**	**2,502**	**-**	**-**	**-**	**-**	**798**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central bank	2,502,933	22,027	139,549	-	-	-	90	-		-	-	-	-
Deposits and other liabilities to customers	-	-	-	-	-	-	-	-	-	-	-		-
Financial liabilities at fair value held for trading	4,838	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilites	334,352	28,634	15,220	-		-		-	-	6,395	-	-	-
Total liabilities	**2,842,123**	**50,661**	**154,769**	**-**	**-**	**-**	**90**	**-**	**-**	**6,395**	**-**	**-**	**-**
Interest income	59,492	-	50,455	-		-	-	-	-	-	-	-	-
Fee and commission income	55,312	2,570	2,807	244	128	-	19	-	-	-	-	83	-
Net profit on financial assets held for trading	795,339	-	-	-	-	-	-	-	-	-	-	-	-
Net profit on foreign exchange rate and FX contracts	32,856	-	-	-	-	-	-	-	-	-	-	-	-
Other operating income	31,148		19,427	-	-	-	-	-	-	-	-	-	-
Total income	**974,147**	**2,570**	**72,689**	**244**	**128**	**-**	**19**	**-**	**-**	**-**	**-**	**83**	**-**
Interest expense	(8,478)	(3,547)	(4,932)	-	-	-	-	-	-	-	-	-	-
Fee and commission expenses	(82,776)	(4,287)		(936)	(3,035)	-	(677)	-	-	-	-		-
Net profit on financial assets held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss on foreign exchange rate and FX contracts	(711,762)	(7)	-	-	-	-	-	-	-	-	-	-	-
Other expenses	(499,268)	(31,938)	-	-	-	-	-	-	-	(6,648)	-	-	(5,924)
Total expenses	**(1,302,284)**	**(39,779)**	**(4,932)**	**(936)**	**(3,035)**	**-**	**(677)**	**-**	**-**	**(6,648)**	**-**	**-**	**(5,924)**
Off-balance sheet items - derivatives FX SWAPs	92,506,145	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	1,009,111	21,544	-	1,833,178	1,859,141	30,425	-	-	-	5,147			
Total off-balance sheet items	**93,515,256**	**21,544**	**-**	**1,833,178**	**1,859,141**	**30,425**	**-**	**-**	**-**	**5,147**	**-**	**-**	**-**

28. RELATED PARTY DISCLOSURES (Continued)

2016	Intesa Sanpaolo S.p.A., Italija, Engleska, SAD; Nemačka; Irska; Rumunija; Turska; Albanija;Group Service	Privredna bank d.d., Zagreb, Hrvatska	Intesa Leasing d.o.o., Beograd	Vseobecna Uverova banka A.S., Slovačka	Banka Koper d.d., Slovenija	Bank of Alexandria, Egipat	Intesa Sanpaolo Banka D.D. Bosna i Hercegovina	Intesa Sanpaolo Card d.o.o., Ljubljana	Intesa Sanpaolo Card d.o.o., Zagreb	CIB Bank, Mađarska	Soeciete europeenn de banque S.A.	Intesa Sanpaolo Holding International S.A., Luxemburg	Banca IMI S.p.a
Loans and receivables from banks and other financial organisations	5,649,165	575,378	4,111,299	131,636	10,319	-	573,118	-	-	-	-	-	-
Loans and receivables from customers	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	689,278	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	22,813	55	805,996	6	-	-	4	-	-	-	-	-	-
Total assets	**6,361,256**	**575,433**	**4,917,295**	**131,642**	**10,319**	**-**	**573,122**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central bank	2,732,281	498,190	1,842,459	-	-	-	94	-		-	-	-	-
Deposits and other liabilities to customers	-	-	-	-	-	-	-	-	-	-	-	924	-
Financial liabilities at fair value held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilites	7,981	272	28,307	-	72	-	32	-	-	-	-	-	-
Total liabilities	**2,740,262**	**498,462**	**1,870,766**	**-**	**72**	**-**	**126**	**-**	**-**	**-**	**-**	**924**	**-**
Interest income	41,874	-	74,093	-		25	-	-	-	-	-	-	-
Fee and commission income	49,314	1,475	11,023	2,010	961	-	2	-	-	-	-	2	-
Net profit on financial assets held for trading	689,278	-	-	-	-	-	-	-	-	-	-	-	-
Net profit on foreign exchange rate and FX contracts	86,268	169	-	-	-	-	-	-	-	-	-	-	-
Other operating income	1,182		807,558	-	-	-	-	-	-	-	-	-	-
Total income	**867,916**	**1,644**	**892,674**	**2,010**	**961**	**25**	**2**	**-**	**-**	**-**	**-**	**2**	**-**
Interest expense	(16,201)	(1,892)	(5,179)	-	-	-	-	-	-	-	-	-	-
Fee and commission expenses	(77,603)	(3,064)	(42)	(123)	(1,283)	-	(449)	-	-	-	-	(4)	-
Net profit on financial assets held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss on foreign exchange rate and FX contracts	(269,745)	(847)	-	-	-	-	-	-	-	-	-	-	-
Other expenses	(380,713)	(28,804)	-	-	-	-	-	-	-	(6,649)	-	-	(6,163)
Total expenses	**(744,262)**	**(34,607)**	**(5,221)**	**(123)**	**(1,283)**	**-**	**(449)**	**-**	**-**	**(6,649)**	**-**	**(4)**	**(6,163)**
Off-balance sheet items - derivatives FX SWAPs	67,072,772	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	1,346,383	49,389	1,322,918	1,942,641	2,202,747	9,826				5,365			
Total off-balance sheet items	**68,419,155**	**49,389**	**1,322,918**	**1,942,641**	**2,202,747**	**9,826**	**-**	**-**	**-**	**5,365**	**-**	**-**	**-**

28. RELATED PARTY DISCLOSURES (Continued)

The above stated receivables and liabilities at the balance sheet date, as well as income and expenses arising from transactions with the related parties from the Intesa Sanpaolo Group, are the result of ordinary business activities.

Interest on the Bank's receivables and payables is calculated at the usual rates.

(a) Gross salaries and other benefits of the Executive Board's members and other key management personnel of the Bank, including the Board of Directors' members, during 2017 and 2016, are presented as follows:

		In RSD thousand
	2017	2016
Remunerations to the members of the Executive Board, Board of Directors and other key management of the Bank	263,290	239,301
Total	**263,290**	**239,301**

(b) Loans and receivables from the members of the Executive Board and the Board of Directors and other key management personnel of the Bank, are presented as follows:

		In RSD thousand
	2017	2016
Loans	127,547	139,125
Total allowances for impairment	(407)	(432)
Balance as of 31 December	**127,140**	**138,693**

29. RISK MANAGEMENT

Risk is an inherent part of the Bank's activities and cannot be eliminated completely. It is important to manage risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is a critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, risk of exposure toward a single entity or a group of related entities (concentration risk), risk of permanent investments, risk related to the country of origin of the entity to which the Bank is exposed and other risks.

The Board of Directors and the Executive Board are responsible for implementation of an adequate risk management system and for its consistent application.

The Bank's Board of Directors determines the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors. The Executive Board approves internal acts which define risk management and proposes strategies and policies for risk management to Audit Committee and Board of Directors.

29. RISK MANAGEMENT (Continued)

The Committee for monitoring business activities (Audit Committee) analyses and adopts proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

The Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management, as well as to enable functional and organizational segregation of risk management activities from regular business activities. This department is directly responsible to the Executive Board.

The Bank has developed the comprehensive risk management system by introducing policies and procedures, as well as limits for risk levels acceptable for the Bank.

The Bank's organizational parts authorized for risk management constantly monitor changes in regulations, while analyzing their influence on the risks at entity level of the Bank. They take necessary measures to make the Bank's business activities and procedures fully compliant with new procedures within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

29.1. Credit risk

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Bank.

Through its internal acts, policies and procedures, the Bank has implemented an adequate system of credit risk management, thus reducing credit risk to an acceptable level. The Bank manages credit risk through setting credit risk limits, establishing acceptable credit limits for individual customers or for groups of customers.

Credit risk is managed by the Bank at a counterparty specific level, group of related parties, and at total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates creditworthiness of each client, both at the moment of loan application, as well as through subsequent regular and continuous performance analysis.

Analysis of the client's creditworthiness, timely settlement of liabilities in the past, value of collateral at customer level and at transaction level, is performed within the Credit Management Department.

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Maximal exposure to credit risk

Maximal exposure to credit risk by the type of client as of 31 December 2017 and 2016 are presented as follows:

In RSD thousand

31 December 2017	Balance sheet assets to be classified	Allowances for impairment for balance sheet assets to be classified	Balance sheet assets not to be classified	Balance sheet as of 31 December 2017
Cash and balances with central bank	63,028	-	82,788,608	82,851,636
Financial assets at fair value held for trading through profit and loss	-	-	1,555,694	1,555,694
Financial assets initially carried at fair value through profit and loss	46,143	-	-	46,143
Financial assets available for sale	49,342	-	128,577,019	128,626,361
Loans and receivables from banks and other financial organizations:	16,539,114	(7,063)	12,721,506	29,253,557
- Loans and receivables from banks	*13,759,671*	*(6,249)*	-	*13,753,422*
- Loans and receivables from other financial organizations	*2,779,443*	*(814)*	*12,721,506*	*15,500,135*
Loans and receivables from customers	317,011,135	(15,116,930)	-	301,894,205
Investments in subsidiaries	962,496	-	-	962,496
Intangible assets	-	-	2,610,573	2,610,573
Property, plant and equipment	-	-	7,871,143	7,871,143
Investment property	-	-	51,251	51,251
Deferred tax assets	-	-	153,397	153,397
Non-current assets held for sale and discontinued operations	1,653,117	-	-	1,653,117
Other assets	6,446,772	(50,842)	934,075	7,330,005
TOTAL ASSETS	**342,771,147**	**(15,174,835)**	**237,263,266**	**564,859,578**

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Maximal exposure to credit risk (Continued)

In RSD thousand

31 December 2016	Balance sheet assets to be classified	Allowances for impairment for balance sheet assets to be classified	Balance sheet assets not to be classified	Balance sheet as of 31 December 2016
Cash and balances with central bank	18,858	-	102,352,042	102,370,900
Financial assets at fair value held for trading through profit and loss		-	1,984,720	1,984,720
Financial assets initially carried at fair value through profit and loss	46,068	-	-	46,068
Financial assets available for sale	49,324	-	120,309,466	120,358,790
Loans and receivables from banks and other financial organizations	34,770,772	(22,534)	2,843,574	37,591,812
- Loans and receivables from banks	*27,757,204*	*(19,663)*	-	*27,737,541*
- Loans and receivables from other financial organizations	*7,013,568*	*(2,871)*	*2,843,574*	*9,854,271*
Loans and receivables from customers	295,061,619	(23,315,733)	4,043	271,749,929
Investments in subsidiaries	962,496	-	-	962,496
Intangible assets	-	-	1,347,422	1,347,422
Property, plant and equipment	-	-	7,398,719	7,398,719
Investment property	-	-	174,147	174,147
Deferred tax assets	-	-	237,493	237,493
Non-current assets held for sale and discontinued operations	1,697,057	-	-	1,697,057
Other assets	5,081,226	(57,414)	472,407	5,496,219
TOTAL ASSETS	**337,687,420**	**(23,395,681)**	**237,124,033**	**551,415,772**

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for risk coverage, concentration risk (large exposures), portfolio credit risk, the level of capital necessary for coverage of all credit risks is performed by the Risk Management Department.

The Bank established a special organizational unit, the Delinquency Management Department, in order to manage receivables with a problem in collectability in a timely manner.

The Credit Management Department, the Risk Management Department and the Delinquency Management Department are independent units in the Bank.

Principles prescribed by the National Bank of Serbia, as well as the Bank's internal procedures are applied in these analyses in order to anticipate potential risks that can arise in terms of a client's inability to settle liabilities when they fall due and according to contracted terms.

In that sense, an assessment of the level of required reserves level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, portfolio analysis on a monthly level, are carried out. The analysis entails measuring the adequacy of provision/reserves according to client type, risk type, according to sub-portfolios and total portfolio of the Bank.

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Decision making on exposure to credit risk is performed based on proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually, depending on the client type, purpose of loan, estimated creditworthiness and current market position. Types of collateral that accompany each loan are also determined according to a client's creditworthiness analysis, type of credit risk exposure, term of placement, as well as the amount of a particular loan. Conditions for loan approvals to retail clients and entrepreneurs are determined by defining standard conditions for different types of products.

Risk price for standard types of products is calculated according to the analysis of credit costs which the Bank had in the past and historical probability of getting into default status per the same or similar type of product. Risk price for the SME and Corporate segment is calculated on the basis of the client's internal rating or historically adjusted probability of getting into default status per each rating category.

Considering the importance of credit risk, dispersion of authorizations was carried out in respect of the decision making process related to loan approval activities. This dispersion is provided with prescribed limits up to which an authorized person or management body can make loan approval decisions. Organizational parts making decisions with respect to loan approvals, with different levels of authorizations, are as follows: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, approval of the Parent Bank is necessary.

The Bank manages credit risk by setting up limits with respect to period, amount and results of an individual customer's creditworthiness, through diversification of loans to a larger number of customers and contracting foreign exchange clauses and index-linking to a consumer price index in order to maintain the real value of loans.

Furthermore, the Bank manages credit risk through assessment and analysis of received collaterals, by providing allowances for impairment of financial assets, provisions for off-balance sheet items, reserves for estimated credit losses, as well as by determining the adequate price of a loan which covers the credit risk of a particular placement.

In addition to a clients' creditworthiness, risk limits are also set based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analyzed before executing a transaction.

Loan concentration risk

Loan concentration risk is the risk arising, directly or indirectly, from the Bank's exposure to the same or similar source or type of risk. The Bank controls loan concentration risk by limiting the exposure, which enables the diversification of the loan portfolio. In order to monitor more efficiently concentration risk, the Bank has determined three categories of limits: specific limits, general limits and regulatory limits.

Derivative financial instruments

Derivative financial instruments result in the Bank's exposure to credit risk when the fair value of such instruments is positive for the Bank.

Credit exposure arising from derivatives is calculated using the current exposure method, i.e. the sum of the positive fair value of the contract and the nominal value of the derivative multiplied by a coefficient which depends on the type and maturity of the financial derivative, as prescribed by the National Bank of Serbia.

The credit risk of derivatives is limited by determining maximum credit exposure arising from a derivative for each individual customer.

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Derivative financial instruments (Continued)

In accordance with the above mentioned, as of 31 December 2017 and 31 December 2016 the Bank has the following exposures to counterparties:

		In RSD thousand
	Nominal value	**Total exposure**
Total 2017	**52,735,082**	**1,328,312**
Currency (FX) Swap	52,685,524	1,327,032
Currency(FX) Forward	49,558	1,280
Total 2016	**66,992,882**	**1,360,831**
Currency (FX) Swap	66,992,882	1,360,831
Currency(FX) Forward	-	-

Stated amounts represent credit exposure on derivatives, calculated as the sum of the positive fair value of the contract and the nominal value of the derivative, multiplied by a coefficient prescribed by the National Bank Serbia. The amounts presented within the Note 27(d) represent fair value of derivatives in the Bank's books of account.

In the middle of the year 2017, the Bank began to calculate the exposure and capital requirements for credit valuation adjustment (CVA) not only for the purpose of consolidation, but also for regulatory purposes in accordance with the new Decision on Capital Adequacy of Banks published by the National Bank of Serbia.

Adjustment of credit exposure, calculated only for derivative instruments, represents an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the market value of the credit risk of that counterparty to the Bank.

During 2017 the exposure to the CVA risk was negligible. As of 31 December 2017, the Bank has the following exposure to the CVA risk:

	In RSD thousand
	Total exposure
Total 2017	**1,249**
Currency (FX) Swap	-
Currency (FX) Forward	1,249

Credit-related risks

The Bank issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies applied for credit risk.

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of a customer's creditworthiness, type of exposure to the credit risk, placement's maturity, as well as the amount itself.

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Collaterals and other instruments of credit risk protection (Continued)

Contractual authorization, as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, state guarantees, guarantees issued by another bank or a legal entity, pledging of securities, or joint loan contracting with another legal entity which then becomes the joint debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuation of the assets, carried out by an authorized appraiser, in order to minimize potential risk. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardized, previously defined conditions, using a scoring model, with additional analysis by credit analysts.

Assessment of impairment of financial assets

The main factors considered for financial assets impairment assessment include: overdue payments of principal or interest, identified weakness in cash flows of customers, internal credit rating downgrades, or breach of other terms of contract. The Bank performs assessment of impairment at two levels: individual and collective.

- **Individual assessment of impairment**

The Bank performs an individual assessment of impairment for each individually significant loan or advance (for legal entities the amount over EUR 250,000) if it is in the status of default (materially significant amount overdue more than 90 days), i.e. if there is objective evidence that the loan has been impaired.

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc. Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a loan and its estimated recoverable amount, being the present value of expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client's creditworthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

- **Collective assessment of impairment**

A collective assessment of impairment is performed for loans and advances that are not individually significant and for individually significant loans and advances, where there is no objective evidence of individual impairment. Allowances are evaluated monthly with separate reviews of each sub-portfolio, which represents a specific group of loans and advances with similar characteristics and similar risk profile.

The collective assessment of impairment takes into account impairment that is likely to be present in the Bank's portfolio, even though there is not as yet objective evidence of individual assessment. Impairment losses are estimated based on PD (probability of default) and LGD (loss given default) parameters. For legal entities, with determined internal rating, the corresponding PD values are used. For individuals, PD calculation is based on long-term average of migration from performing to non-performing classes in a 1-year horizon. LGD parameter is estimated using historical recovery rates on non-performing positions.

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Assessment of impairment of financial assets

- **Special reserves for estimated losses**

Both for corporate and retail loans, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items. Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans and advances

(a) Maximum exposure to credit risk

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2017 and 2016 is presented in the table below:

In RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified***		**Total 2017**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Serbia	323,401,929	6,640,153	118,549,397	39,304	448,630,783
Europe	5,600,745	6,838,143	110,822	540,540	13,090,250
America	3,875	175,471	88	3,398	182,832
Rest of the world	4,927	105,904	31,187	-	142,018
Total	**329,011,476**	**13,759,671**	**118,691,494**	**583,242**	**462,045,883**

In RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified***		**Total 2016**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Serbia	307,822,029	2,794,639	97,076,408	41,063	407,734,139
Europe	2,103,846	20,637,861	48,138	529,556	23,319,401
America	4,206	2,157,542	79	6,050	2,167,877
Rest of the world	135	2,167,162	32,304	2,665	2,202,266
Total	**309,930,216**	**27,757,204**	**97,156,929**	**579,334**	**435,423,683**

* *Maximum exposure to credit risk by off-balance sheet items is presented in the Note 27.*

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

(a) Maximum exposure to credit risk (Continued)

Analysis of the Bank's exposure to credit risk by industry sectors as of 31 December 2017 and 2016 is presented in the table below:

In RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2017
Industry	**191,832,212**	**93,703,616**	**285,535,828**
Trade	39,397,908	21,936,403	61,334,311
Transportation and communication	7,399,840	3,953,345	11,353,185
Construction	16,567,471	22,028,002	38,595,473
Services, tourism and accommodation services	2,165,258	4,065,662	6,230,920
Food and beverage production	18,736,468	3,891,453	22,627,921
Permanent goods production	13,343,879	11,451,905	24,795,784
Agriculture, hunting, fishing and forestry	12,440,494	2,885,372	15,325,866
Other	81,780,894	23,491,474	105,272,368
Banks	**13,759,671**	**583,242**	**14,342,913**
Local government	**6,502,478**	**1,114,818**	**7,617,296**
Retail loans	**130,676,786**	**23,873,060**	**154,549,846**
Mortgage loans	58,835,334	-	58,835,334
Other	71,841,452	23,873,060	95,714,512
	342,771,147	**119,274,736**	**462,045,883**

In RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2016
Industry	**191,949,103**	**73,068,000**	**265,017,103**
Trade	40,247,211	19,057,316	59,304,527
Transportation and communication	7,316,566	2,901,261	10,217,827
Construction	15,722,122	12,054,310	27,776,432
Services, tourism and accommodation services	36,821,049	13,133,294	49,954,343
Food and beverage production	18,422,904	3,418,723	21,841,627
Permanent goods production	14,104,738	10,526,219	24,630,957
Agriculture, hunting, fishing and forestry	12,064,467	1,870,972	13,935,439
Other	47,250,046	10,105,905	57,355,951
Banks	**27,757,204**	**579,334**	**28,336,538**
Local government	**8,110,037**	**997,169**	**9,107,206**
Retail loans	**109,871,076**	**23,091,760**	**132,962,836**
Mortgage loans	53,471,529	-	53,471,529
Other	56,399,547	23,091,760	79,491,307
Total	**337,687,420**	**97,736,263**	**435,423,683**

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

(b) Portfolio quality

The Bank manages the quality of its financial assets using the internal classification of placements, which is in compliance with the standards of the Parent Bank.

The following tables present the quality of the portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2017 and 2016, based on the Bank's rating system:

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2017
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Category:					
Performing	303,831,910	13,759,635	114,542,231	583,242	432,717,018
Past due	558,573	-	108,364	-	666,937
Unlikely to pay	9,958,751	33	3,936,921	-	13,895,705
Doubtful	14,662,242	3	103,978	-	14,766,223
Total	**329,011,476**	**13,759,671**	**118,691,494**	**583,242**	**462,045,883**

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2016
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Category:					
Performing	272,343,929	27,755,191	92,623,975	579,334	393,302,429
Past due	518,368	-	98,457	-	616,825
Unlikely to pay	14,318,545	12	4,303,569	-	18,624,136
Doubtful	22,749,374	2,001	130,928	-	22,882,303
Total	**309,930,216**	**27,757,204**	**97,156,929**	**579,334**	**435,423,683**

Categories Past due, Unlikely to pay and Doubtful are non-performing receivables (impaired receivables).

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

(b) Portfolio quality (Continued)

Assessment of impairment of financial assets

The structure of allowances for impairment as of 31 December 2017 and 2016, which are calculated in accordance with the Bank's internal methodology, is presented as follows:

In RSD thousand

	Allowances for impairment		Provisions		Total 2017
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Category:					
Performing	2,260,767	6,225	400,886	65	2,667,943
Past due	247,752	-	24,502	-	272,254
Unlikely to pay	4,221,125	22	437,564	-	4,658,711
Doubtful	8,438,942	2	39,118	-	8,478,062
Total	**15,168,586**	**6,249**	**902,070**	**65**	**16,076,970**

In RSD thousand

	Allowances for impairment		Provisions		Total 2016
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Category:					
Performing	2,018,367	17,655	286,091	48	2,322,161
Past due	227,825	-	21,672	-	249,497
Unlikely to pay	7,132,670	8	689,648	-	7,822,326
Doubtful	13,997,155	2,001	57,788	-	14,056,944
Total	**23,376,017**	**19,664**	**1,055,199**	**48**	**24,450,928**

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

(b) Portfolio quality (Continued)

Ageing analysis of unimpaired loans and receivables from customers

The ageing analysis of loans and receivables from customers past due, but not impaired, as well as loans and receivables not yet due, as of 31 December 2017 and 2016 is presented as follows:

In RSD thousand

	Balance sheet assets to be classified		Allowances for impairment		Total 2017	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowance for impairment*
Receivables undue:	**292,825,622**	**13,759,635**	**2,033,714**	**6,225**	**306,585,257**	**2,039,939**
Receivables overdue:	**11,006,288**	**-**	**227,053**	**-**	**11,006,288**	**227,053**
01-30 days	9,767,315	-	161,389	-	9,767,315	161,389
31-60 days	707,412	-	44,332	-	707,412	44,332
61-90 days	324,406	-	20,670	-	324,406	20,670
>90 days[1]	207,155	-	662	-	207,155	662
Total	**303,831,910**	**13,759,635**	**2,260,767**	**6,225**	**317,591,545**	**2,266,992**

In RSD thousand

	Balance sheet assets to be classified		Allowances for impairment		Total 2016	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowance for impairment*
Receivables undue:	**262,260,688**	**27,755,191**	**1,769,791**	**17,655**	**290,015,879**	**1,787,446**
Receivables overdue:	**10,083,241**	**-**	**248,576**	**-**	**10,083,241**	**248,576**
01-30 days	8,877,382	-	188,454	-	8,877,382	188,454
31-60 days	674,229	-	44,696	-	674,229	44,696
61-90 days	270,039	-	14,603	-	270,039	14,603
>90 days[2]	261,591	-	823	-	261,591	823
Total	**272,343,929**	**27,755,191**	**2,018,367**	**17,655**	**300,099,120**	**2,036,022**

[1] Receivables past due for more than 90 days, but not impaired relate to smaller amounts of receivables which are due, but immaterial and, therefore, have no impact on classification of debtors.

[2] Receivables past due for more than 90 days, but not impaired relate to smaller amounts of receivables which are due, but immaterial and, therefore, have no impact on classification of debtors.

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Collateral analysis

Analysis of portfolio (balance sheet and off-balance sheet items), by the collateral type, as of 31 December 2017 and 2016 is presented below:

In RSD thousand

	Balance sheet assets to be classified	`Off-balance sheet items to be classified	Total 2017
Corporate loans:	**191,832,212**	**73,703,616**	**285,535,828**
Guaranteed by government	7,388,416	-	7,388,416
Secured by mortgage	45,560,754	6,022,223	51,582,977
Secured by deposit	2,112,610	1,112,427	3,225,037
Unsecured	136,770,432	86,568,966	223,339,398
Loans to banks:	**13,759,671**	**583,242**	**14,342,913**
Unsecured	13,759,671	583,242	14,342,913
Loans to local government:	**6,502,478**	**1,114,818**	**7,617,296**
Secured	316,960	-	316,960
Unsecured	6,185,518	1,114,818	7,300,336
Retail loans:	**130,676,786**	**23,873,060**	**154,549,846**
Secured by residential mortgage	53,813,394	-	53,813,394
Secured by non-residential mortgage	1,412,745	-	1,412,745
Secured by deposit	422,037	-	422,037
Unsecured	75,028,610	23,873,060	98,901,670
Total	**342,771,147**	**119,274,736**	**462,045,883**

In RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2016
Corporate loans:	**191,949,103**	**73,068,000**	**265,017,103**
Guaranteed by government	15,640,204	-	15,640,204
Guaranteed by bank	78,262	10,000	88,262
Secured by mortgage	45,525,938	6,174	45,532,112
Secured by deposit	1,660,036	1,095,336	2,755,372
Unsecured	129,044,663	71,956,490	201,001,153
Loans to banks:	**27,757,204**	**579,334**	**28,336,538**
Unsecured	27,757,204	579,334	28,336,538
Loans to local government:	**8,110,037**	**997,169**	**9,107,206**
Secured	729,420	-	729,420
Unsecured	7,380,617	997,169	8,377,786
Retail loans:	**109,871,076**	**23,091,760**	**132,962,836**
Secured by residential mortgage	47,736,212	-	47,736,212
Secured by non-residential mortgage	1,899,306	-	1,899,306
Secured by deposit	460,264	104,405	564,669
Unsecured	59,775,294	22,987,355	82,762,649
Total	**337,687,420**	**97,736,263**	**435,423,683**

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

(b) Portfolio quality (Continued)

Collateral analysis (Continued)

All collaterals are presented up to the amount of receivables. Mortgage must meet the requirements of the National Bank of Serbia in order to be used as a collateral and those requirements are: to be registered, there must be an appraisal for the mortgaged property by the authorized appraiser not older than 3 years (except in the case of mortgaged residential real estate property where the amount of the outstanding bank exposure does not exceed 40% of its value), owner of the property cannot be under bankruptcy, appraised value of property reduced by all higher ranked receivables must be greater than the amount of receivables, receivables secured by the mortgage cannot be overdue for more than 720 days.

Loan to value ratio (LTV ratio) for mortgage loans as of 31 December 2017 and 2016 is as follows:

In RSD thousand

Mortgage LTV	2017	Mortgage LTV	2016
< 50%	15,300,079	< 50%	13,308,347
51%-70%	15,274,118	51%-70%	12,338,126
71%-90%	18,509,882	71%-90%	15,642,237
91%-100%	2,548,367	91%-100%	3,065,874
> 100%	7,202,888	> 100%	9,116,945
Total	**58,835,334**	**Total**	**53,471,529**

Non-performing loan analysis

Balance sheet assets and allowances for impairment (NPL – categories: past due, unlikely to pay, doubtful and restructured) as of 31 December 2017 and 2016 are presented as follows:

In RSD thousand

	Balance sheet assets to be classified		Allowances for impairment		Total 2017	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowances for impairment*
Individual assessment	20,171,262	-	9,676,815	-	20,171,262	9,676,815
Collective assessment	5,008,304	36	3,231,004	24	5,008,340	3,231,028
Total	**25,179,566**	**36**	**12,907,819**	**24**	**25,179,602**	**12,907,843**

In RSD thousand

	Balance sheet assets to be classified		Allowances for impairment		Total 2016	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowances for impairment*
Individual assessment	31,751,790	-	17,189,913	-	31,751,790	17,189,913
Collective assessment	5,834,497	2,013	4,167,737	2,009	5,836,510	4,169,746
Total	**37,586,287**	**2,013**	**21,357,650**	**2,009**	**37,588,300**	**21,359,659**

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

(b) Portfolio quality (Continued)

Renegotiated loans analysis

Balance sheet assets and allowances for impairment for renegotiated loans as of 31 December 2017 and 2016 are presented as follows:

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2017
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	15,492,211	-	187	-	15,492,398
Allowances for impairment	(7,176,808)	-	-	-	(7,176,808)
Total	**8,315,403**	**-**	**187**	**-**	**8,315,590**

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2016
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	7,288,246	-	1,182	-	7,289,428
Allowances for impairment	(2,570,731)	-	-	-	(2,570,731)
Total	**4,717,515**	**-**	**1,182**	**-**	**4,718,697**

Renegotiated loans are all loans for which previous conditions, as term, dynamics of settlement, interest rate and etc. have been changed in order to provide benefits for the client.

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

(b) Portfolio quality (Continued)

Credit conversion factor analysis

Credit conversion factors (CCF) for off-balance sheet items in the portfolio as of 31 December 2017 and 31 December 2016 are presented as follows:

In RSD thousand

	Off-balance sheet items to be classified			Total 2017
	Corporate Loans	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
CCF				
0%	47,023,874	-	-	47,023,874
20%	24,000	-	-	24,000
50%	32,171,119	567,242	23,873,060	56,611,421
100%	15,599,441	16,000	-	15,615,441
Total	**94,818,434**	**583,242**	**23,873,060**	**119,274,736**

In RSD thousand

	Off-balance sheet items to be classified			Total 2016
	Corporate Loans	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
CCF				
0%	36,859,875	-	-	36,859,875
20%	190,688	-	-	190,688
50%	21,790,888	571,099	23,091,760	45,453,747
100%	15,223,718	8,235	-	15,231,953
Total	**74,065,169**	**579,334**	**23,091,760**	**97,736,263**

29.2. Liquidity risk and financial assets management

The Risk Management Department is responsible for measuring and monitoring liquidity and for the regular preparation of reports, which present the effects of the migration of various categories of assets and liabilities of the Bank to its liquid assets position. Liquidity risk management system is in compliance with measures and criteria determined by the Parent Bank, as well as regulations prescribed by the National Bank of Serbia.

In 2014, the Bank adopted and implemented requirements for monitoring and measuring liquidity risk, determined by the Parent Bank, and in that way implemented Basel III Standards on monitoring liquidity in its internal systems, i.e. implementation of EU regulations CRR/CRD IV and Delegated Act (EU) 2015/61 in 2015. These standards were implemented through the local Liquidity policy, which is completely in compliance with the Group standards and ERMASnet 5 technical solution, which provides standardized monitoring of liquidity risk on the level of ISP Group. Further, the Bank must monitor and report on liquidity indicators, which are determined by the local regulations.

Basic activities of the liquidity risk management include:

- planning of cash inflows and outflows;
- implementation and monitoring of liquidity indicators;
- measurement and monitoring of the Bank's liquidity;
- monitoring of liquidity crisis indicators; and
- preparation of the reports for the management.

29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

Liquidity Risk management is done through monitoring following limits/indicators:

- Regulatory liquidity indicators: Liquidity coverage ratio – LCR (including LCR by significant currencies), Liquidity ratio and Narrow liquidity ratio.
- Liquidity indicators – reporting to the Parent Bank:
  - LCR (Liquidity Coverage Ratio) – in accordance with Delegated Act (EU) 2015/61 regulation for monitoring short-term liquidity;
  - NSFR (Net Stable Funding Ratio) – Basel III standard for monitoring long-term liquidity;
  - Liquidity stress tests - stress LCR indicator;
  - LCR by significant currencies;
  - Amount and structure of liquidity reserves;
  - Liquidity reserves for daily operations;
  - Projected cumulative gap up to one week; and
  - Additional liquidity monitoring metrics prescribed by European Banking Authority (EBA).

All liquidity indicators, regulatory indicators and indicators defined by the Liquidity Risk Management Policy, were above the prescribed limits in 2017.

Regulatory liquidity indicators

Liquidity Coverage Ratio – LCR

By applying the guidelines of the European Banking Authority (EBA) and Basel III regulations, as well as by respecting the specificities of the Serbian market and the macroeconomic environment, the National Bank of Serbia adopted a new Decision on Liquidity Risk Management by Banks at the end of 2016, introducing Liquidity Coverage Ratio (LCR) as a new regulatory liquidity indicator that became valid as of 30 June 30 2017. The LCR indicator should provide adequate level of highly liquid assets (cash or assets which can be converted into cash with small or without any loss in value) in order to fulfil the Bank's needs for liquidity in the 30-day period of stress scenario.

The Decision on Liquidity Risk Management by Banks prescribed by National Bank of Serbia is almost fully harmonized with Basel III, i.e. the Commission Delegated Act Regulation (EU) 2015/91. However, there are some differences in the local LCR calculation that should be remarked:

- Excess liquidity on obligatory reserve account is calculated as of reporting date instead as average;
- There are no haircuts required for securities issued by the Serbian Government in local and foreign currencies;
- Higher outflow rates are applied only to retail deposits denominated in currencies other than dinar, euro and the currency of an EU member state. Namely, Euro and other EU member state currencies are treated as domestic currency by the Serbian regulations;
- Shortage of required reserves is not treated as outflow; and
- Contractual inflows from exposures that are not past due for more than five days are included into the liquidity inflows (no five days threshold is applied by the EU regulations).

The LCR indicator required by the regulator was well above the required limit in 2017 with an average value that was more than five times higher than prescribed limit of 1.0 (100%).

LCR	31 December	Average	Maximum	Minimum
2017	3.27	5.18	6.85	3.27

The Bank also calculates the LCR indicator by significant currencies in accordance with the Decision on Liquidity Risk Management by Banks prescribed by the National Bank of Serbia. LCR is monthly reported to the ALCO board by the most significant currencies (RSD and EUR), As of 31 December 2017 LCR is 10.28 for liquidity position in domestic currency and 1.13 for liquidity position in foreign currency (EUR).

29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

Regulatory liquidity indicators (Continued)

Liquidity ratio and Narrow liquidity ratio

In 2017 the regulatory liquidity ratio and narrow regulatory liquidity ratio were significantly above the legally prescribed limit and the average regulatory liquidity ratio was almost three times above the required level.

Liquidity ratio	31 December	Average	Maximum	Minimum
2017	2.38	2.86	3.25	2.22
2016	2.62	2.83	3.44	2.18

Narrow liquidity ratio	31 December	Average	Maximum	Minimum
2017	1.88	2.30	2.78	1.69
2016	2.26	2.30	2.97	1.71

Liquidity indicators – reporting to the Parent Bank

By adopting Group Liquidity Risk Management Guidelines (by the Board of Directors as at 20th of September 2017) which define Basel III standards, CRR/CRD IV and Delegated Act (EU) 2015/61 regulations of liquidity as the primary measure of the liquidity risk at the ISP Group level, the Bank has included the most advanced system of liquidity monitoring into its internal risk management system.

Requirements defined by Basel III, CRR/CRD IV regulation and Delegated Act (EU) liquidity standards and ISP Group Policy are adopted locally through Liquidity Risk Management Policy and Rulebook of implementation of Liquidity Risk Management Policy by the Board of Directors (as of 31 October 2017).

LCR (Liquidity Coverage Ratio)

LCR is implemented as the primary liquidity indicator, which is ratio between high quality liquid assets (HQLA) and net outflows, expected in the one-month time period. The LCR indicator is defined in accordance with the Delegated Act (EU) 2015/16 regulation respecting local regulatory requirements (Decision on Liquidity Risk Management by Banks) for the calculation of certain positions with weights under national discretion.

In accordance with the Parent Bank's requirement and the local Liquidity risk management policy haircuts have been applied to securities issued by the Republic of Serbia (50% to securities in the local currency and Euro, i.e. 10% to securities in USD) in 2017. The application of haircuts significantly reduced the LCR indicator compared to 2016.

LCR limit is defined according to Intesa Group's guidelines and it must not be less than 0.9 (90%). In 2017 LCR indicators were above the limit with an average value that was two times higher than the required limit.

LCR	31 December	Average	Maximum	Minimum
2017	1.39	2.11	3.11	1.39
2016	3.28	6.70	7.83	3.28

LCR is monthly reported to the ALCO Board by the most significant currencies (RSD and EUR), and as of 31 December 2017 it is 4.23 for liquidity position in the domestic currency and 0.54 for liquidity position in foreign currency (EUR). Considering that USD is the most significant foreign currency at the Group level, the Bank must report monthly on LCR in USD, although USD participation in its balance sheet assets is 3.2%.

29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

NSFR (Net Stable Funding Ratio)

NSFR is in compliance with Basel III requirements and represents the Bank's structural liquidity position. NSFR is an indicator of structural liquidity in normal conditions (usual business circumstances), which represents term transformation and should limit it in one year time period. This standard should reduce financing risk during the longer time period by requiring from the Bank to fund its activities from stable sources of funds. The limit is set in accordance with the Group's guidelines and it must not be less than 0.9 (90%).

NSFR	31 December	Average	Maximum	Minimum
2017	1.88	1.99	2.05	1.88
2016	2.00	1.99	2.04	1.94

The Bank must maintain and report on liquidity reserves level, required by the ISP Group standards, which is defined by the Liquidity risk management policy.

LCR calculation demands use of required reserves in the amount above the amount required for the period, which are considered as a part of liquidity reserves. The Parent Bank demands such cautious approach and when it is applied the available required reserves for LCR calculation amount to RSD 14,009,861 thousand as of 31 December 2017 (2016: RSD 47,552,753 thousand).

In accordance with the Parent Bank's requirement and the local Liquidity risk management policy, haircuts have been applied to securities issued by the Republic of Serbia (50% to securities in the local currency and Euro, i.e. 10% to securities in USD) in 2017.

Structure of the total liquidity reserves as of **31 December 2017** is presented in the following table:

In RSD thousand

Liquidity reserves	Carrying amount/ Fair value	Haircut	Available amount
Required reserves in the amount above the amount required for the period	14,009,861	0%	14,009,861
- of which required reserves in local currency	*8,469,436*	0%	*8,469,436*
- of which required reserves in foreign currency	*5,540,425*	0%	*5,540,425*
Reverse repo transaction with Central Bank	10,000,000	0%	10,000,000
Cash and cash equivalents	11,254,102	0%	11,254,102
Available no-load government securities issued by the Republic of Serbia	125,787,568	47.98%	65,433,334
- of which in local currency	*70,323,131*	50%	*35,161,566*
- of which in Euro	*49,115,564*	50%	*24,557,782*
- of which in Dollar	*6,348,873*	10%	*5,713,986*
Available no-load government securities issued by the Republic of Italy	3,573,620	0%	3,573,620
Total liquidity reserves	**164,625,151**		**104,270,917**

29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

Structure of the total liquidity reserves as of **31 December 2016** is presented in the following table:

In RSD thousand

Liquidity reserves	Carrying amount / Fair value	Haircut	Available amount
Required reserves in the amount above the amount required for the period	47,552,753	0%	47,552,752
- of which required reserves in local currency	*20,040,172*	0%	*20,040,172*
- of which required reserves in foreign currency	*27,512,580*	0%	*27,512,580*
Cash and cash equivalents	9,017,580	0%	9,017,580
Available no-load government securities issued by the Republic of Serbia	110,385,913	0%	110,385,913
- of which in local currency	*56,871,481*	0%	*56,871,481*
- of which in Euro	*44,421,365*	0%	*44,421,365*
- of which in Dollar	9,093,067	0%	*9,093,067*
Available no-load government securities issued by the Republic of Italy	11,244,042	0%	11,244,042
Total liquidity reserves	**178,200,287**		**178,200,287**

The liquidity reserves structure is as follows: reserves required by the central bank above the amount required for the period in domestic and foreign currency on which 0% haircut is applied, reverse repo transactions with the central bank, cash and cash equivalents (including gold) on which 0% haircut is applied, government bonds in domestic and foreign currency issued by the Republic of Serbia on which defined haircut of 10% i.e. 50% is applied. The Parent Bank did not require the application of haircuts on securities issued by the Republic of Italy.

As of 31 December 2017, available unencumbered financial assets issued by the Republic of Serbia amounted to RSD 125,787,568 thousand (2016: RSD 110,385,913 thousand), out of which RSD 70,323,131 thousand is in local currency (2016: RSD 56,871,481 thousand), RSD 49,115,564 thousand is in Euro (2016: RSD 44,421,365 thousand) and RSD 6,348,873 thousand is in USD (2016: RSD 9,093,067 thousand).

As of 31 December 2017, available unencumbered financial assets issued by the Republic of Italy amounted to RSD 3,573,620 thousand and were denominated in Euro (2016: RSD 11,244,042 thousand).

According to the Liquidity Risk Management Policy, foreign currency account balances are not a part of liquidity reserves, although they represent liquid assets that the Bank owns without restrictions. As of 31 December 2017, the outstanding balance of foreign currency accounts was RSD 3,841,323 thousand, out of which RSD 2,369,454 thousand was on the foreign account with the National Bank of Serbia, while RSD 1,471,869 thousand was on nostro accounts (2016: RSD 19,100,758 thousand dinars).

The currency structure of cash on nostro accounts at the reporting date was as follows: EUR – RSD 838,101 thousand (2016: RSD 11,472,980 thousand), USD – RSD 266,722 thousand (2016: RSD 3,001,132 thousand), GBP – RSD 81,734 thousand (2016: RSD 1,541,916 thousand), CAD – RSD 57,397 thousand (2016: RSD 709,266 thousand), AUD – RSD 51,936 thousand (2016: RSD 886,198 thousand), DKK – RSD 52,702 thousand (2016: RSD 67,610 thousand), CHF – RSD 43,141 thousand (2016: RSD 828,775 thousand), SEK – RSD 40,648 thousand (2016: RSD 393,034 thousand), RUB – RSD 30,820 thousand (2016: RSD 75,445 thousand) and other currencies – RSD 8,668 thousand (2016: RSD 124,402 thousand).

29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

The following table presents the remaining maturity mismatch report as of **31 December 2017**:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with central bank	82,829,649	-	-	-	-	21,987	82,851,636
Financial assets at fair value through profit and loss held for trading	-	-	259,710	493,685	-	802,299	1,555,694
Financial assets initially carried at fair value through profit and loss	46,143	-	-	-	-	-	46,143
Financial assets available for sale	6,452,497	17,053,242	34,345,131	70,797,314	-	(21,823)	128,626,361
Loans and receivables from banks and other financial organizations	24,593,444	1,665,481	2,834,864	166,831	-	(7,063)	29,253,557
Loans and receivables from customers	35,457,784	21,442,455	77,505,478	126,627,076	56,999,547	(16,138,135)	301,894,205
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	2,610,573	2,610,573
Property, plant and equipment	-	-	-	-	-	7,871,143	7,871,143
Investment property	-	-	-	-	-	51,251	51,251
Deferred tax assets	-	-	-	-	-	153,397	153,397
Non-current assets held for sale and discontinued operations	-	-	-	-	-	1,653,117	1,653,117
Other assets	-	-	-	-	-	7,330,005	7,330,005
Total assets	**149,379,517**	**40,161,178**	**114,945,183**	**198,084,906**	**56,999,547**	**5,289,247**	**564,859,578**

In maturity mismatch report table as of 31 December 2017, allowances for impairment are presented within the category with non-defined maturity.

29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of **31 December 2017** (Continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	4,847	4,847
Deposits and other liabilities due to banks, other financial organizations and central bank	5,726,955	348,731	6,981,829	11,816,471	6,357,579	1,143,472	32,375,037
Deposits and other liabilities due to customers	306,002,783	14,308,131	56,889,301	15,070,188	1,026,786	4,408,046	397,705,235
Provisions	-	-	-	-	-	1,277,294	1,277,294
Current tax liabilities	-	-	-	-	-	387,008	387,008
Other liabilities	7,380,068	-	-	-	-	6,723,287	14,103,355
TOTAL LIABILITIES	**319,109,806**	**14,656,862**	**63,871,130**	**26,886,659**	**7,384,365**	**13,943,954**	**445,852,776**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**119,006,802**	**119,006,802**
TOTAL LIABILITIES AND EQUITY	**319,109,806**	**14,656,862**	**63,871,130**	**26,886,659**	**7,384,365**	**132,950,756**	**564,859,578**
MATURITY MISMATCH	**(169,730,289)**	**25,504,316**	**51,074,053**	**171,198,247**	**49,615,182**	**(127,661,509)**	
CUMULATIVE MATURITY MISMATCH	**(169,730,289)**	**(144,225,973)**	**(93,151,920)**	**78,046,327**	**127,661,509**		

The remaining maturity mismatch report table as of 31 December 2017 presents future cash flows based on the highly conservative assumptions, which are that total a vista deposits will mature at the same time within the following month. These assumptions do not provide realistic view on the Bank's liquidity, considering that by analyzing time series of a vista deposits it can be concluded that they have been very stable source of funds.

29. RISK MANAGEMENT (continued)

29.2. Liquidity risk and financial assets management (Continued)

The following table presents the remaining maturity mismatch report as of **31 December 2016**:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with central bank	102,353,828	-	-	-	-	17,072	102,370,900
Financial assets at fair value through profit and loss held for trading	-	-	163,091	1,128,327	-	693,302	1,984,720
Financial assets initially carried at fair value through profit and loss	46,068	-	-	-	-	-	46,068
Financial assets available for sale	7,035,337	10,393,377	54,356,853	48,595,040	-	(21,817)	120,358,790
Loans and receivables from banks and other financial organizations	33,090,868	46,703	3,581,663	882,239	12,873	(22,534)	37,591,812
Loans and receivables from customers	42,192,750	18,105,151	68,139,893	114,153,903	53,287,813	(24,129,581)	271,749,929
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	1,347,422	1,347,422
Property, plant and equipment	-	-	-	-	-	7,398,719	7,398,719
Investment property	-	-	-	-	-	174,147	174,147
Deferred tax assets	-	-	-	-	-	237,493	237,493
Non-current assets held for sale and discontinued operations	-	-	-	-	-	1,697,057	1,697,057
Other assets	-	-	-	-	-	5,496,219	5,496,219
Total assets	**184,718,851**	**28,545,231**	**126,241,500**	**164,759,509**	**53,300,686**	**(6,150,005)**	**551,415,772**

In maturity mismatch report table as of 31 December 2016, allowances for impairment are presented within the category with non-defined maturity.

29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of **31 December 2016** (Continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	2,594	2,594
Deposits and other liabilities due to banks, other financial organizations and central bank	10,517,249	268,533	5,996,931	12,335,938	3,594,596	1,342,210	34,055,459
Deposits and other liabilities due to customers	275,006,654	18,571,264	66,762,094	18,868,760	1,206,362	3,037,425	383,452,558
Provisions						1,753,517	1,753,517
Current tax liabilities	-	-	-	-	-	55,668	55,668
Other liabilities	3,705,477	9,431	88,999	7,820	-	4,143,438	7,955,164
TOTAL LIABILITIES	**289,229,380**	**18,849,228**	**72,848,024**	**31,212,518**	**4,800,958**	**10,334,852**	**427,274,960**
TOTAL EQUITY	-	-	-	-	-	**124,140,812**	**124,140,812**
TOTAL LIABILITIES AND EQUITY	**289,229,380**	**18,849,228**	**72,848,024**	**31,212,518**	**4,800,958**	**134,475,664**	**551,415,772**
MATURITY MISMATCH	**(104,510,529)**	**9,696,003**	**53,393,476**	**133,546,991**	**48,499,728**	**(140,625,669)**	
CUMULATIVE MATURITY MISMATCH	**(104,510,529)**	**(94,814,526)**	**(41,421,050)**	**92,125,941**	**140,625,669**		

29. RISK MANAGEMENT (Continued)

29.3. Market risk

In 2017, the Bank acquired Trading Book items (positions) and, therefore, was exposed to interest rate risk and price risk which could be caused by the Trading Book. On the other hand, the Banking book was exposed to foreign currency risk, with registered limit breaches approved by two members of the Executive Board in 2017.

Foreign currency risk is the risk of occurrence of negative effects on the financial result and equity of the Bank due to changes in foreign currency exchange rates. Banking operations in different foreign currencies result in exposure to fluctuations in exchange rates of foreign currencies.

The Bank applies foreign currency risk monitoring system based on the first and the second class limits. The first class limit is considered to be FX VaR limit, which is calculated and reported on a daily basis. Calculation methodology is regulated by the ISP Group, which applies EWMA historical method, with 99% confidence interval and one day time period. FX VaR is calculated on positions for each currency, due to the Parent Bank's requirements, as well as for the increase of volatility of some currencies, which the Bank has in its portfolio. However, the FX VaR is mostly determined by the volatility of EUR, since the portion of EUR of the total open FX position was 72% in average during 2017.

The second class limit is considered to be the limit of net open FX position, which represents difference between the currency sensitive assets and the currency sensitive liabilities. The second class limits exposure is calculated and reported on a daily basis. During 2017, the first class limit (FX VaR limit) and the second class limit (limit of net open FX position), remained unchanged. During 2017 breaches of the first class and the second class limits were registered, but were announced in advance and agreed with two members of the Executive Board. They were settled within the prescribed limit within three days.

During 2017, the Bank's foreign currency risk indicator was in compliance with the legally prescribed one, which represents 20% of the regulatory equity. As of 31 December 2017 regulatory indicator of foreign currency risk was 0.88%.

The following table presents the open foreign currency position as of **31 December 2017**:

In RSD thousand

	Carrying amount	Trading book	Banking book
Assets complied with market risks	**347,033,437**	**110,582**	**346,922,855**
Cash and balances with central bank	42,890,867	-	42,890,867
Financial assets at fair value through profit and loss held for trading	110,582	110,582	-
Financial assets initially carried at fair value through profit and loss	46,143	-	46,143
Financial assets available for sale	58,927,475	-	58,927,475
Loans and receivables from banks and other financial organizations	43,700,041	-	43,700,041
Loans and receivables from customers	200,457,831	-	200,457,831
Other assets	900,498	-	900,498
Liabilities complied with market risks	**295,431,642**	**-**	**295,431,642**
Deposits and other liabilities due to banks, other financial organizations and central bank	26,714,938	-	26,714,938
Deposits and other liabilities due to customers	265,393,773	-	265,393,773
Other liabilities	3,322,931	-	3,322,931
Off-balance sheet financial derivatives which impact FX position	(42,560,308)	-	(42,560,308)
Allowances for impairment	(8,460,657)	-	(8,460,657)
Open net foreign currency position	**580,830**	**110,582**	**470,248**

29. RISK MANAGEMENT (Continued)

29.3. Market risk (Continued)

The following table shows the open foreign currency position as of **31 December 2016**:

In RSD thousand

	Carrying amount	Trading book	Banking book
Assets complied with market risks	**372,565,903**	**44,002**	**372,521,901**
Cash and balances with Central Bank	59,697,874	-	59,697,874
Financial assets at fair value through profit and loss held for trading	44,002	44,002	-
Financial assets initially carried at fair value through profit and loss	46,068	-	46,068
Financial assets available for sale	64,714,472	-	64,714,472
Loans and receivables from banks and other financial organizations	34,974,296	-	34,974,296
Loans and receivables from customers	212,808,439	-	212,808,439
Other assets	280,752	-	280,752
Liabilities complied with market risks	**293,568,595**	**-**	**293,568,595**
Deposits and other liabilities due to banks, other financial organizations and central bank	26,585,846	-	26,585,846
Deposits and other liabilities due to customers	264,430,956	-	264,430,956
Other liabilities	2,551,793	-	2,551,793
Off-balance sheet financial derivatives which impact FX position	(64,593,150)	-	(64,593,150)
Allowances for impairment	(15,317,054)		(15,317,054)
Open net foreign currency position	**(912,896)**	**44,002**	**(956,898)**

Following table represents the currency structure of open net foreign currency position as of 31 December 2017 and 31 December 2016:

In RSD thousand

Net open foreign currency position	**2017**	**2016**
EUR	416,739	(1,001,191)
USD	22,209	(8,090)
CHF	12,223	(28,385)
Other currencies	73,396	65,918
Gold and other precious metals	56,264	58,852
Total	**580,830**	**(912,896)**

In EUR

Foreign currency VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2017	14,218	12,355	166,835	1,433
2016	4,425	13,977	49,762	2,307

29. RISK MANAGEMENT (Continued)

29.3. Market risk (Continued)

Following table represents effect of the change in the exchange rates on the Bank's profit and regulatory capital:

In RSD thousand

Scenario	Effect 2017	Effect 2016
10% depreciation of RSD	58,083	(91,290)
20% depreciation of RSD	116,166	(182,579)

29.4. Interest rate risk

Interest rate risk is the risk of decrease in profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to interest rate risk depends on the ratio of the interest-sensitive assets and interest-sensitive liabilities.

Interest rate risk is calculated separately for the Banking Book (portfolio of securities available for sale) and for the Trading Book (portfolio of securities held for trading). The indicators used for the calculation of interest rate risk in the Banking Book are sensitivity of net assets on changes in interest rate by 100 bps and sensitivity of interest income and expenses on the changes in interest rate by 50 bps.

ISP Group Methodology on the calculation of interest rate risk was changed at the beginning of 2014 and adopted by the Bank, through internal documents and ERMAS net 5 technical solution. Changes in the methodology included: treatment of the margin as fixed future cash flow; calculation of future cash flows by using FTP prices, instead of the contractual prices; modelling a vista deposits and discounting future cash flows by applying yield curves, modified by the historical values of PD (default probability). Applying the guidelines of the European Bank Authority (EBA) and Basel III regulations, the Parent Bank issued the new Guidelines and Rules relating to interest rate risk at the end of 2016. At the beginning of 2017, the Bank's documents defining interest rate risk management, the Policy on management of interest rate risk in the Banking Book and the Rulebook - Measurement and control of interest rate risk in the Banking Book, were harmonized with the Parent Bank' documents.

The sensitivity of net assets value to changes in market interest rates of 100 bps, 200 bps and minus 200 bps is calculated, monitored and submitted monthly to the ALCO Board and to the Parent Bank.

Measures used for assessment of interest rate risk on the Banking Book are sensitivity of economic value of assets on 100 basis points interest rate change and sensitivity of income revenues and costs on change of on 50 basis points interest rate change. The Bank was in compliance with the prescribed limits by the Parent Bank in 2017.

During 2017, interest rate VAR limit on the Trading Book, as well as the total interest rate risk exposure limit on the Banking Book, were decreased on the Parent Bank's request.

Interest rate risk is daily monitored and submitted for the financial assets available for sale (AFS) as well as for portfolio of securities held for trading (HFT). For the financial assets available for sale, as well as securities held for trading the following ratios of interest rate risk are calculated and reported on a daily basis: IRR VaR, duration and stress test (change scenario by 100 bps and 200 bps).

Acceptable interest rate risk is limited to the highest possible value at interest rate risk (IRR VaR) for the portfolio of financial assets available for sale, as well as for the portfolio of securities held for trading.

Value at interest rate risk (IRR VaR) is considered to be the highest possible one day loss in the AFS securities portfolio and securities held for trading that the Bank could undertake under usual market movements in interest rates. IRR VaR calculation methodology is determined by the ISP Group regulations, which applies EWMA historical method with 99% confidence interval and one day time period. During 2017 there was no registered breach of the VaR limits.

29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of **31 December 2017**:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with central bank	82,829,649	-	-	-	-	21,987	82,851,636
Financial assets at fair value through profit and loss held for trading	-	-	259,710	493,685	-	802,299	1,555,694
Financial assets initially carried at fair value through profit and loss	46,143	-	-	-	-	-	46,143
Financial assets available for sale	6,452,497	17,053,242	34,345,131	70,797,314	-	(21,823)	128,626,361
Loans and receivables from banks a and other financial organizations	26,914,388	1,624,592	715,328	6,312	-	(7,063)	29,253,557
Loans and receivables from customers	113,243,590	71,906,081	61,884,329	63,007,207	7,991,133	(16,138,135)	301,894,205
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	2,610573	610,573
Property, plant and equipment	-	-	-	-	-	7,871,143	7,871,143
Investment property	-	-	-	-	-	51,251	51,251
Deferred tax assets	-	-	-	-	-	153,397	153,397
Non-current assets held for sale and discontinued operations	-	-	-	-	-	1,653,117	1,653,117
Other assets	-	-	-	-	-	7,330,005	7,330,005
Total assets	**229,486,267**	**90,583,915**	**97,204,498**	**134,304,518**	**7,991,133**	**5,289,247**	**564,859,578**

In table that represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2017, allowances for impairment are presented within the category with non-defined maturity.

29. RISK MANAGEMENT (Continued)

29.4. Interest rate risk (Continued)

Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of **31 December 2017 (Continued)**

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	4,847	4,847
Deposits and other liabilities due to banks, other financial organizations and central bank	5,846,955	8,965,601	3,496,318	8,179,006	4,743,685	1,143,472	32,375,037
Deposits and other liabilities due to customers	309,369,917	15,392,929	54,990,183	12,910,983	633,177	4,408,046	397,705,235
Provisions	-	-	-	-	-	1,277,294	1,277,294
Current tax liabilities	-	-	-	-	-	387,008	387,008
Other liabilities	7,380,068	-	-	-	-	6,723,287	14,103,355
TOTAL LIABILITIES	**322,596,940**	**24,358,530**	**58,486,501**	**21,089,989**	**5,376,862**	**13,943,954**	**445,852,776**
TOTAL EQUITY	-	-	-	-	-	**119,006,802**	**119,006,802**
TOTAL LIABILITIES AND EQUITY	**322,596,940**	**24,358,530**	**58,486,501**	**21,089,989**	**5,376,862**	**132,950,756**	**564,859,578**
MATURITY MISMATCH	**(93,110,673)**	**66,225,385**	**38,717,997**	**113,214,529**	**2,614,271**	**(127,661,509)**	
CUMULATIVE MATURITY MISMATCH	**(93,110,673)**	**(26,885,288)**	**11,832,709**	**125,047,238**	**127,661,509**		

29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of **31 December 2016**:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with central bank	102,353,828	-	-	-	-	17,072	102,370,900
Financial assets at fair value through profit and loss held for trading	-	-	163,091	1,128,327	-	693,302	1,984,720
Financial assets initially carried at fair value through profit and loss	46,068	-	-	-	-	-	46,068
Financial assets available for sale	7,035,336	10,393,377	54,356,854	48,595,040	-	(21,817)	120,358,790
Loans and receivables from banks and other financial organizations	33,638,948	39,783	3,374,516	561,099	-	(22,534)	37,591,812
Loans and receivables from customers	109,253,374	81,342,754	47,704,716	50,091,527	6,673,291	(23,315,733)	271,749,929
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	1,347,422	1,347,422
Property, plant and equipment	-	-	-	-	-	7,398,719	7,398,719
Investment property	-	-	-	-	-	174,147	174,147
Deferred tax assets	-	-	-	-	-	237,493	237,493
Non-current assets held for sale and discontinued operations	-	-	-	-	-	1,697,057	1,697,057
Other assets	-	-	-	-	-	5,496,219	5,496,219
Total assets	**252,327,554**	**91,775,914**	**105,599,177**	**100,375,993**	**6,673,291**	**(5,336,157)**	**551,415,772**

In table that represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2016, allowances for impairment are presented within the category with non-defined maturity.

29. RISK MANAGEMENT (Continued)

29.4. Interest rate risk (Continued)

Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of **31 December 2016** (Continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	2,594	2,594
Deposits and other liabilities due to banks, other financial organizations and central bank	11,037,250	11,545,273	5,791,486	4,149,278	189,962	1,342,210	34,055,459
Deposits and other liabilities due to customers	280,533,887	19,775,075	63,833,417	15,451,789	820,965	3,037,425	383,452,558
Provisions	-	-	-	-	-	1,753,517	1,753,517
Current tax liabilities						55,668	55,668
Other liabilities	3,705,476	9,431	88,999	7,820	-	4,143,438	7,955,164
TOTAL LIABILITIES	**295,276,613**	**31,329,779**	**69,713,902**	**19,608,887**	**1,010,927**	**10,334,852**	**427,274,960**
TOTAL EQUITY	-	-	-	-	-	**124,140,812**	**124,140,812**
TOTAL LIABILITIES AND EQUITY	**295,276,613**	**31,329,779**	**69,713,902**	**19,608,887**	**1,010,927**	**134,475,664**	**551,415,772**
MATURITY MISMATCH	**(42,949,059)**	**60,446,135**	**35,885,275**	**80,767,106**	**5,662,364**	**(139,811,821)**	
CUMULATIVE MATURITY MISMATCH	**(42,949,059)**	**17,497,076**	**53,382,351**	**134,149,457**	**139,811,821**		

29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

The table below presents the effects of change in interest rates on the Bank's net income and net assets, valued by applying the standard scenario and not taking into account assumptions on asymmetrical changes of the yield curve. The standard scenario implies parallel movement of the yield curve by 100bps and 200 bps on the Bank's net asset sensitivity and 50bps on net income sensitivity.

In RSD thousand

Sensitivity of the Bank's net assets on the change in interest rates	Increase by 100bps	Decrease by 100bps	Increase by 200bps	Decrease by 200bp
2017				
As of 31 December	(1,034,898)	1,099,586	(1,996,247)	2,366,665
Period average	(943,977)	1,008,564	(1,809,801)	2,076,273
Period maximum	(657,033)	1,282,586	(1,244,490)	2,763,081
Period minimum	(1,201,924)	714,329	(2,314,199)	1,324,416
2016				
As of 31 December	(838,377)	838,377	(1,844,676)	2,484,480
Period average	(921,712)	921,712	(1,470,006)	2,199,051
Period maximum	(535,917)	1,152,259	(1,094,714)	2,628,681
Period minimum	(1,152,259)	535,917	(1,844,676)	1,687,687

In RSD thousand

Sensitivity of the Bank's net income on the change in interest rates	Increase by 50bps	Decrease by 50bp
2017		
As of 31 December	483,364	(483,817)
Period average	(34,400)	23,085
Period maximum	483,364	210,416
Period minimum	(227,016)	(483,817)
2016		
As of 31 December	(147,428)	146,069
Period average	(129,103)	128,085
Period maximum	78,032	254,174
Period minimum	(254,059)	(74,529)

The following table represents value at risk for *financial assets available for sale* portfolio:

In EUR

IRR AFS VaR	31 December	Average	Maximum	Minimum
2017	377,015	497,629	702,762	349,315
2016	719,077	518,910	721,262	400,897

The following table represents value at risk for *financial assets held for trading* portfolio:

In EUR

IRR HFT VaR	31 December	Average	Maximum	Minimum
2017	2,980	7,593	17,082	682
2016	12,415	24,571	72,176	1,420

29. RISK MANAGEMENT (Continued)

29.5. Operational risk

Operational risk is the risk of possible adverse effects on financial result and capital of the Bank caused by omissions (unintentional and intentional) in the employees' work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events. Operational risk shall also include legal risk.

The Bank's goal is to manage operational risk, in order to achieve balance between preventing financial loss and damage to the Bank's reputation, on one side, and economic profitability and innovation, on the other. The Bank's policy requires respecting all currently valid regulations.

The Bank has developed and implemented specific standards of operational risk management in the following areas:

- Operational risk identification, which comprises:
    - Collecting data on operational risks and losses – identification, registration and classification of data on the Bank's losses,
    - Integrated process of assessment of the Bank's exposure to operational risk;
    - Assessment of operational risk when implementing new product, process or system;
- Operational risk measuring;
- Monitoring and reporting on operational risk; and
- Mitigating operational risk.

At least once a year, Bank's Internal Audit performs independent assessment of adequacy of the operational risk management system. The results of this assessment are disclosed within the Audit Report, which includes all the findings and improvement suggestions.

For the purposes of capital requirements for operational risk calculation, the Bank applies the standardized approach. The capital requirement for operational risk, calculated by applying the standardized approach, amounts to RSD 4,325,887 thousand as of 31 December 2017 (31 December 2016: RSD 4,294,527 thousand).

29.6. Exposure risk

The Risk Management Department monitors, measures and reports to the competent boards of the Bank on the Bank's exposure to a single client or to a group of related clients, risk of investment in other legal entities and in fixed assets, country risk to which the Bank is exposed, as well as operational risk. In 2017, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia as well as the investment limits prescribed by the Bank.

Exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank. In accordance with the Risk Management Policy, the Bank's management sets exposure limits, i.e. the concentration of placements to a single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant bodies and employees seek to ensure the compliance of the Bank's exposures with prescribed limits, i.e. exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures does not exceed 400% of the Bank's equity.

29.7. Investment risks

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National Bank of Serbia's regulations, the Risk Management Department monitors the Bank's investments and reports to the Executive Board. The Department also ensures that the Bank's investment in a single non-financial entity does not exceed 10% of the Bank's equity, and that the total investments of the Bank in non-financial entities and in fixed assets do not exceed 60% of the Bank's equity.

29. RISK MANAGEMENT (Continued)

29.8. Country risk

Country risk relates to the country of origin of the Bank's client and includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economic or social conditions in the client's country of origin. The Bank's exposure to country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

29.9. Capital management

The objective of the Bank's capital management is to maintain the Bank's ability to continue operating into the foreseeable future, in order to maintain the optimal structure of capital with a view to decreasing the costs of capital, and securing dividends for shareholders.

The Bank permanently manages its capital in order to:

- Ensure compliance with capital requirements set by the National Bank of Serbia;
- Ensure adequate level of capital in order to ensure operations as a going concern;
- Maintain capital at the level that will ensure future development of the business; and
- Maintain capital at the level that is adequate to cover internally assessed capital requirements for all significant risks identified in the Internal Capital Adequacy Assessment Process (ICAAP)

Capital adequacy, as well as use of the Bank's capital, is monitored on a monthly basis by the Bank's management. The National Bank of Serbia has set the minimal capital adequacy ratio at 12%, with restriction to dispose the realized profit, if it is above 14.5%.

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks which is effective from 30 June 2017:

Item	In RSD thousand 31 December 2017
CAPITAL	**65,363,824**
TIER 1 CAPITAL	**65,363,824**
Common equity Tier 1 (CET) capital	**65,363,824**
Share premium	**41,748,469**
Capital instruments eligible as CET 1 capital and share premium	21,315,900
Share premium with CET 1 capital instruments	20,432,569
Profit	
Note: Retained earnings not eligible for inclusion in CET 1 capital	16,373,289
Note: Current period profit not eligible for inclusion in CET 1 capital	11,847,694
Revaluation reserves and other unrealized gains/losses	**1,542,070**
Revaluation reserves and other unrealized gains	**1,572,930**
(-) Unrealized losses	**(30,860)**
Reserves from profit, other reserves and reserves for general banking risks	**47,484,121**
Other reserves	47,484,121
(+/-) Adjustments to CET 1 due to prudential filters	**(130,159)**
(-) Additional value adjustments	(130,159)
(-) Other intangible assets before reduction for deferred tax liabilities	**(2,610,573)**
(-) Amount of taxes associated with CET 1 capital items which can be predicted at the time of capital calculation, unless the bank previously adjusted the amount of CET 1 capital items in the amount in which such taxes lower the amount up to which CET 1 capital items can be used to cover risks or losses	**(143,974)**
(-) Amount of required reserve for estimated losses on balance sheet assets and off-balance sheet items deducted from CET 1 capital	**(22,526,130)**

29. RISK MANAGEMENT (Continued)

29.9. Capital management (Continued)

Regulatory capital according to the Decision on Capital Adequacy of Banks which was valid until 30 June 2017:

Item	In RSD thousand 31 December 2016
CAPITAL	**60,859,986**
Tier 1	**61,118,432**
Share capital from ordinary shares, excluding cumulative preference shares	21,315,900
Share premium	20,432,569
Reserves from profit	47,484,121
Intangible assets	(1,347,422)
Regulatory value adjustment	**(26,766,736)**
Unrealized losses from securities available for sale	(415,506)
Required reserve for estimated losses on balance sheet assets and off-balance sheet items ems	(26,351,230)
Tier 2	**704,050**
Part of revaluation reserves	704,050
DEDUCTIBLE ITEMS	**(962,496)**
Deduction from Tier 1	(481,248)
Deduction from Tier 2	(481,248)
Direct or indirect equity investments in banks or other financial organization exceeding 10% of its capital	(962,496)
TOTAL Tier 1	**60,637,184**
TOTAL Tier 2	**222,802**

29.10. Fair value of financial assets and liabilities

The Bank’s policy is to disclose information on the fair value of assets and liabilities, for which official market information is available and when their fair value significantly differs from their carrying amounts.

Determining fair value of the financial instruments, which are not carried at amortized cost must follow the principles, criteria and hierarchy prescribed by the Fair value policy, which is in accordance with ISP Group’s requirements for determining fair value. Determining fair value of the financial instruments not carried at amortized cost respects the following hierarchy, which reflects credibility of the inputs used in determination of fair value:

- Level 1: inputs are the quoted market prices (without corrections) on active markets;
- Level 2: inputs other than quoted prices from level 1, but directly or indirectly (derived from prices) quoted on market. This category includes: market interest rates, CDS (credit default swap) market quotations, market prices of primary bonds issue or market exchange rates when determining value of the instrument.
- Level 3: inputs that are not information available on the market. This category includes each instrument, for which information on value is not directly or indirectly available on the market.

Implementation of the hierarchy is not optional, and the Bank cannot choose the information for determining fair value of financial instruments that are not carried at amortized cost, but it must respect the abovementioned hierarchy.

29. RISK MANAGEMENT (Continued)

29.10. Fair value of financial assets and liabilities (Continued)

Implementation of the hierarchy is not optional, and the Bank cannot choose the information for determining fair value of financial instruments that are not carried at amortized cost, but it must respect the abovementioned hierarchy.

Financial instruments not carried at amortized cost and on which Fair Value Policy is applied are:

- Government FX bonds, government bonds issued by the Republic of Italy for which active and liquid market exists, which provides direct information about quoted market prices (Level 1);
- Financial assets available for sale comprise the Republic of Serbia treasury bills, which are valued by discounting future cash flows by applying market non-risk yield curves, adjusted for country risk (at euro bonds) and liquidity risk (at RSD bonds, without direct quotation of maturity) (Level 2);
- Over-the-counter financial derivatives (FX swap and FX forward) which are valued by discounting future cash flows with market non-risk yield curves adjusted for country risk and (at Euro bonds) and liquidity risk (at RSD bonds without direct quotation of maturity) (Level 2); and
- Shares and investments in legal entities, which are not sold on active markets and for which there is no reliable value, are carried at cost or last available information about value, reduced by impairment (Level 3).

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

29. RISK MANAGEMENT (Continued)

29.10. Fair value of financial assets and liabilities (Continued)

The following tables present value of financial instruments based on different information and in accordance with hierarchy within the Fair Value Policy:

Fair value as of **31 December 2017**:

				In RSD thousand
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit and loss held for trading	-	1,555,694	-	1,555,694
Financial assets initially carried at fair value through profit and loss	46,143	-	-	46,143
Financial assets available for sale	9,922,493	118,685,301	18,567	128,626,361
Total	**9,968,636**	**120,240,995**	**18,567**	**130,228,198**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	-	4,847	-	4,847
Total	**-**	**4,847**	**-**	**4,847**

Fair value as of **31 December 2016**:

				In RSD thousand
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit and loss held for trading	-	1,984,720	-	1,984,720
Financial assets initially carried at fair value through profit and loss	46,068	-	-	46,068
Financial assets available for sale	20,337,109	100,001,428	20,253	120,358,790
Total	**20,383,177**	**101,986,148**	**20,253**	**122,389,578**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	**-**	2,594	-	2,594
Total	**-**	**2,594**	**-**	**2,594**

The Bank's management considers that the carrying amounts stated in the accompanying financial statements are the most valid and useful reporting values under the present market conditions.

29. RISK MANAGEMENT (Continued)

29.10. Fair value of financial assets and liabilities (Continued)

The following table represents fair value of instruments not carried at fair value and classified by the appropriate levels of hierarchy:

In RSD thousand

31 December 2017	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with central bank	-	82,851,636	-	82,851,636	82,851,636
Loans and receivables from banks and other financial organizations		29,253,557		29,253,557	29,253,557
Loans and receivables from customers		-	351,351,349	351,351,349	301,894,205
Total	**-**	**112,105,193**	**351,351,349**	**463,456,542**	**413,999,398**
Liabilities					
Deposits and other liabilities due to banks, other financial organizations and central bank	-	32,375,037	-	32,375,037	32,375,037
Deposits and other liabilities due to customers	-	-	396,466,855	396,466,855	397,705,235
Other liabilities	-	14,103,355	-	14,103,355	14,103,355
Total	**-**	**46,478,392**	**396,466,855**	**442,945,247**	**444,183,627**

In RSD thousand

31 December 2016	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with central bank	-	102,370,900	-	102,370,900	102,370,900
Loans and receivables from banks and other financial organizations		37,591,812	-	37,591,812	37,591,812
Loans and receivables from customers			316,385,615	316,385,616	271,749,929
Total	**-**	**139,962,712**	**316,385,615**	**456,348,328**	**411,712,641**
Liabilities					
Deposits and other liabilities due to banks, other financial organizations and central bank	-	34,055,459	-	34,055,459	34,055,459
Deposits and other liabilities due to customers	-	-	382,788,857	382,788,857	383,452,558
Other liabilities	-	7,955,164	-	7,955,164	7,955,164
Total	**-**	**42,010,623**	**382,788,857**	**424,799,480**	**425,463,181**

29. RISK MANAGEMENT (Continued)

29.10. Fair value of financial assets and liabilities (Continued)

Fair values of cash and balances with central Bank, loans and receivables from banks and other financial organizations, deposits and other liabilities due to banks, other financial organizations and central bank and other liabilities are reported at their carrying amounts, considering that those are short-term deposits at financial institutions (the money market) with high credit rating, market interest rates and belong to Level 2.

Fair values of loans and receivables from customers and deposits and other liabilities due to customers are calculated by discounting future cash flows based on the currency, customer's credit quality and maturity, by applying market yield curves.

The Bank's management assesses the risk, and in instances in which it estimates that the carrying amount of assets may not be realized, it recognizes a provision.

30. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2017, the Bank is a defendant in a certain number of legal proceedings. Total estimated value of damage claims amounts to RSD 446,408 thousand (31 December 2016: RSD 471,000 thousand), including penalty interests and fees.

The final outcome of the ongoing legal proceedings is uncertain. As disclosed in Note 24, as of 31 December 2017 the Bank recognized the provision for potential losses that could arise from the aforementioned litigations in the total amount of RSD 180,394 thousand (31 December 2016: RSD 308,638 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The Bank is involved in a number of lawsuits as plaintiff related to collection of receivables. All disputed receivables from corporate and retail customers have been impaired and charged to the results of the current and previous years.

(b) Tax Risks

The tax system of the Republic of Serbia is in the process of continuous review and amendments. The tax period in the Republic of Serbia is considered to be open for five years. Under various circumstances, the tax authorities could have a different approach to certain issued, and could assess additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are presented fairly.

31. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 18 of the Law on Accounting, the Bank performed the process of reconciliation of outstanding liabilities and receivables with its debtors and creditors as of 30 November 2017, and it maintains credible documentation on the circularization process.

Out of the total of 3,375 submitted confirmations (IOS forms), 14 were disputed.

The balance of unreconciled outstanding receivables and liabilities is RSD 277,614 thousand. The most significant amount relates to receivables from legal entities in bankruptcy and entities that undergone status change (97.00% of the total unreconciled balance).

32. EXCHANGE RATES

The official median exchange rates of the National Bank of Serbia, determined at the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies, as of 31 December 2017 and 2016 into the functional currency (RSD), for the major foreign currencies were as follows:

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

33. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2017.

Rada Radović Head of Accounting Department	Dragica Mihajlović Chief Financial Officer	Draginja Djurić President of the Executive Board

BANCA INTESA BELGRADE

ANNUAL REPORT

2017

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1. Key Financial Indicators

Income statement

RSD thousands

	2017	2016
Net interest income	**19,248,697**	18,914,382
Net fee and commission income	**6,575,826**	5,628,180
Profit before tax	**13,011,758**	10,781,396
Income tax	**(1,188,161)**	(873,985)
Net profit from deferred tax assets and liabilities	**24,097**	16,932
Profit after tax	**11,847,694**	9,924,343

Balance Sheet

	2017	2016
Cash and balances with Central Bank	**82,851,636**	102,370,900
Financial assets at fair value through profit and loss held for trading and financial assets designated upon initial recognition at fair value through profit and loss	**1,601,837**	2,030,788
Financial assets available for sale	**128,626,361**	120,358,790
Loans and receivables from banks, other financial organisations and customers	**331,147,762**	309,341,741
Investments in subsidiaries	**962,496**	962,496
Intangible assets, property, plants and equipment, investment property and non-current assets held for sale and discontinued operations	**12,186,084**	10,617,345
Other assets, current and deferred tax assets	**7,483,402**	5,733,712
Total assets	**564,859,578**	**551,415,772**
Financial liabilities at fair value through profit and loss held for trading	**4,847**	2,594
Deposits and other liabilities due to banks, other financial organisations, Central Bank and other customers	**430,080,272**	417,508,017
Provisions	**1,277,294**	1,753,517
Other liabilities and deferred tax liabilities	**14,490,363**	8,010,832
Total liabilities	**445,852,776**	**427,274,960**
Equity	**119,006,802**	**124,140,812**
Total liabilities and equity	**564,859,578**	**551,415,772**

Indicators

	2017	2016
Profit before tax/ Total assets	2.30%	1.96%
Profit before tax / Total equity	10.93%	8.68%
Interest income / Total assets	4.04%	4.10%
Interest expenses / Total liabilities	0.64%	0.67%
Capital adequacy ratio	20.8%	21.5%
Total assets per employee	192,522	181,865
Number of employees	2,934	3,032

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2. Letter from the Chairman of the Board of Directors

Ladies and gentlemen,

Pursuing a business strategy that creates lasting value for customers while ensuring sustainable growth for Banca Intesa, we ended 2017 with improved market and financial results, reinforcing our leadership position in Serbia measured by all main banking metrics – total assets, capital, loans and customer deposits. The strong performance across all key businesses, supported by our strong capital base, a high liquidity position and strengthened asset quality, lays a foundation for our further growth on healthy grounds.

Serbia's economy continued on the recovery path in 2017, even though falling short of the targeted rates due to drought and an electricity production drop that negatively affected growth in the first half of the year. According to preliminary data released by the State Statistics Office, GDP expanded 1.9 percent last year, largely owing to an increase in private consumption and a strong inflow of foreign direct investments. Macroeconomic backdrop further stabilized, with inflation remaining within the target band at 3 percent and no major fluctuations of the national currency. At the same time, fiscal discipline was restored, mainly owing to stronger than expected revenues, while public debt was put on a downward trajectory. Furthermore, progress has been made on the structural reform agenda, with restructuring of state-owned enterprises improving their efficiency and reducing their negative impact on fiscal achievements. All of those accomplishments pave the way for accelerated economic growth that is expected in 2018.

Given the inflation stability in 2017, the National Bank of Serbia (NBS) was in a position to continue to ease its monetary policy, slashing its key interest rate to 3.5 percent at the end of the year. Monetary policy relaxation, combined with low interest rates in international markets, enabled banks to cut interest rates on loans to all-time lows, which coupled with increased credit demand and tight market competition pushed lending activity forward. As a result, total lending of the banking sector went up 2 percent year-on-year to 2.1 trillion dinars, driven primarily by loans to private individuals. Although passive interest rates were on record low levels as well, the Serbian banking sector posted a 3.3 percent year-on-year increase in customer deposits which reached 2.1 trillion dinars. A very important accomplishment of the Serbian banking sector in 2017 was the further reduction of the NPL rate. Owing to the implementation of the national strategy for NPL resolution, constant improvement of the regulatory framework and individual activities of commercial banks, the NPL level was slashed to a nine-year low of 12.2 percent at the end of third quarter. Attesting to the high stability of the Serbian banking sector was also a capital adequacy ratio of 22.5 percent in the same period, as well as improved key profitability indicators, with ROA ending the third quarter at 2.2 percent and ROE at 11 percent.

Set against such a backdrop, our strategy continued to focus on constant product and service improvement in line with the real needs of our customers, which enabled us to further bolster our leadership market position last year. We confirmed our number one market spot in lending with a 15.5 share owing to the high quality of our offer and exceptional services we offer to our clients.

We were successful on the deposit front as well, with an 18.1 market share reflecting the high level of trust and loyalty of our customers. Digital transformation was also a priority, leading us to continue work on the modernisation of our CORE banking platform and further expansion of our digital offering. Also, integrating the principles of corporate social responsibility (CSR) into our business strategy, we remained committed to addressing the needs of all stakeholders while strengthening our corporate volunteering culture, launching new financial education initiatives and investing in culture, education and social welfare issues.

We also kept a sharp focus on operational efficiency and cost control, as reflected in our cost-to-income ratio of 46.5 percent. At the same time, we maintained high liquidity and a strong capital position with a loan-to-deposit ratio of 75.9 percent and further improved the quality of our assets owing to a set of measures we took throughout the year. Our strong performance in all key segments is also evident in a solid financial position, with our net profit rising 19.4 percent, from 9.9 billion dinars in 2016 to 11.8 billion dinars in 2017.

It is our employees who have demonstrated exceptional dedication, professionalism and effort in order to produce such strong results for our customers and our shareholders alike. I would like to thank them all for their commitment to common goals which was once again the key prerequisite for the success we have achieved.

Going forward, we will continue to focus on increasing client loyalty and investing in new technologies to ensure improved customer experience, while simplifying processes and boosting our operational efficiency. I am confident that efficient implementation of this strategic agenda, along with the support from our parent group Intesa Sanpaolo, will keep us on a long-term growth path on which we will help the economy further expand and communities prosper and develop.

Sincerely,

Giovanni Boccolini,

Chairman of the Board of Directors

3. Foreword by the President of the Executive Board

Dear readers,

Looking back at the past year, I am pleased that 2017 was very successful for our Bank and that we maintained our firm position at the helm of the Serbian banking sector despite strong market competition, rising customer expectations and challenges imposed by the digital era. Owing to its solid customer base and constant commitment to the satisfaction and needs of our clients, as well as to high liquidity and a strong capital position, the Bank continued to record excellent results in almost all segments of operation in 2017. Further confirmation of our achievements came from prestigious global magazines The Banker and Euromoney, which presented us with awards for the best bank in Serbia last year.

Even though economic growth in 2017 was somewhat lower than expected, last year was also marked by rewarding results in the field of fiscal consolidation. Furthermore, macroeconomic stability was maintained, along with a low inflation rate and stable dinar, and, what was especially important, both foreign direct investments and the employment rate went up. The progress achieved was confirmed by positive assessments of the Serbian government's economic policy made by leading international financial institutions, as well as by the country's improved credit rating.

In such an environment the National Bank of Serbia (NBS) was able to continue easing its monetary policy. The lowering of the key policy rate and favourable conditions in the international market cleared the way for the further cut in interest rates on lending, which hit all-time lows. As a result of such a trend, lending activity of the banking sector saw growth last year, in both the retail and corporate segments. At the same time, the banks' deposit potential was lifted in spite of low interest rates, attesting to strong customer confidence. Especially important for the stability of the banking sector was a continued decline in the NPL rate on the back of national strategy implementation, regulatory framework improvements, as well as the write-off and sale of NPLs, which further strengthened the capacity of banks to provide fresh lending.

Operating in such conditions, we sought to respond to customer needs through constant improvement of products and services we offer them. In the retail segment, we achieved substantial growth of lending to private individuals, led by all-time high results in housing and cash loans. We managed to achieve good results mainly owing to the improvement of our business processes, as well as the commitment and professionalism of our employees. Also, it is worth to underscore a substantial rise in deposit base, which confirms the high level of customer confidence which our Bank enjoys in the Serbian market.

Keeping pace with digital trends that are already changing both business models of banks and impact expectations and habits of their customer, we continued to work on the modernization of our CORE banking platform, which will allow us to improve and automatize our business processes and offer innovative products and services to our customers along with advanced experience.

Also, we further improved our digital offer by enabling customers to apply for more products via Intesa On-line application, while substantially increasing both the number and the volume of transactions completed via our mobile and internet banking services.

We recorded particularly good results in operations with entrepreneurs and small and medium-sized (SME) enterprises, offering them unique support in the market. Our continued implementation of the EU's COSME program, which we were the first to start in Serbia, provided this strategically important segment of the economy with more than 150 million euros in long-term loans without hard collateral, while the launch of the EU's InnovFin program enabled us to offer them long-term investment lending, also with relaxed collateral requirements.

All the activities and measures we took positively affected the volume of our business, which allowed us to once again confirm our largest market share in all key segments of operations. Along with an increase in total assets, we also recorded a substantial rise in lending to both private individuals and small businesses. It was the growth in these segments that was particularly important for the success of the Bank's operation in 2017.

We tried to respond to community needs by focusing our philanthropic investment on culture, education and social welfare issues, as well as by strengthening our corporate volunteering programme. We placed a special focus on financial education of the youngest through the Art of Saving project conducted under the auspices of our parent Group and in partnership with the NBS. At the same time, in cooperation with our parent Group and the Historical Museum of Serbia we introduced the public in Serbia to a part of the Italian cultural heritage displayed at an exhibition of paintings from Intesa Sanpaolo Collection.

The success we accomplished would not have been possible without the efforts and dedication of our employees, who I would like to thank for their commitment to reaching our goals. I would also like to thank the shareholders, the International Subsidiary Banks Division, the Board of Directors and the Audit Committee whose constant participation and presence in our development contributed to the growth of economic activity and employment, while at the same time improving the quality of life of our citizens.

Respectfully,

Đurić

Draginja Đurić,

President of the Executive Board

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4. Macroeconomic Environment and the Banking Sector

- *Attained progress in fostering macroeconomic stability, despite modest economic growth*
- *Improved credit rating of the country, based on fiscal over-performance and preserved price and financial stability*
- *Weak inflationary pressures supported by stronger dinar allowed for further monetary easing*

In 2017 Serbia witnessed significant progress in establishing macroeconomic stability, mainly reflected in considerable improvement of public finances on the back of good fiscal results as well as significant decline in public debt. Inflation has been stabilised at a low level, while appreciation pressures on the dinar prevailed throughout major part of the year. Labour market also recorded moderate improvements, but achieved economic growth was below the initial expectations and considerably lower in comparison to average growth in the region, to a large extent due to temporary factors, such as the impact of adverse weather conditions on the agriculture and energy sectors.

Owing to the successful implementation of fiscal consolidation which commenced in 2015, public finances experienced strong improvement, while the results achieved by the Government in key structural reforms were positively assessed by the International Monetary Fund (IMF) and confirmed by successful completion of the last, eighth review of the precautionary stand-by arrangement. The progress in reforms contributed to the reduction of fiscal risks and strengthened the potential for growth of the Serbian economy. Nevertheless, in order to keep economic development sustainable in the long run, it is necessary to continue with institutional reforms and enhance administrative capacities, as well as to complete the privatisation and restructuring of the remaining state-owned enterprises.

Overall business and investment climate improvement has been confirmed by further advancement in the 2018 Doing Business ranking of the World Bank, with Serbia holding 43rd position, which is an improvement in comparison to the previous year when it was ranked 47th. The greatest progress was made in the domain of procedures for issuing construction permits, property registration in the real estate cadastre and starting and registering a business.

At the end of 2017, rating agencies Fitch and Standard and Poor’s upgraded Serbia’s credit rating from ’BB-’ to ’BB’ with stable outlook, while further headway in the EU membership negotiations process was made through opening six new chapters, bringing the number of chapters opened so far to 12 out of 35 in total, of which two have been provisionally closed.

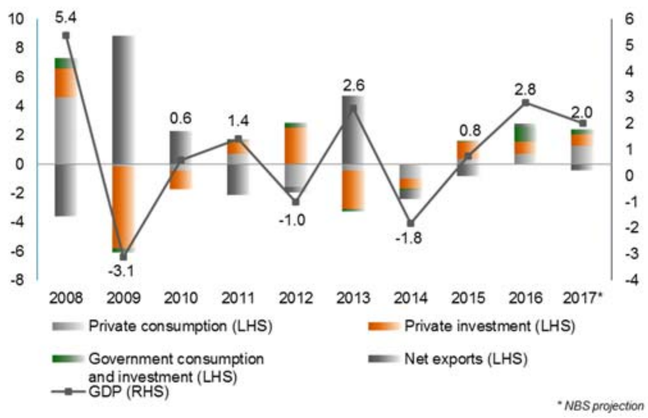
Positive trends in the economy are expected to continue in the period ahead, including a moderate acceleration of growth which will be based on further strengthening of private consumption and intensified investment activity. The final outcome will depend on the developments in the international economic environment, as well as success in further public sector reforms and improvement in general business conditions.

Macroeconomic Environment

Economic Activity

When it comes to economic activity, Serbia recorded weaker-than-expected growth in 2017, mainly as a result of one-off impact of agriculture and energy sectors influenced by unfavourable weather conditions in the early part of the year. After a modest growth in the first half of the year of only 1.3%, economic activity accelerated in the third quarter, with a year-on-year growth of 2.1% driven by investments. The NBS and the IMF expect the overall economic growth of around 2.0% in 2017, while a flash estimate of the Statistical Office indicates a real GDP growth of 1.9%. On the expenditure side, a positive contribution to growth primarily originated from private consumption and investments, with a negative contribution of net exports due to faster growth of imports than exports. On the supply side, growth is characterised by a strong increase in the manufacturing industry and the majority of service sectors, while construction also provided a positive contribution to growth starting from the third quarter of 2017.

Chart 1 - Contributions to the annual GDP growth rate (in %)



Source: NBS

For 2018, the NBS projects a GDP growth of 3.5% driven by stronger private consumption, while investments are likely to support GDP growth to a similar degree as in 2017. From the production side, the main growth drivers in 2018 will be the manufacturing industry and services, while a positive contribution is also expected from the recovery of agriculture, as well as the construction activity.

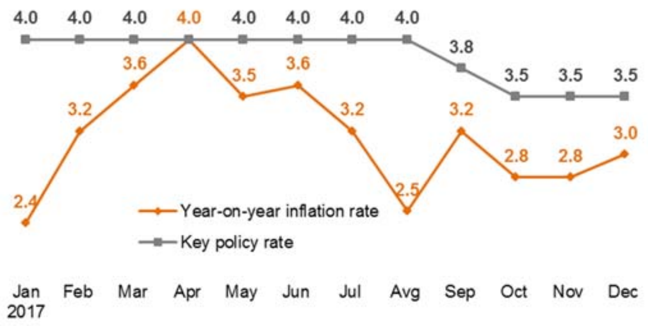
Inflation

Inflation movement during 2017 was marked by two different periods. In the first part of the year, year-on-year inflation accelerated to reach the level of 4.0% in April, caused by the growth in the prices of fruit and vegetables that was higher than usual for the season, as well as oil price recovery and rising prices of tobacco products and telephone services. Core inflation, i.e. inflation without volatile categories such as energy, food, alcohol and cigarettes, remained low and stable, in the range between 1.7% and 2.1%, suggesting relatively low inflationary pressures that were confirmed by the slowdown of headline inflation in the following months. The trend reversed in May, the price growth was interrupted, with even a slight deflation, supported also by stronger dinar.

In the second half of the year, year-on-year inflation moved around the midpoint of the inflation target, which was revised down by the National Bank of Serbia from 4.0%±1.5 p.p. to 3.0%±1.5 p.p. starting from January 2017. In December 2017 year-on-year inflation stood at 3.0%.

Inflation is expected to continue to move within the target tolerance band (3.0%±1.5 p.p.) in the next two years. According to the NBS projection, in early 2018 inflation will slow down driven by the high base for the prices of petroleum products and other products that recorded a one-off hike early last year, causing its movements below the target band midpoint. Rising domestic demand will act in the opposite direction, additionally supported by fiscal policy, i.e. the decision to increase pensions and public sector wages as of January 1, 2018.

Chart 2 - Year-on-year inflation rate and key policy rate trends (in %)



Source: NBS

Monetary Policy

Monetary policy during 2017 was marked by further cautious alleviation of monetary conditions.

After keeping the key policy rate unchanged at 4.0% for more than a year, the NBS decided to proceed with its gradual reduction, lowering the key rate in September and October 2017 by a total of 50 basis points. After the latest cut in October, the key policy rate stands at 3.5%, its all-time low. The decision to cut the key policy rate was based on lower mid-term inflation projection, as well as subdued inflationary pressures against the backdrop of improved macroeconomic environment and lower country risk premium, supported by stronger appreciation pressures on the domestic currency as of the third quarter.

In the monetary easing cycle which was launched in May 2013, the Central Bank lowered the key policy rate by a total of 825 basis points, while monetary relaxation in the previous period was also carried out through a reduction of the required reserve rate in foreign currency by 6 p.p. in the period from September 2015 to February 2016, whereby the required reserve rate for foreign currency liabilities with a maturity of up to two years fell to 20%, and for liabilities with longer maturities to 13%. Such monetary easing allowed for a further reduction of interest rates on loans and release of a part of the banks' credit potential, with the aim of encouraging lending activity growth in the country.

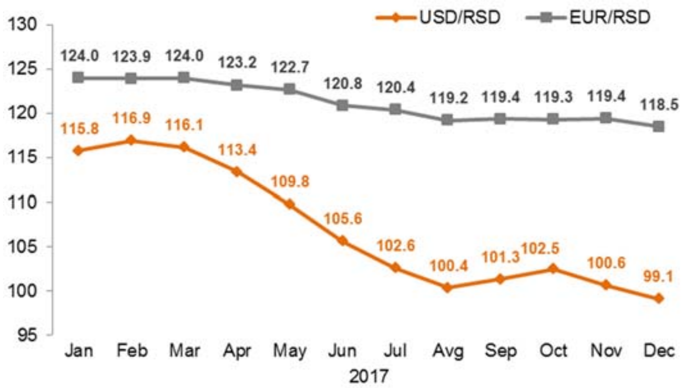
In the period ahead, the NBS is expected to continue to monitor closely developments in both local market and international environment in order to assess properly the intensity of the impact of all relevant inflation factors. There are still uncertainties present in the international environment, related to monetary policies of the leading central banks that may impact capital flows toward Serbia, as well as movements of global market of commodities, notably oil price. Because of this, the Central Bank is expected to maintain its cautious monetary stance in the following period, even though the resilience of the Serbian economy to potential negative impacts from the international environment has been considerably enhanced.

Dinar Exchange Rate

In 2017, the dinar nominally appreciated against the euro by 4.2% and against the US dollar by 18.2%, while the NBS intervened in the foreign exchange market by selling EUR 630 million and buying EUR 1.35 billion in order to avoid excessive daily fluctuations of the exchange rate.

Throughout a major part of the year, i.e. since April 2017, appreciation pressures on the local currency prevailed. The dinar has strengthened as a result of stabilised macroeconomic situation, greater non-residents' interest in government securities due to improved country risk perception, stable foreign direct investments inflow, as well as strong export growth, underpinned by more restrictive fiscal policy. On the other hand, occasional stronger depreciation pressures during the year were mostly a result of seasonally induced higher demand for foreign currency, usually at the beginning and at the end of the year. The NBS ended previous year as a net-buyer of the euro in the foreign exchange market, which additionally boosted the country's foreign reserves.

Chart 3 - Dinar exchange rate trend



Source: NBS

Chart 4 - Monthly exchange rate changes (in %)

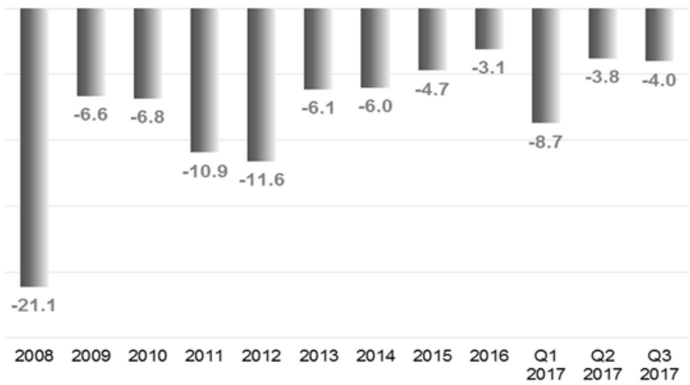
Source: NBS

Current Account Deficit and External Debt

In spite of the fact that exports recorded strong growth throughout 2017, the country's external position has not improved. The current account deficit significantly expanded relative to the previous year, due to unfavourable trend of imports growing faster than exports established in 2017. Deterioration of the external deficit was primarily influenced by its high value during the first quarter, of 8.7% of GDP, mostly caused by higher energy imports at the beginning of the year. Also, the strong dinar appreciation in the second half of the year did not have a positive impact on the external trade. On the other hand, stable foreign direct investment inflow was more than sufficient to cover fully the current account deficit, while remittance inflow was somewhat higher relative to 2016.

According to the NBS projection, the current account deficit will be around 4.6% of GDP at the end of 2017, which presents a deterioration compared to 2016, when it amounted to 3.1% of GDP. For next year, the NBS expects the current account deficit to drop to 4.3% of GDP. Net foreign direct investment (FDI) inflow will remain more than sufficient to cover the current account deficit, reducing the need for external financing.

Chart 5 - Current account deficit (% of GDP)



Source: NBS

At the end of the third quarter of 2017, Serbia's external debt amounted to EUR 26.03 billion or 72.4% of GDP, which is below the 80% of GDP threshold of severe indebtedness under the World Bank criteria. According to the IMF, sustainability of the current debt level is additionally supported by its favourable maturity structure as long-term liabilities prevail with a 98% share.

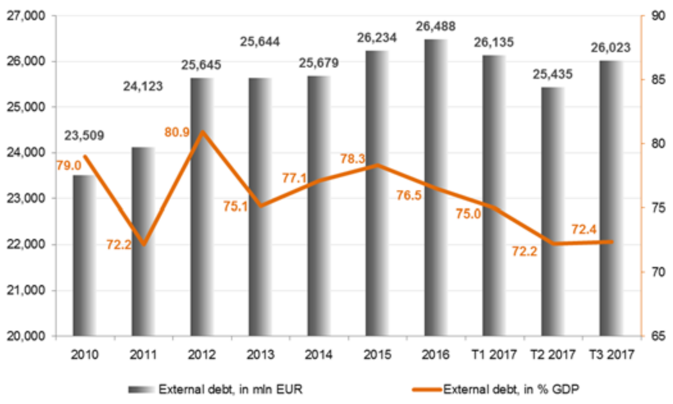
Relative to the end of 2016, external debt decreased by around EUR 455 million, largely as a result of favourable exchange rate movements. In terms of sectoral structure, deleveraging of the public sector is noticeable with concurrent increase of the private sector debt.

On account of external debt reduction in parallel with exports rise, the external solvency indicator (external debt-to-goods and services exports ratio) improved from 152.4% in 2016 to 137.6% at the end of the third quarter of 2017. According to this criterion, Serbia belongs to the group of medium-indebted countries.

The share of debt service in goods and services exports, as one of the external liquidity indicators, also posted steady improvement, dropping from 32.7% in 2014 to around 26% in 2015 and 2016, and additionally to 17% at the end of the third quarter of 2017.

According to the IMF projection from the report on the completion of the eighth review under the stand-by arrangement, Serbia's total external debt should continue to decline to below 70% of GDP by the end of 2018, barring a significant dinar depreciation caused by external shocks.

Chart 6 - External debt



Source: NBS

Foreign Direct Investment

In January – October 2017, Serbia recorded a net FDI inflow in the amount of nearly EUR 2 billion, which is around 26% more than in the same period of the previous year, while the full-year projection of net FDI inflow was revised up and amounts to EUR 2.1 billion.

By sector, the FDI structure has improved significantly during the past several years on the back of increased FDI inflow into tradable sectors, with good diversification across the manufacturing industry, driving exports up further and improving the country's external position. According to the NBS data, within manufacturing, most FDI inflows went to the

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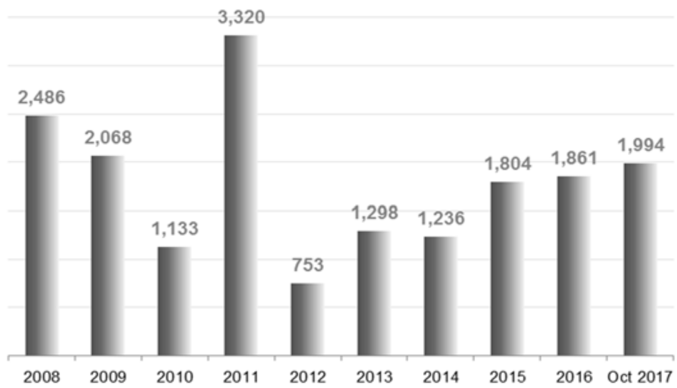
production of basic metals, food, motor vehicles, chemicals and pharmaceuticals, bolstering production output and exports of these industries.

Stable foreign direct investment inflow in the following period should be supported by enhanced business and investment environment and the country's further progress with the EU-integration agenda, as well as improved overall Serbia's risk perception by investors.

Chart 7 - Foreign direct investment (in EUR million)



Source: NBS

Foreign Trade

Faster growth of imports than exports reflected negatively on the foreign trade balance during 2017. Although exports continued to grow at a solid rate, the trade deficit increased by 20% as a result of strong pressures on the import side coming from higher domestic demand, larger energy product imports in the first half of the year, as well as oil price recovery. On the other hand, Serbia continues to run a surplus on the services account, although in the first eleven months of 2017 it was somewhat lower than in the same period of the previous year.

Serbia's foreign trade reached around EUR 31.5 billion in January-November 2017, increasing by 13.9% year-on-year. The exports of goods amounted to EUR 13.86 billion, up 13.1%, while imports rose by 14.6% to EUR 17.7 billion. As a result, the total trade deficit went up by 20.4% to EUR 3.8 billion.

Electrical equipment and apparatus became the most important export products, with a share of 9%, pushing road vehicles to the second place for the first time since the arrival of Fiat in Serbia. Despite the drop in exports, Fiat remained the largest Serbian exporter with the total value of exported goods in January-November 2017 amounting to EUR 870 million, while in the same period the total value of exports of the 15 largest exporters amounted to around EUR 3.8 billion, i.e. 27% of total exports.

The acquisition of Železara Smederevo (Smederevo Steel Mill) by the Chinese company Hesteel resulted in a boost to base metal and metal product exports, while chemical, rubber and plastic products continued to provide positive contribution to exports growth. Due to poor agricultural season and non-competitive prices, agricultural product exports were significantly lower, reflecting negatively on the trade balance.

Around two thirds of Serbia's foreign trade were routed towards EU countries, while CEFTA countries were the second most important trade partner, with which Serbia posted a high trade surplus and an export-import coverage ratio of 3.2. The most important foreign trade partners in exports were Italy (EUR 1.86 billion), Germany (EUR 1.75 billion), and Bosnia and Herzegovina (EUR 1.1 billion), while the largest imports came from Germany (EUR 2.2 billion), Italy (EUR 1.8 billion), and China (EUR 1.4 billion).

Chart 8 - Foreign trade
(in EUR million)

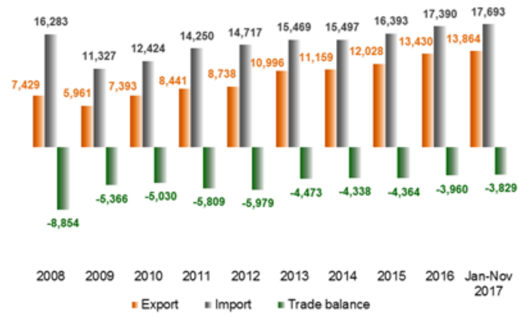
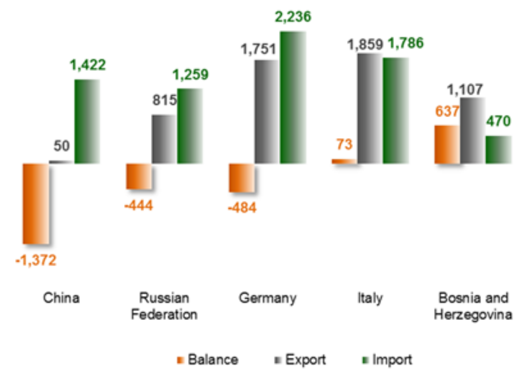


Chart 9 - Foreign trade with major partners
(in EUR million)



Source: Statistical Office of the Republic of Serbia

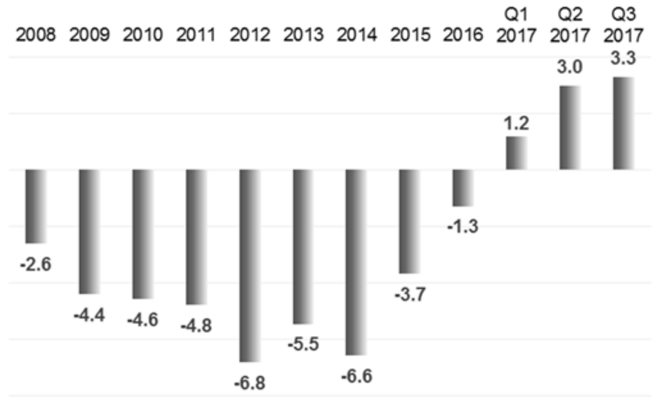
Fiscal Policy

During 2017 a balance between fiscal trends was achieved, contributing predominantly to macroeconomic stabilisation and offsetting the immediate risk of a public debt crisis, enabling a further improvement of the country's perception by investors in the international financial market.

Instead of the planned deficit, in January-September 2017 Serbia recorded a general government surplus of RSD 81.9 billion, while the central budget surplus amounted to RSD 66.6 billion. Significant fiscal overperformance was achieved primarily owing to a stronger-than-planned increase in tax and non-tax revenue, decrease in interest costs, but also underexecution of planned capital expenditure. Tax revenue growth during the first three quarters was partly a result of improved profitability of businesses and higher imports, but also better tax and excise duty collection, as a result of implemented measures to combat the informal economy. On the expenditure side, during January-September 2017 there was a notable year-on-year drop in capital expenditure, which is not welcome from an economic standpoint, while the costs of wages and pensions, as the largest expenditure item, were mostly kept within the budgeted amounts.

Having in mind the favourable fiscal developments, the fiscal balance is expected to be positive at the end of the year, in comparison to a deficit planned at the level of 1.7% of GDP in the 2017 budget, while a primary fiscal surplus will be posted for the first time. In 2018, a deficit is planned at the level of 0.7% of GDP, while the Fiscal Strategy is targeting a general government deficit of 0.5% of GDP during next two years, which is in line with permanent reduction of the public debt-to-GDP share to below 60%.

Chart 10 - Consolidated budget deficit (in % of GDP)



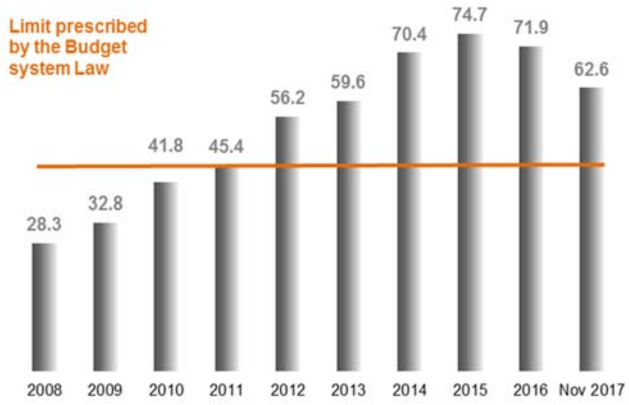
Source: NBS

Owing to the good fiscal performance and economic growth, the trend of public debt growth was halted 2016, followed by its reversal in 2017, mostly as a result of dinar strengthening, but also due to favourable fiscal trends and lower borrowing needs of the government. At the end of November 2017, public debt amounted to EUR 23.4 billion, which is a decrease of around EUR 1.38 billion relative to the end of 2016. The public debt-to-GDP ratio was at 62.6% at the end of November 2017, getting closer to the Maastricht ceiling of 60% of GDP, but still far above the legally prescribed ceiling of 45% of GDP.

The public debt of the Republic of Serbia remains very sensitive to changes in exchange rates due to its unfavourable currency structure, since around 75% of public debt is denominated in foreign currency, with liabilities in US dollars and EUR amounting to 29% and 42%, respectively.

In the upcoming medium-term period, the focus of the fiscal policy will be on maintaining the achievements in the fiscal area, with support to growth-enhancing initiatives, foremost to the increase of public investments. The Fiscal Strategy for 2018-2020 envisages a reduction of public debt to below 60% of GDP by 2019, while according to the Fiscal Council's estimate, its drop to a safer level of 50% of GDP could be achieved by 2024.

Chart 11 – Public debt (in % of GDP)



Source: Public Debt Administration

With regard to expectations for 2018, the acceleration of economic activity will be supported by further strengthening of private consumption, underpinned also by planned fiscal easing and expected investment and exports increase. Even though further fiscal savings are not needed, it is necessary to continue activities on the improvement of business climate, as well as to resolve the numerous state-owned enterprises which continue to generate losses and together with non-reformed public enterprises still constitute one of key fiscal risks.

Banking Sector

In 2017, the consolidation process of the Serbian banking sector intensified, with the market comprising 30 banks at the end of the year. Although the majority of the banking market still consisted of foreign-owned banks, the number of domestic banks went up from eight to nine. Direktna Banka took over Findomestic Bank and is in the process of acquiring Piraeus Bank, while AIK Bank acquired Alpha Bank, later selling most of its portfolio to Societe Generale Bank. Moreover, OTP Bank initiated the process of acquiring Vojvodjanska Banka, while Banca Intesa took over a part of Procredit Bank's portfolio. The trend of decline in the total number of employees and branches in the banking sector also continued.

At the end of the third quarter of 2017, the total assets of the banking sector amounted around RSD 3.3 trillion (EUR 28 billion), which is a relative increase by 1.6% compared to the end of the previous year. The slower growth of total assets in 2017 compared to 2016 was a result of lower placements with the NBS and lower investment in securities.

On the other hand, total loans to customers recorded a growth of RSD 125 billion, or 7.1% against the end of the previous year despite significant NPL write-offs, reaching RSD 1.9 trillion (EUR 15.7 billion). The acceleration of credit activity in 2017 was triggered by the growth of economic activity and further stimulated by the monetary policy of the NBS, low interest rates in the eurozone, stronger competition and decreased country risk premium.

Aiming to maintain inflation within the target band, the NBS lowered the key policy rate to a record low, which further contributed to the lowering of corporate and household borrowing costs in the domestic currency, which consequently increased dinar lending activity by 1.2% compared to the end of 2016. Local currency loans were mostly placed to the household sector, while there was also noticeable growth in corporate dinar loans, despite most NPLs that were written off being in the local currency. Euro-indexed and euro loans still make up the largest part of corporate loans and they recorded an increase compared to the previous year, while household loans in foreign currency were on a decline.

Lending to the corporate sector has been recording a positive trend since mid-2017. Working capital loans accounted for the largest share in new production, 53.5%, accounting for 48% of total corporate loans. Investment loans had a 22.1% share in new loans, also making up 31.7% of total loans, which positively reflected on the maturity of the loan portfolio, which was dominated by loans with a maturity of more than two years. When it comes to industry structure, companies from the manufacturing industry and trade, as well as transport, were the biggest borrowers in 2017.

Total household loans also rose in 2017, with the highest share of 40.1% held by mortgage loans, followed by cash loans with 37.4%, while cash loans and refinancing lending had the largest share in new production. Favourable conditions in the real estate market, as well as all-time low interest rates on mortgage lending have helped push up demand for these loans, the growth of which mostly related to new borrowing, although there was also a rise in existing mortgage loan refinancing .

Successful implementation of the NPL Resolution Strategy, which was adopted in 2015, continued last year. By resolving this issue through increased collection activities, restructuring, write-off and sale of NPLs to non-bank entities, the banks cleared a large portion of bad assets, opening up space for new potential lending. The reduction of NPLs intensified in the fourth quarter, due to the application of the Decision on the Accounting Write-off of Bank Balance-Sheet Assets. Since the beginning of the year the total amount of gross NPLs was reduced by RSD 94.4 billion to RSD 251.4 billion at the end of the third quarter. The share of these loans in total loans was reduced from 17% at the end of 2016 to 12.2% in September 2017, which represents the lowest value since 2009. At the end of the third quarter, corporate NPLs stood at RSD 188.4 billion after declining by RSD 73.7 billion (28%) since the start of the year, while NPLs in the household sector, including entrepreneurs, fell by RSD 20.7 billion (25%) to RSD 63 billion.

The main source of bank funding in Serbia in 2017 consisted of received deposits that include both household and corporate deposits, as well as deposits received from banks and other financial institutions. Their amount was slightly reduced in 2017, by 0.9%, mostly due to the dinar appreciation, considering the large amount of foreign currency deposits. During 2017, there was an increase in the use of funds from banks, other financial organisations and the NBS (by 11%). Growth was also recorded in corporate deposits (1.4%), while a slight decrease was posted in households and entrepreneurs (-0.5%). The majority of total deposits consisted of short-term deposits, at about 90%, of which most are sight deposits, while the currency structure is still dominated by foreign currency deposits, at 69%.

The Serbian banking sector recorded a growth of profitability in 2017, which was primarily a result of a decrease in net credit losses, while 25 banks posted positive results at the end of the third quarter. Even though lending activity of banks increased, net interest income declined by RSD 1.4 billion in the third quarter of 2017 compared to the third quarter of 2016. This was a result of monetary policy easing, i.e. the reduction of the key policy rate, and consequently lower interest rates in local currency, further underpinned by a drop in interest rates in the interbank market. In the same period, net fee and commission income increased by RSD 2.3 billion, which had a positive effect on net profit. Profit before tax amounted to RSD 53.5 billion at the end of September, which is 20.7 billion more than in September last year. Consequently, the profitability indicators reflect the improved profitability of banks in Serbia. At the end of the third quarter, return on assets (ROA) was 2.2%, up 0.8 p.p. compared to the same period the previous year, while return on equity (ROE) reached 11.0% (up 4.1 p.p.).

Following the process of aligning domestic regulations with the relevant EU legal acts, regulations in the field of banking supervision have been amended, starting from June 30, 2017. Namely, the NBS prescribed a reduction of the minimum capital adequacy ratio from 12% to 8%, which is additionally corrected for certain adjustments. At the end of the third quarter, the capital adequacy ratio of the banking sector was 22.5%, which is far above the prescribed minimum.

In 2017, Banca Intesa confirmed its leading position with the largest market share in total assets (17%), loans (15.5%) and customer deposits (18.1%) at the end of the third quarter. Furthermore, the Bank maintained the first position in the payment card business and payment operations. Banca Intesa has a base of around 1.4 million clients and operates through a widespread network consisting of 158 branches, with the support of the largest network of ATMs and POS terminals in the market.

5. Highlights of the Bank's Strategy and Planned Development

Banca Intesa strives to solidify its leading position in the Serbian banking sector, providing sustainable solutions and active support to the process of recovery of the local economy.

The strategic goal of the Bank is to reinforce its market position through selective growth of products intended for upper mass and affluent retail customers, while in the corporate segment the Bank will focus more on export-oriented companies. At the same time, the Bank will strive to improve the quality of its loan portfolio with an aim to minimise the cost of risk, as well as to upgrade its information system so that it can support the planned growth of business activities.

The accomplishment of strategic goals is planned through strategic initiatives, which are grouped into three main areas:

I Realisation of Untapped Potential for Revenue Growth

One of the main objectives of the Bank is to increase the volume of business activities with low-risk customers in both the retail and corporate segment. With regard to retail customers, the Bank plans to utilise the potential for lending to the upper mass customer segment and improve its positioning in the affluent customer market niche, by enhancing the standard of operation of personalised business model.

In the corporate segment, the biggest focus will be placed on business with lower-risk customers, while gradually scaling down the volume of business with large and state-owned enterprises with lower credit rating. Additionally, the Bank intends to achieve the planned growth by providing active support to foreign direct investment, increasing cross-selling to customers and enhancing price efficiency. The plan also envisages an accelerated shift from the traditional model with the branch as the main sales channel towards an integrated approach through direct channels, aimed at more efficient business activities and better understanding of customers' needs. The development of a number of channels will be promoted through website improvement, greater social media engagement and integration with the CRM system.

II Maintaining High Cost Efficiency through Continuous Cost Management

The Bank intends to continue with its strong commitment to sustainable efficiency, taking fully into account the necessity of constant cost and productivity control. The main areas of cost improvement include the optimisation of the Bank network, enhancement of efficiency by streamlining business processes and reducing labour-intensive activities. The Bank plans to use cheaper distribution and communication channels in order to keep abreast of modern technologies and new banking operations. The Bank also plans to engage in further stabilisation of the IT platform, as well as the development of an integrated IT infrastructure with capabilities of quick calculation and processing, with the aim of improving the overall capacity of the Bank in response to the ever-changing and dynamic market environment.

III Dynamic Lending and Risk Management

One of the main objectives of the Bank will be to strengthen continuously the risk management activities in order to rein in the cost of risk, to design and enhance procedures and tools for delinquency management, as well as to maintain stable reserve levels. The Bank will continue to focus on the standardisation of the entire loan approval process and automation of credit analysis functions by improving predictive and descriptive risk monitoring techniques and early-warning operations that point to any credit portfolio deterioration at an early stage.

An improved system for monitoring the quality of portfolio is aimed at the full implementation of a model that will enable analytical decision-making and create the basis for the introduction of the Basel III standard. Moreover, in the forthcoming period the Bank will continue its efficient liquidity management, while maintaining a stable deposit base and adequate liquidity buffers at a lower price, with a gradual decrease in large customers' deposits and expanded use of affordable funding from supranational organisations. In the forthcoming period, the Bank will strive to manage capital adequacy efficiently by directing business towards improvement in return on risk in accordance with the Basel III standard.

6. Retail Banking

Individuals

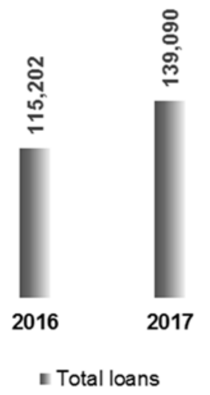
- *Record growth of market share in view of dynamic increase of all commercial and financial indicators*
- *Cash loans as main demand drivers, followed by growing clients' interest for housing loans*
- *Continuous implementation of new products and services, accompanied by further improvement of digital channels*

In relation to retail banking, in 2017 the trend of record commercial and financial achievements continued, resulting in a further strengthening of Banca Intesa's position, measured as market share in all key products offered by the Bank to clients in this segment. Despite the challenges in the local business environment which are becoming increasingly complex year after year, total loans to individuals in 2017 reached the record level of RSD 139 billion, which is 20.7% more compared to 2016, while the number of clients who have an Intesa Basic current account increased by 5.9% y-o-y. Such business results have contributed to further growth of the Bank's market share in the segment of individuals, from 13.8% to 15% in 2017, confirming its position as the market leader.

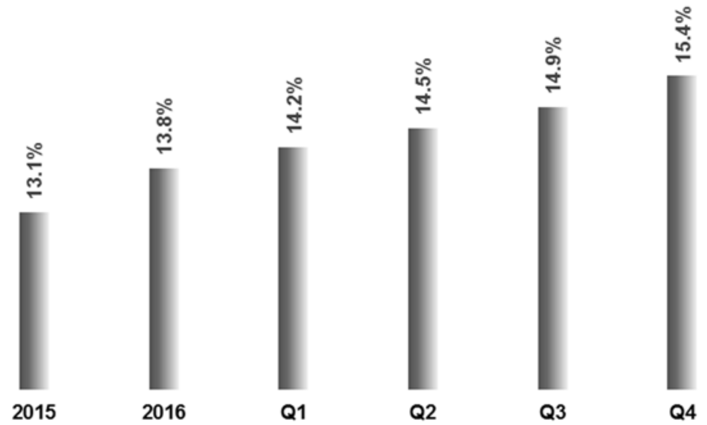
The business policy of Banca Intesa, primarily based on transparent and consistent communication of benefits of products and services, including all price and non-price elements, contributed to the record cash loan disbursement in 2017 as well. The total placements exceeded RSD 34 billion, which is as much as 38.5% more than in the previous year. At the same time, the number of cash loan beneficiaries went up by 14.4%. Thus, the market share in cash loans to individuals increased from 12.1% in 2016 to 13.3% in 2017.

In 2017 Banca Intesa again strove to improve its financing terms and expand its housing loan offer in order to provide clients with the most favorable terms for purchasing their home. Despite volatile conditions in the market, including fierce competition and market interest rate decline, the Bank increased its mortgage placements by 9.2% relative to 2017, reaching the level of RSD 60 billion and increasing its market share from 15.3% in 2016 to 16.9% in 2017.

Graph 12 - Loans to individuals (in RSD million)

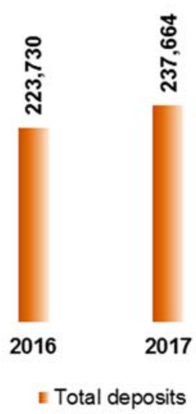


Graph 13 – Market share in loans to individuals

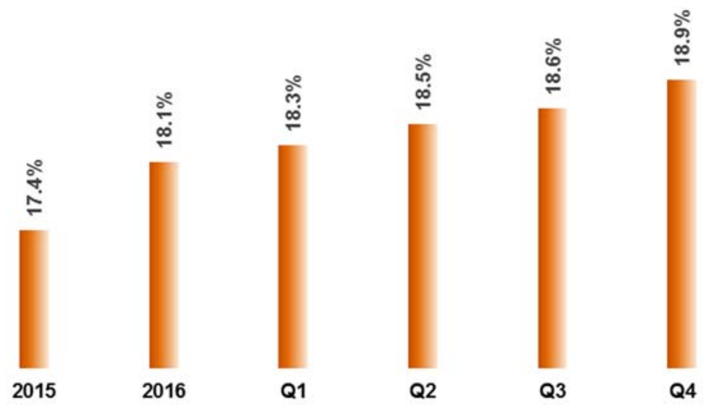


Regarding deposits, interest rates on retail deposits continued to decrease as a consequence of a continued trend of financing cost decline in 2017. In addition, Banca Intesa increased retail deposits by RSD 14 billion or 6.2% in comparison with the previous year, indicating a high level of client trust. Retail deposit growth outpaced the market, while the Bank's market share increased from 18.1% in December 2016 to 18.9% in December 2017.

Graph 14 – Individuals' deposits (in RSD million)



Graph 15 – Market share in individuals' deposits



Payment Card Business

During 2017, Banca Intesa maintained its leading position in payment card business with a 21% market share in the number of credit cards issued, a 31% market share in the number of POS terminals, a 60% market share in the number of internet POS terminals, as well as a 26% share in the total number of payment transactions completed in the country and abroad.

The number of transactions performed with Banca Intesa payment cards was on the rise in 2017 as well. The transactions in the country increased by 9.4% compared with the previous year, while transactions abroad, including transactions on the internet, rose by 21.5%.

In terms of the volume of operations on POS terminals, the number of transactions rose by 9.4%, while turnover volume increased by 9.1% in comparison with the previous year. In addition, Banca Intesa continued to harmonise and improve the acceptance network, constantly expanding the number of new users, so consequently the number of POS terminals equipped with devices that allow the acceptance of contactless payment cards increased by 52.3%.

Moreover, the Bank has continued expanding the network of merchants where cardholders can pay in instalments, with increased share of instalment transactions in total sales. The number of transactions rose by 29.1% compared to the previous year, while the total sales volume increased by 24.1%.

Significant efforts were devoted to cardholder education and increasing the use of credit cards in on-line shopping, expanding the cooperation with the largest e-commerce merchants, and a number of activities focused on the joint campaigns of the Bank and merchants who provided significant discounts and benefits to Banca Intesa payment cardholders. Such activities resulted in a significant increase in Banca Intesa credit card sales with selected partners, by 31% to more than 112% in comparison with 2016. Total sales via the Bank's credit cards at points of sale in the country increased by 21.6%, compared to 2016.

Direct Channels and E-services

The Bank continued to improve and develop the digital platforms and services in line with global and local trends which increased the expectations of clients in terms of speed and simplicity of the processes. A significant number of Banca Intesa digital platforms' users, both individuals and legal entities, indicate that during 2017 the Bank succeeded in meeting the expectations of its customers by its technological innovations, as well as strengthening the brand and market position in this extremely competitive area.

The total number of active clients using the Intesa On-line channel is almost 117 thousand. In 2017, the total amount of transactions conducted via the Intesa On-line application amounted around to RSD 4.6 billion, while the number of transactions in the same month was almost 402 thousand. The number and volume of transactions indicate a steady growth trend on this channel, both in terms of total volume and by type of transactions, namely payments, fund transfers and exchange operations.

At the same time, the total number of active clients using the Intesa Mobi application reached almost 133 thousand. In December 2017 transactions amounted to around RSD 7 billion, while their number reached 516 thousand.

During 2017, the Intesa On-line application was enhanced by introducing an option for submitting applications for cash loans, as well as for current account overdrafts at the end of year. As of December 2017, the total number of cash loan applications received through the On-line application was 11,266 and accounted for 15.6% of all cash loan applications, while the disbursements amounted to around RSD 400 million, which is 17% of total disbursed cash loans. In late November 2017, an option to use the courier service for delivery of contracts to be signed was piloted in seven branches, enabling the customers to complete the entire process of applying for and receiving the proceeds of cash loans without visiting a branch.

With regards to functionalities, the offer of cash loans was extended to include pre-approved loans and notifications on application status via text message and email were introduced. Moreover, the functionalities of activation and reactivation of the Intesa Mobi service and activation of Wave2Pay service through the Intesa On-line application were developed and by the end of December 2017 the Wave2Pay service was contracted with 7,250 clients. Additionally, the project of the CRISP application integration with the Intesa Mobi and On-line application was initiated, which will enable the provision of information about sales campaigns through this service, as well as the collection and analysis of clients' responses and activities, and consequently the preparation of tailored offers to clients.

Regarding the support to legal entities, the number of merchants on the Nest Pay e-commerce platform was 320. E-commerce transactions accounted for 2.4% of the total number of transactions realised on the e-commerce platform and POS terminals, and 3.4% of the total amount at the end of year.

Business Network

The development of the business network in 2017 was focused on improving the user experience and optimising its work by improving the appearance of branches, changing the operation of the transactional segment, as well as introducing innovations in the implementation of self-service devices.

In this process, reallocation and redistribution of resources continued in accordance with the needs and commercial potential of micro locations, so at the end of the year, the business network consisted of 158 branches, seven points of sale for housing loans and one point of sale within the company FCA SRBIJA d.o.o. Kragujevac. As many as 14 branches had the Flagship status, indicating their importance for the Bank, both from the aspect of work complexity and volume, as well as from the aspects of micro location and application of innovations in their work. As part of the network reorganisation, 25 new points of sale were introduced in 14 branches, and 27 branches were refurbished. Another small business centre was established in Belgrade, as well as two development centres for on-the-spot training of new advisors, while another Intesa Casa centre was opened in Belgrade in view of the growth in interest in housing loans.

Following global trends and understanding the real needs of the market, during 2017 Banca Intesa adopted guidelines for the strategic development and reorganisation of the network in the next four years. The main direction of development is the automation of transactional activities, with a further strengthening of the role that branches have in sales activities and fostering relations with clients. Striving to increase efficiency and improve the work in the transactional segment, the Bank turned to innovations related to self-service devices, so in 2017 six self-service devices for depositing daily takings were installed.

The migration of cash deposits to self-service devices will allow the migration of 30% of small-value cash transactions from the cash desk, which will pave the way for changes in the structure of work of cashiers at the counters. At the same time, by automating the process and strengthening the capacity of regional treasuries, all necessary preconditions for Banca Intesa to preserve its leading position in receiving and processing cash were provided. In addition, the Bank has amended its regulations governing the cash management process in branches in order to ensure optimal functioning of the transactional segment. The first results after the implementation of new regulations indicate significant improvement in the organisation of work and significant growth in productivity in this segment.

Also, in the previous year, the pilot process of payment cards delivery to the home address instead of in a branch was successfully completed and was very positively received by the clients. The process will enter into the final production in 2018 and is expected to free up significant resources in branches and allow them to concentrate more on sales.

Small Business and Registered Agricultural Farms

- *Wide and diverse credit products offer, sustained with simple and efficient business model*
- *Strong growth of the loan portfolio with increase in the number of active clients*
- *Reinforced market leader position by purchase a part of ProCredit Bank's portfolio*

In the small business segment, which includes small and medium-sized legal entities, entrepreneurs and registered agricultural farms, in 2017 Banca Intesa continued with the implementation of numerous innovations through the improvement of products and services available to clients, with the proactive recognition of their needs, dedication, expertise, innovation and high business standards.

In the previous year, Banca Intesa maintained its leading position in terms of the number of clients and increased its market share by four percentage points in the segment of legal entities and entrepreneurs, outpacing the market by four times. In the segment of agro clients, the market share increased by 3.5 percentage points supported by growth in placements of as much as 47%, while the market grew by 12%.

Concerning the number of legal entities, entrepreneurs and agro clients who received financing, the banking market shows a relative stagnation with a very modest growth, while the number of credit clients in Banca Intesa increased by as much as 30% in the same period. Owing to investments and continued enhancement of cooperation with clients, the Bank achieved significant success, measured by the growth in new sales volume of 26% in the small business segment and 33% in the agro segment. Consequently, these results led to an increase in the loan portfolio volume by over 40%, with a 39% growth in legal entities and 53% in the agro segment.

Small Businesses

The position of the market leader, with the a one-third share in the number of clients, obliges the Bank to work continuously on the improvement of products and services, as well as business processes, which lead to more efficient and better cooperation with clients. During 2017, an additional facility was introduced in the current account package, in the form of an overdraft, which is primarily intended for clients with shorter business cooperation history with Banca Intesa or to those unable to use a credit products. Thus, a simple and effective model of access to financial resources has been provided and used by 1,300 clients so far.

As a result of cooperation with the European Investment Fund (EIF), Banca Intesa is the first bank in the Serbian market that offered COSME loans for financing working capital, with relaxed collateral requirements, favourable interest rate and extended maturity. Through continued cooperation, in 2017 the Bank approved 2,500 loans through the COSME programme, in the amount of over EUR 62 million, resulting in a significant growth of long-term loans portfolio with an FX clause (65% compared to the beginning of the year).

Furthermore, in cooperation with the EIF, clients were also offered InnovFin loans for investments in innovative business projects, which can be used for financing working capital and investments, without required mortgage and pledge, with a simplified approval procedure, and favourable interest rate. Moreover, in 2017 Banca Intesa continued its active cooperation with the European Bank for Reconstruction and Development (EBRD) for the third consecutive year, through the programme of support and financing of women's entrepreneurship.

The successful end of year was additionally marked by the purchase of a part of ProCredit Bank’s loan portfolio, with the aim of continuing with the strategy of dynamic and sustainable growth of the small business and agriculture portfolio. Owing to this transaction, the Bank increased its loan portfolio in this segment by 5.2%.

In an effort to build and nurture a partnership with clients that goes beyond the basic business transaction, the Bank organised a number of educational seminars. The successful tradition of seminars focused on strengthening women's entrepreneurship was continued, in cooperation with the EBRD, while, on the other hand, young managers and future business leaders were provided additional education and access to knowledge and skills from different business areas.

Agriculture

Last year was marked by growth in all segments of operations with registered farms (AGRO), which significantly outpaced the market growth in the same period. Good results were made possible by favourable funding from the KFW Rural Credit Line, further expansion of the innovative loan model Agroprotekt, as well as active participation in subsidised lending programme in cooperation with the Ministry of Agriculture and Environmental Protection of the Republic of Serbia, where Banca Intesa participated with around 18% in total amount and more than 28% in the total number of approved loans. The cooperation with the Guarantee Fund of AP Vojvodina continued through granting loans to farmers based on credit lines contracted with this institution. As a result of all activities, the number of clients increased by around 18% in comparison with 2016, while new production rose by more than 32%.

The realisation of commercial plans was also supported by specifically designed campaigns accompanying product promotion, as well as by the implementation of a new processing application, which enabled the processing and disbursement of a significantly higher number of loan applications compared to the previous year. Through the implementation of the new application, the Bank also changed the credit analysis tool in order to expedite and improve the quality of loan analysis and approval. This tool contributed to excellent results in 2017 and for next year it is expected, with additional improvements and possibility of introducing automation of a certain part of the process, to be the generator of further growth of this segment in the Bank, as well as in the market.

7. Corporate Banking

- *Bank number 1 in the corporate segment*
- *A strong and reliable partner in the development of the SME sector*
- *An innovative approach to product development in response to diverse client needs*

Under the influence of favourable factors stemming from both the local and international environment, the positive trend of economic activity from the previous period continued into 2017. GDP recorded a mild increase, along with growth in foreign trade and FDI. The national currency maintained stability and appreciated against foreign currencies, while public debt declined. On the other hand, weather conditions, as limiting factors of economic development, had an adverse effect on agricultural production, significantly reducing its yield compared to the previous year, which also affected the export potential of this industry.

For the purpose of further recovery of credit activity and economic growth, the NBS continued pursuing expansionary monetary policy. Corporate lending interest rates, both in the local and foreign currency, reached all-time lows, allowing access to additional funding. Substantial contribution also came from European institutions through various programmes aimed at developing SMEs, which are considered the largest generators of employment, economic expansion and competitiveness.

In such an environment, Banca Intesa continued to provide adequate support to the economy, putting a strategic focus on the SME segment. When it comes to corporate loans, the Bank maintained the leading position with a market share of 15.5% and robust growth in SME lending of over 16% in volume and 8% in the number of borrowers, one fifth of whom were newly financed. Through the continuation of the EU COSME programme, which was first introduced to the Serbian market by the Bank under an agreement signed with the European Investment Fund (EIF), Banca Intesa offered working capital loans with relaxed collateral requirements to this segment of the economy. In this way, it contributed to establishing a favourable business environment for competitiveness development by easing access to funding and foreign markets, as well as by encouraging the creation of a culture of entrepreneurship. In 2017, loans worth more than EUR 92.5 million were disbursed under the COSME programme to over 720 clients.

Furthermore, Banca Intesa signed a EUR 100 million guarantee agreement with the EIF under the InnovFin SMEG programme, providing support to companies that have an innovative business approach and are ready to invest in new business processes. The Bank's participation in this programme will enable it to improve its offer of working capital and investment loans with reduced collateral requirements, widen its client base and hence further reinforce its leading position in the domestic market.

Significant results of the InnoFin SMEG programme are expected in the coming period having in mind the fact that the agreement was signed towards the end of 2017, while EUR 10,4 million were disbursed in 2017.

Furthermore, the Serbian government continued to support and stimulate economic growth through significant shortening of required time, costs and red tape during the process of setting up new businesses and obtaining construction permits. Such measures aim to positively influence entrepreneurial initiative and attract new investments, as well as to bolster foreign investors' interest in the domestic economy. Keeping abreast of market developments, Banca Intesa expressed readiness to strengthen additionally its support to foreign companies through service model improvement and introduction of new products and services. As a result of such orientation, the Bank established the Multinational Clients Department with the idea to identify and meet in the best possible way the business needs of large multinationals that had decided to conduct part of their business in Serbia.

Chart 16 – Corporate loans (in RSD million)

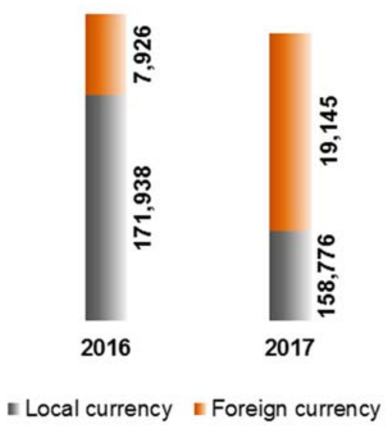
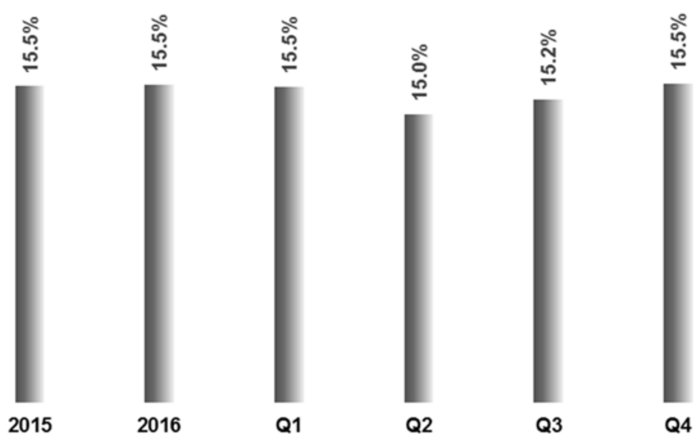


Chart 17 – Market share of the Bank in corporate loans



On the corporate deposit front, the Bank kept its indisputable leading position with a market share of 19.8% despite all-time low interest rates.

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has beentaken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Chart 18 – Corporate deposits (in RSD million)

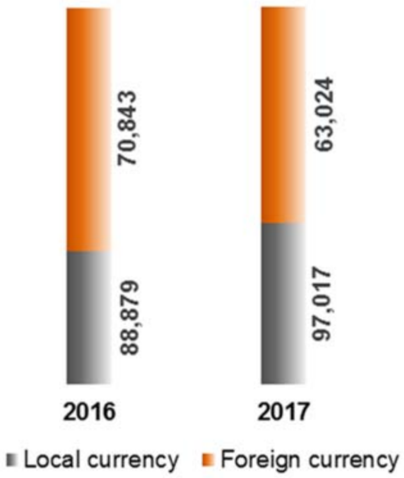
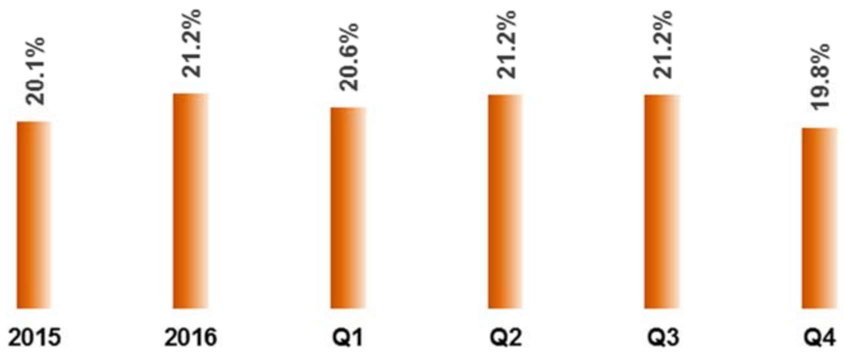


Chart 19 – Market share of the Bank in corporate deposits



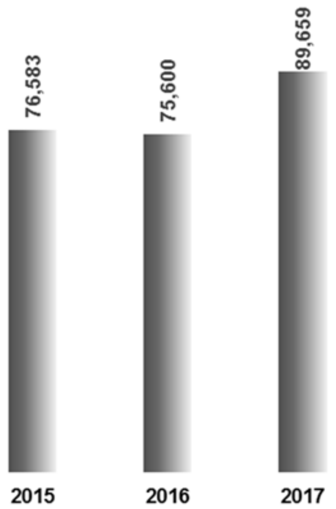
Transaction Banking

Banca Intesa has for years been the leading bank in the domestic market in providing transaction banking services. In order to maintain the leading position and increase its market share, last year the Bank focused was on further improvement of this segment of business, which resulted in revenue growth. In 2017, the number of issued letters of guarantee was almost 20% higher than in 2016, while revenues, collected from documentary business, increased by 8% in comparison with the same period of the previous year.

Aiming at continuous development of transaction banking products and services, keeping abreast of changing and growing new needs of its clients, the Bank developed and implemented the Payment Factory service last year, which enabled the improvement of cooperation and development of relations with clients from the segment of large multinational companies.

Taking into consideration the importance of such companies for the entire domestic economy and employment, Banca Intesa designed a service that in the best possible manner fulfils the needs of companies that have a footprint in various countries where ISP group has a presence and enables centralisation of payments, collection and reporting. In cooperation with the parent Group, the potential of this business segment has been recognised, and will continue to be realised through the development of new products and improvement of existing ones, with adequate sales support by competent teams.

Chart 20 – Guarantees and other commitments (RSD million)



Factoring

Banca Intesa factoring turnover increased in 2017, reaching EUR 88.6 million in total, almost 60% higher than in the previous year, on the back of a proactive sales approach through organising factoring workshops, meeting the needs of individual clients and taking an innovative approach to structuring and conducting factoring transactions.

Future development of the Bank in this segment is based on an internal synergy in all phases of factoring product lifecycle, market focus and work on bringing factoring products closer to current and prospective clients. Furthermore, the Bank will continue to develop adequate technical solutions in order to provide clients with upgraded transaction structuring process.

Structured Finance

Banca Intesa continued to provide support to clients in real estate and project finance transactions. In 2017, the Bank participated in the structuring and implementation of several major transactions, confirming success in various forms of financing, both individually and in cooperation with other members of the parent Group.

Stronger support for financing investment in renewable energy sources (RES), as well as well-structured large-volume transactions for selected clients in the real estate financing segment will be the main pillars for the future development of structured finance. More favourable climate for developing and financing RES investment enables the Bank to define the strategy toward enhancing financing, thus providing further support to environmental protection. In this respect, in its operation Banca Intesa follows the Equator principles, which ensure adequate management of risks arising in connection with RES financing transactions.

EU Desk

In the previous year, the main goal of the EU desk was to obtain all relevant information on EU programme and IPA funds currently available in the Republic of Serbia and to provide clients with information on the possibilities for their use. The aforementioned process will allow Banca Intesa to broaden its existing product and service offer. The Bank's intention is to continue to facilitate its clients' access to attractive EU funds with all necessary expert assistance during the application process.

8. Asset Management and Investment Banking

- *Active market participant in auctions of securities of the Republic of Serbia*
- *Main partner to investors for currency swap contracts*
- *Market leader in foreign exchange trading operations*

Decreasing key policy rate during 2017 and the trend of historically low interest rates in the Serbian money market resulted in a reduction of the yield on securities issued in the domestic market, as well as an extension of the bond duration and change in their maturity structure. In previous year, the Ministry of Finance sold RSD 207 billion and EUR 1.2 billion in primary auctions, which is less by 18.5% and 8.9% respectively in comparison with 2016. The highest individual issuance volume was reached on a 3Y local currency bond which was sold in the total amount of RSD 86 billion in seven primary auctions. At the beginning of September, a euro bond was issued with a maturity of 15 years, the longest so far, and with a yield of 4.2%. In 2017, the Republic of Serbia did not issue any Eurobonds, while maturing Eurobonds worth 750 million dollars issued in 2013 contributed to a further reduction of the Republic of Serbia's debt.

Observing activity in the secondary market, investors' interest was mainly focused on dinar bonds, which caused their turnover to be almost double the amount issued in primary auctions. On the other hand, the total turnover of foreign currency denominated securities in the secondary market was 25% lower than the amount sold in primary auctions.

During 2017, Banca Intesa continually participated in primary and secondary auctions of government securities of the Republic of Serbia for its own account or on behalf of its customers, actively supporting the development of this key segment of the bond market and government fiscal policy. In the circumstances of broad reduction of interest rates in the entire banking sector, there has been an increased interest of domestic and institutional clients in investing in securities as an alternative to bank deposits. In this regard, Banca Intesa took a proactive approach to informing clients about options of investing in government securities and introduced its brokerage and custody services to all interested institutional and individual investors.

The Bank's portfolio remained diversified, so, apart from debt securities issued in the domestic market, it includes bonds from the international market, such as euro-denominated Eurobonds of the Republic of Italy and dollar-denominated Eurobonds of the Republic of Serbia maturing in 2018.

In 2017, the Bank did not have its own Treasury shares in its portfolio, nor did it engage in such activities.

At the end of 2017, credit rating agencies Standard and Poor's and Fitch increased the credit rating of Serbia for borrowing in domestic and foreign currency from BB- to BB with stable outlook, due to improved macroeconomic conditions.

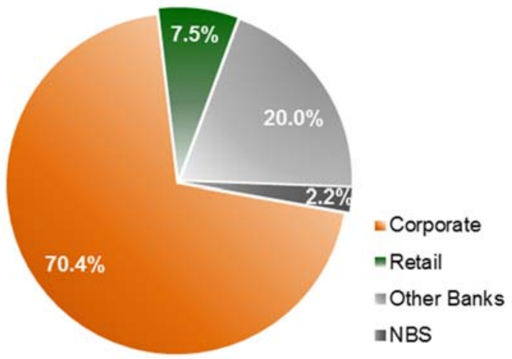
The direct impact of favourable market movements can also be measured by the level of the EMBI index (JP Morgan index) for Serbia, which at the beginning of the year was 222, and at the end of the year fell below 100 basis points. These changes also resulted in a decrease in dinar swap rates by approximately one percentage point since the beginning of the year, while the Bank realised the largest volume of swap transactions with foreign banks, confirming its leadership position in this field of business.

In 2017, Banca Intesa retained its top position in foreign exchange trading operations, with a market share of 14.2%. The Bank provided the EUR-NET Exchange Rate to its clients, which is applied in transactions through the Intesa Mobi application and Intesa On-line e-banking service and represents the most favourable market rate because it follows trends in the interbank foreign exchange market in real time. During 2017, the volume of EUR-NET transactions posted a significant increase of 31%.

Table 1 – Foreign exchange trading (in EUR million)

	2011	2012	2013	2014	2015	2016	2017
Corporate	4,217	3,066	3,058	2,772	2,915	3,340	**3,567**
Retail	355	299	242	229	226	321	**379**
Other Banks	2,659	2,789	1,510	899	1,313	914	**1,012**
NBS	10	117	73	157	94	99	**111**
Total	7,241	6,271	4,883	4,057	4,548	4,674	**5,069**

Chart 22 – Retail and corporate share in foreign exchange trading



The Bank also proceeded with the education of customers about modern banking services and with the promotion of the products that aim to enable timely management of financial risks, primarily referring to foreign exchange risk. In 2017 Banca Intesa was also the leading bank regarding the offer of financial instruments for dinar and foreign currency liquidity management (currency swap contracts), primarily intended for investors in dinar-denominated bonds of the Republic of Serbia who wish to completely or partially hedge the foreign exchange risk.

9. Corporate Social Responsibility

- *Award for the best local corporate volunteer*
- *Further activities on financial inclusion and education through projects "Women in Business" and "Know how to save"*
- *Improvement of working environment with numerous educational activities and projects*

In line with the commitment to achieve business success with full respect for the principles of corporate social responsibility (CSR), in 2017 Banca Intesa continued to apply a management model based on a sustainable balance of economic, social and environmental goals.

The Bank confirmed its commitment to CSR last year by providing support to the community through corporate philanthropy projects, strengthening the culture of corporate volunteering with a focus on financial education of children, as well as direct financial support to projects in the field of culture and preservation of cultural heritage, as well as initiatives of social and humanitarian significance. Also, the Bank responded to customer needs by improving its offer of socially and environmentally relevant products, while taking care of customer satisfaction and striving at the same time to reduce its negative impact on the environment.

At the same time, Banca Intesa continued to create a stimulating work environment with the goal of further growth of employee satisfaction and motivation. Also, in accordance with the strategic orientation to incorporate the highest ethical standards in all its functions and business philosophy, the Bank updated its Code of Ethics and implemented several projects which will contribute to the more efficient implementation of its core values and attainment of international CSR standards in years to come, thus strengthening the role of a recognised promoter of sustainable development of the community, as well as society at large.

In 2017, the Bank also continued with a comprehensive analysis of potential regulatory gaps in the process of implementation of the highest business practice standards defined by the Code of Ethics of the Bank and the entire Intesa Sanpaolo Group. The assessment was carried out according to the international standard ISO 26000, which Intesa Sanpaolo adopted for the regular activities of monitoring the application of the Code of Ethics in practice. The assessment will enable the Group as well as the Bank to understand potential reputation risks and the areas of practical application of the Code of Ethics that need to be further strengthened.

COMMUNITY

Corporate Volunteering

Volunteering initiative Wrap a Gift, Make a Child Smile continued with charity concerts of BIB band made up of ten musicians among the Bank employees. The mission of BIB band is to bring together and motivate as many colleagues throughout Serbia as possible to purchase "tickets" for their music performances, thus collecting funds to support vulnerable children across Serbia. During 2017, four concerts of BIB band were held in Niš, Novi Sad, Kragujevac and Belgrade, bringing together close to 2,000 employees and collecting more than RSD 1,700,000 in support of six organisations and institutions providing medical or social care of children and youth with disabilities. Banca Intesa was awarded the annual recognition of the Responsible Business Forum for the best domestic corporate volunteering programme in 2017 in the category Innovative Skill-Based Volunteering for the applied model of inclusion and sensitisation of employees to vulnerable social group issues.

Also, within the corporate volunteering programme Intesa from the Heart, Banca Intesa organised the Volunteering Day 2017, which was of environmental character and involved cleaning and improving the coastal area of Lake Gruža, an important natural resource in central Serbia. As many as 200 employees from all over Serbia contributed to solving acute environmental problems of the local community by cleaning the shore, collecting waste and planting poplar seedlings.

As in the previous years, in 2017, the seventh consecutive year, the employees of Banca Intesa participated in the largest national volunteering initiative „Our Belgrade“ within which they arranged the yard and the access ramp of the Primary School for Children with Disabilities Novi Beograd.

In addition, in 2017 the Bank again encouraged its employees to support initiatives of social significance through the individual volunteering programme.

Corporate Philanthropy

Constantly monitoring the needs of the community, in 2017 the Bank allocated over RSD 9 million for philanthropic purposes and channelled them towards support to the implementation of projects in the field of culture and preservation of cultural heritage, as well as numerous initiatives of social and humanitarian significance.

The Bank supported the initiative of the History Museum of Serbia to install an elevator for persons with disability, providing access to the museum to wheelchairs users. In addition, it helped complete the reconstruction of the National Museum building and supported the National Library with donations for the procurement of equipment necessary for various cultural programmes. Support was also given to programmes for the preservation of cultural heritage, including the language and alphabet preservation programme implemented by the Vuk Karadžić Endowment, as well as the issuance of a publication with the Serbian medieval coins by the „Politika“ daily newspaper.

Among the numerous charitable initiatives is the support to the Novak Djokovic Foundation project for the distribution of gifts and Christmas and New Year celebration for children without parental care, as well as programmes with the aim to help ill children through charity fundraising campaigns with partner organisations such as BELHospice and NURDOR.

Moreover, in 2017, the Bank continued to help create a stable and independent financial mechanism for the Paralympic Committee of Serbia through which it supported the Committee with RSD 5.4 million in 2017.

MARKET

Financial Inclusion and Education

In 2017, financial inclusion remained an important element of Banca Intesa's CSR strategy. In line with such a commitment, the Bank sought to make its products more accessible and meet the specific needs of a larger number of customers owing to constant innovation and product improvement. Particularly notable is the support to female entrepreneurship with which the Bank continued to implement the Women in Business project and disburse loans from the EBRD credit line dedicated to financing investments and working capital for SMEs run by women. Last year, 367 such loans were approved totalling close to EUR 3 million. Apart from financing, the programme also included training provided to women entrepreneurs throughout Serbia. To the same end, Banca Intesa continued with the programme of credit support to unemployed women and women entrepreneurs in the territory of Vojvodina in the form of loans for the purchase of equipment and start-up loans.

In the area of financial education, 2017 was marked by two major projects. In cooperation with Intesa Sanpaolo group, the Bank developed and implemented the Know How to Save 2017 financial education programme in order to reaffirm the importance of saving and the need for timely financial education in Serbia, educate as many young people as possible and thus provide a practical contribution to the long-term sustainability of the financial market in Serbia. The NBS was the institutional partner of the project, which helped significantly increase project visibility and results. The programme included a series of educational activities for 300 children from 6 to 17 years of age attending primary and secondary schools in Belgrade, Novi Sad, Niš and Kragujevac, during which they were introduced to the most important financial concepts, as well as offered simple and practical tools for managing personal finances. As part of the programme, the employees of Banca Intesa held six educational interactive workshops in primary schools in Novi Sad, Niš and Kragujevac, presenting the modern concept of savings. Within the same project, the children of Banca Intesa employees had an opportunity to participate in an educational game on the subject of savings, which was specially developed for them by the Bank.

As a member of the working group for financial education and literacy in the Association of Serbian Banks, Banca Intesa participated in the design and implementation of the national programme for celebrating the European Money Week in Serbia. As part of the project, the Bank's employees visited a kindergarten and a primary school in Belgrade and held two interactive workshops for 60 boys and girls explaining the basic financial concepts with the aim of promoting the need for rational financial management and emphasising the importance of the concept of savings and responsible financial decisions.

ENVIRONMENT

Environmental protection remained one of the strategic areas of Banca Intesa's operations in terms of sustainability. The Bank's firm commitment to contributing to the preservation of the environment is reflected in its offer of products aimed at improving energy efficiency and the use of renewable energy sources, as well as in efforts to reduce the consumption of resources in its operations.

Considering its direct and indirect effects on the environment, as well as the risks to the sustainability of operations that come with the disruption of environmental balance, in 2017 Banca Intesa, in cooperation with the EBRD, implemented the first cycle of training in the field of environmental protection on social and environmental risk management in the process of lending.

WORK ENVIRONMENT

Activities designed and implemented in 2017 are based on the educational needs of employees, in line with the strategy of our Bank, and are focused on the development of competencies of employees, dedicated and educated professionals who improve the Bank's operations with their knowledge, experience and ideas.

Owing to the continuous and systemic monitoring of the onboarding process for new hires, the number of training days was substantially increased in 2017, with more than 12 training days per employee on average. There were 4,290 training days in the classroom, as well as 11,698 days of mentorship. Each employee attended three programmes on the e-learning platform on average, while education via the e-learning system was conducted through 18 different e-learning programmes.

Several employee development projects were implemented, the most important one being the continuous education programme for colleagues at the Head Office targeting the development of managerial skills, communications and team work, as well as the BI Community programme of connecting and developing employees dealing with business intelligence within the Bank. A series of specific programmes for different categories of employees initiated in the previous year continued in 2017, including the innovative SBA Academy for training employees who work or will work with small businesses. This programme was recognised as the best HR practice within Intesa Sanpaolo International Subsidiary Bank Division (ISBD).

Two talent programmes were launched – the International Talent Programme within Intesa Sanpaolo Group, in which selected employees of Banca Intesa will gain international experience and knowledge in the course of trainings conducted by the most eminent international experts over the next three to five years, as well as the Bank's leadership programme for recognised managers, named the Treasure Leadership Talent Programme. This programme, which brings together mentors and talents from prominent managerial positions and will last a year and a half, is characterised by a specific approach to talent development, based on their personal profiles and career goals.

Furthermore, the Junior Programme was launched enabling students in their final year of undergraduate studies to acquire first corporate experiences, based on mentoring, specific assignments, rotations and trainings for young colleagues.

In 2017 the Bank continued to encourage international career development of its staff, as well as the attainment of new professional knowledge and the exchange of experiences with colleagues from the Group. Apart from investing in the professional development of its employees, the Bank also continued to recognise their personal needs, introducing the International Healthcare Programme that includes medical treatment abroad in cases of severe illness for all permanent employees.

Projects for Children of Employees

In 2017 Banca Intesa, for the thirteenth consecutive year, provided an opportunity to around 50 children of its employees to spend two weeks in Italy, this year for the first time in the town of Misano. Also, in cooperation with the Foundation for International Education Intercultura, Banca Intesa supported the programme of one-year education abroad in 2017 as well. Two children of employees of the Bank completed the previous school year in Italy, using the opportunity to learn Italian, live in a different cultural environment and gain new experiences.

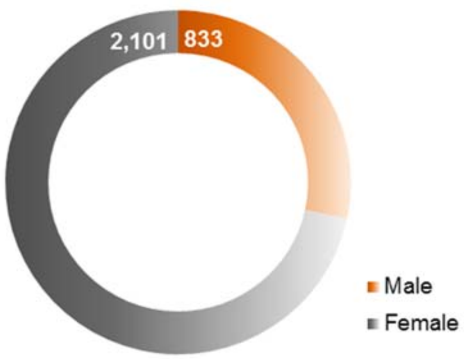
Qualification, Age and Gender Structure

The combined energy of new and young colleagues, on the one hand, and work experience of older colleagues, on the other, form the foundation of successful business operation of Banca Intesa.

Table 2 – Employee qualifications

Qualification level	up to 30 years	30-40 years	40-50 years	50-60 years	over 60 years	TOTAL
I				1		1
II				1		1
III		6	13	3		22
IV	38	195	243	208	9	693
V		1	3	2		6
VI	46	335	162	74	4	621
VII/1	196	834	406	128	6	1,570
VII/2		8	8		1	17
VIII		1	1	1		3
Total	**280**	**1,380**	**836**	**418**	**20**	**2,934**

Chart 23 – Gender structure



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RESEARCH AND DEVELOPMENT ACTIVITIES

Customer Satisfaction Management

In terms of customer satisfaction, 2017 marks the tenth anniversary of the Listening 100% programme. As part of the programme, all customer feedback in the form of complaints, suggestions, compliments, or primarily through customer satisfaction and experience surveys, are collected, for the purpose of analysing and properly understanding their needs, as well as improving business processes, products and services. During the previous ten years, the programme enabled Banca Intesa customers to become active participants in the development of the Bank, a sort of an engine which, among other things, strongly influences the improvement of its offer and services. Judging by the results achieved by the Bank, this customer engagement has been more than successful.

Listening 100% also has an internal dimension since it nurtures corporate culture which is entirely customer oriented. Accordingly, the Bank conducted internal trainings aimed at presenting the importance of customer satisfaction, introducing the concept of customer experience to the employees and indicating the importance of each organisational unit in the process of customer satisfaction improvement. These trainings were organised for all employees of the Bank.

In 2017, Banca Intesa continued its customer satisfaction and loyalty surveys in accordance with a scientifically tested and highly regarded approach based on the European Customer Satisfaction Index (ECSI). The use of this model enables comparison of Banca Intesa with other banks operating in the local market, as well as with other ISBD banks. Last year, surveys were conducted for the individuals and small business segments, while other segments – SMEs, large and multinational customers will be surveyed in 2018. The obtained results confirmed the high customer satisfaction and loyalty indices, as well as all related indicators, especially the Net Promoter Score (NPS).

With a clear goal to improve service quality in the Bank’s branches, Mystery Shopper surveys and activities continued in 2017. This particular survey, among other things, enables each branch to be analysed as a separate entity, so on the basis of the results obtained, activities are initiated and conducted for the purpose of improving the service quality, which directly influences customer satisfaction and experience, leading to increased popularity of those branches. The success of the activities taken is demonstrated by the following results.

Aiming at improving the experience of customers belonging to the small business segment, in 2017 Banca Intesa intensified activities in the field of Instant Feedback customer satisfaction surveys. Owing to Instant Feedback surveys, which enable the customer to be contacted soon after an interaction with the Bank’s employees, feedback is collected while the experience is still “fresh”, which, in turn, enables a swift reaction in removing any causes of dissatisfaction, but also improving satisfaction of each customer. In the period ahead, Instant Feedback surveys will be used for other customer segments with the aim of covering all points of contact between the Bank and its customers.

Product and Service Development

Development activities of Banca Intesa in 2017 were focused on the analysis and improvement of banking applications, as well as the amendments on information infrastructure in line with new regulatory requirements and further development of products and services. It was continued modernization of the CORE banking platform, which aims to enhance the efficiency and automation of business processes and, consequently, improve the user experience of the Bank's clients.

Following the Bank's orientation towards digital transformation and enhancement of the offer of digital products, the Bank provided the possibility for applying for cash loans through e-banking application, while at the end of the year such service was enabled also for overdrafts. Aiming to further simplify the loan approval process, the Bank has launched a pilot program which provided courier service for signing a contract, thus allowing clients to complete the entire process from application to realization without going to the branch. During the previous year, it was also successfully completed the pilot process of distributing payment cards to the home address instead of taking them over in branches.

Striving to optimize the transaction business, the Bank has improved its offer in the domain of "smart" devices for cash transactions, having installed six devices for self-service payment of the customers' turnover.

In order to improve the quality of the service and enhance efficiency of the payment cards operations, the Bank was working on the technical improvement of the system during previous year. It has been carried out optimization, redesign and automation of the payment card business process, along with the development of appropriate software and customization of internal and external applications with a new targeted solution.

10. Risk Management System

- *A significant reduction in the share of non-performing loans due to a proper and proactive approach to risk management*
- *Improvement of credit risk monitoring through the development and implementation of advanced models in daily operations*
- *Introduction of Basel III standards and development of new methodology in accordance to IFRS 9 implementation*

Banca Intesa Beograd continuously identifies, assesses, monitors and controls risks in compliance with the Law on Banks and updated by-laws of the National Bank of Serbia, risk management regulations developed by the European Banking Authority and other international regulators and ISP Group guidelines, thus providing an integral, prudent and consistent risk management system. The Bank's Board of Directors established by its enactments an appropriate risk management system and an internal control system, which also includes a supervision of that system by the competent bodies of the Bank – the Board of Directors, the Executive Board, the Audit Committee, the Problem Asset Committee (PAC) and Credit Risk Governance Committee (CRGC) and the Assets and Liabilities Committee (ALCO). The functioning of the system is regulated by the policies and procedures adopted individually for each material risk type.

In order to maintain a system that complies with the highest quality standards and supports the decision-making process of governing bodies, the system underwent improvement during 2017. The enhanced risk management system continues to rely on the axioms of independence of the risk management function from risk-taking centres, promptness of information flows that support the decision-making process, as well as transparency and correctness of submitted information.

Main objectives of the risk management process are related to the protection of the Bank's capital and its optimal allocation, increase in economic value for shareholders, monitoring of risk limits and/or risk measures for all identified risk. The existing system of limits, defined in the Risk Appetite Framework (RAF), gives the highest priority to the overseeing of minimum requirements related to capital adequacy, liquidity and operational risks. In addition, the RAF system monitors credit concentration limits, limits of exposure to interest rate risk and funding limits. The indicators of profit stability, macroeconomic stability and credit quality of the Bank are anticipated as additional RAF measures in the Recovery Plan for 2017 and will be integrated into the RAF in early 2018. The Bank ensures the compliance of the strategic guidelines defined in the business strategy, capital plan, operating plan – budget and recovery plan, with the Bank's risk profile defined in the RAF system.

In 2017, the Bank developed models required for classification, Probability of Default, Loss Given Default and Exposure at Default and valuation of financial assets, as a preparation before the first-time adoption of IFRS 9.

In addition, the Bank has implemented a technical solution for adequate information flow and performed simulations by which it has estimated the effects of IFRS 9 implementation on the Bank's performance.

In addition, the AIRB (Advanced Internal Ratings-Based) project has been continued in order to implement internal rating-based approach in measuring credit risk. In September 2017, the Bank submitted its Corporate FIRB (Foundation Internal Ratings-Based) pre-application package to the Regulator and thereby entered the process of regulatory examination of the model for large companies and small and medium-sized enterprises, as well as project financing (SL model). Furthermore, the Bank has integrated the new Retail PD model in everyday business operations and recalibrated the existing Corporate PD model. Credit risk monitoring system was improved through the implementation of a new non-performing exposure (NPE) reporting system, which has demonstrated its ability to respond to supervisory requirements in stress conditions during the European Banking Authority's credit risk stress test exercise. The implementation of the upgraded credit risk monitoring system allowed the Bank to lower the default rates, improve the credit portfolio quality and achieve impressive growth rates in the retail portfolio, without increasing credit risk exposure of the Bank. Striving to respond adequately to the regulatory requirements, the process of internal capital assessment and recovery plan creation were aligned with the National Bank of Serbia recommendations and additional improvements will be introduced during 2018. Moreover, the Recovery Plan for 2017 was developed as part of a broader ISP Group document, responding simultaneously to the NBS and ISP Group regulatory requirements.

Risk management policies and procedures have been revised and updated for the purpose of their alignment with the significant amendments to the domestic and international (EU) regulations, as well as the amended guidelines and policies of the Parent Group, recommendations/findings of the Bank's Internal Audit, Internal Validation and the NBS.

Credit Risks

Credit risk is monitored on a number of levels: by assessing customers' creditworthiness prior to loan approval, monitoring regular settlement of their liabilities and creditworthiness during the whole credit lifecycle and also by collecting and managing due receivables.

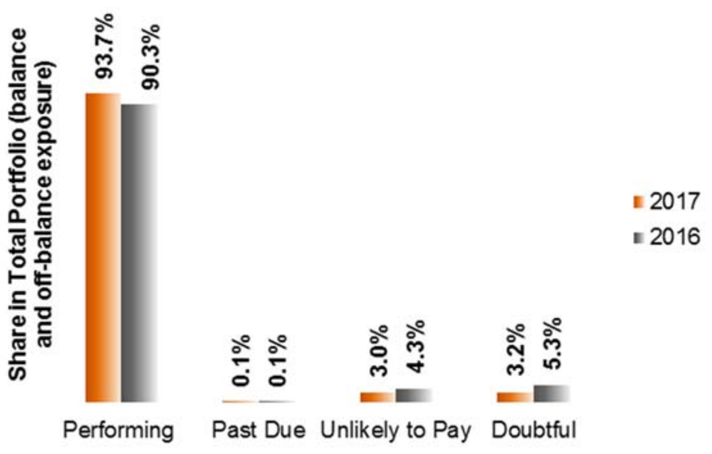
In addition to regular monitoring and reporting activities, annual review of internal acts regulating the credit risk area and activities related to supporting the governing bodies in the decision-making process, in 2017 the main achievements in the credit risk management area were the following:

- Implementation of the Basel III standards, introduced in domestic regulations through the amended NBS Decision on Capital Adequacy. Changes include a significant revision and adjustments of data marts, Risk-Weighted Assets (RWA) calculation engines and reporting systems, aiming to provide prompt and accurate regulatory reports;
- Implementation of IFRS 9 for asset classification and measurement. Through the IFRS 9 project, the Bank developed a new methodology and model for expected credit loss calculation (i.e. asset impairment), implemented the business model and SPPI tests of all balance sheet positions in order to properly classify assets and liabilities, conducted several simulations of IFRS 9 effects and worked on the implementation of upgraded IT solution for IFRS 9 application purposes;

- Notable decrease of the non-performing loan (NPL) ratio. The NPL volume and indicator were significantly reduced and are in line with the levels expected and defined in the Credit Strategy, Budget and NPL plan. The NPL reduction is a result of consistent implementation of effective workout strategies, improved credit approval and underwriting process, use of credit rating and early warning systems, as well as proactive management of deteriorated credit positions;
- Significant improvement of the first and the second stage of credit controls performed by the Credit Quality Monitoring and Control Office, Credit Portfolio Analysis and Administration Department and Rating Desk.
- Participation in the Bank's Merger and Acquisition team, with the aim of evaluation of the quality of the submitted portfolio. The Credit Quality Monitoring and Control Office builds the Methodology for Revaluation of Portfolio Quality and projections of PD and LGD for each segment, which are used for the calculation of possible loss and deterioration of portfolio projections.
- The local regulator has initiated an on-sight examination of the SME & LC models, as well as the project financing model for the Corporate FIRB implementation preceding the model implementation. Banca Intesa is the first bank in the local market which applied to the NBS for the approval of internally developed credit models.

During 2017, the credit portfolio quality continued to improve through the reduction of NPL share, the coverage of portfolio by loan loss provisions was maintained and portfolio diversification increased.

Chart 23 – Credit portfolio quality by class (balance and off-balance sheet exposure)



Apart from the significant NPL reduction, the Bank also posted a large increase in new production. Furthermore, in line with the adopted Credit Strategies and improved diversification goals, the Bank has increased the share of the retail portfolio, which now accounts from more than 40% of the overall portfolio. The credit portfolio growth was not achieved at the price of higher credit risk; instead, the portfolio quality measured by rating distribution has been improved due to a consistent application of the Credit Strategy and Credit Policy. More than 95% of performing clients have an A or B internal credit rating.

Chart 24 – Portfolio distribution by segment

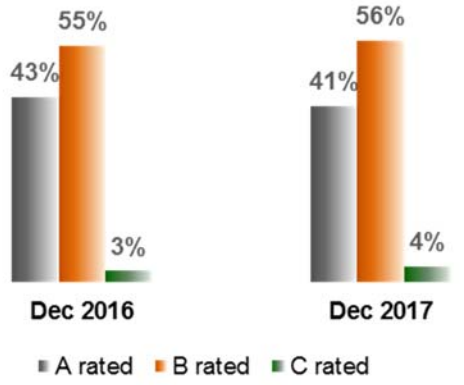


Chart 25 – Portfolio distribution by segment

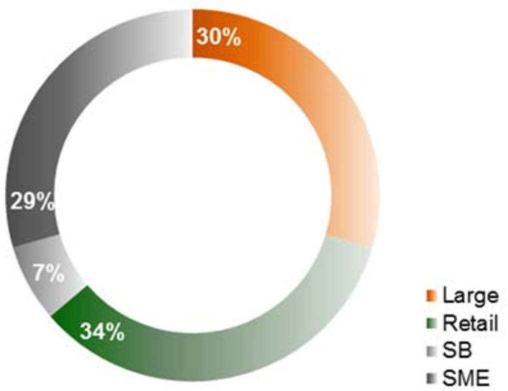


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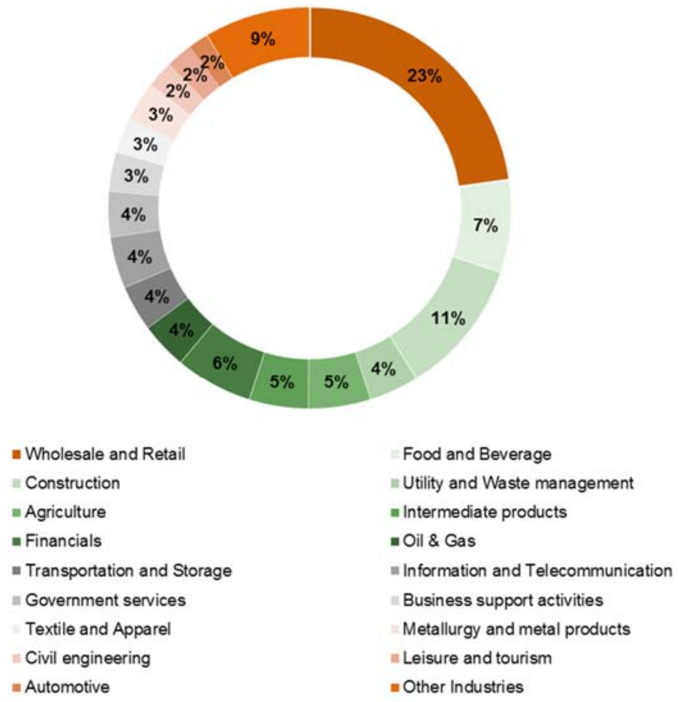
Chart 26 – Portfolio distribution by industry



Credit portfolio distribution by industry points to relatively good portfolio diversification. In accordance with the official industry classification (NACE) the largest portion of credit portfolio belongs to Wholesale and Retail, Construction and Food and Beverage, which jointly account for 41%.

The Bank operated in compliance with the Risk Appetite Framework and regulatory limits throughout the year. The system of limits, i.e. money market exposure risk, marginal risk, delivery risk, indirect risk and non-cash risk limits, established in coordination with the relevant structures of the Parent Bank and approved by the Board of Directors, presents the framework for managing credit risk exposures towards financial institutions. Limit utilisation is monitored and reported on a regular basis to the business units, the Parent Group and ALCO. Apart from the internally defined limits, the compliance with regulatory rules is also monitored and reported on a regular basis. During 2017, the exposures were aligned with the prescribed limits.

In 2017, Banca Intesa continued developing its internal credit rating models for the purpose of converging to the standards of advanced approaches to credit risk measurement. While in the previous years the Bank developed PD models (estimation of the Probability of Default risk parameter) for the majority of business segment customers, last year the new SME and LC model was updated, and the PD Individuals 2015 model was introduced into the credit process of individuals' credit applications. Both models were validated and back-tested during 2017. Moreover, the Internal Validation Office performed back-testing of SB-SE and SB-DE models that are used for managerial purposes. In addition, in 2017 the Bank continued working on its LGD models (estimation of the Loss Given Default risk parameter) for legal entities and started work on the LGD model for individuals.

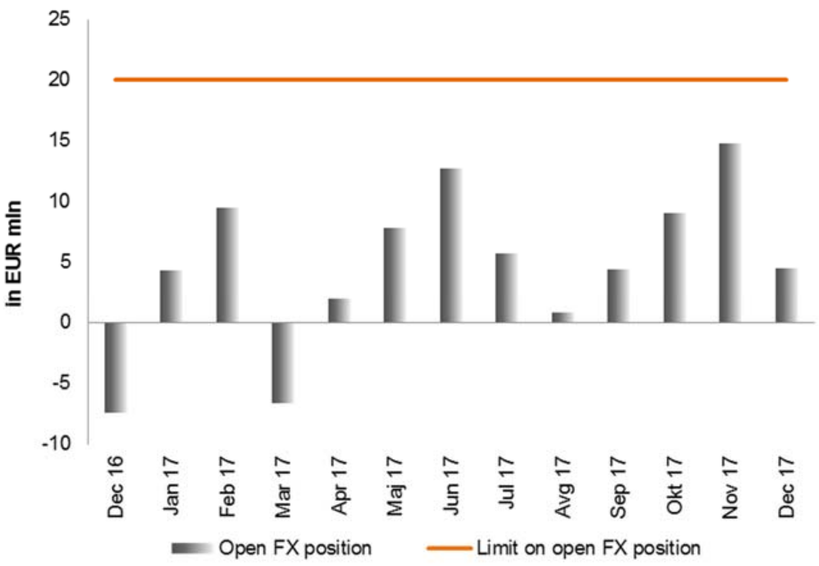
Market Risks

The main sources of market risks to which the Bank is exposed in its operations are interest rate risk and foreign exchange risk.

General principles of market risk management are defined in accordance with regulatory rules, ISP Group standards, international best practices and standards, as well as internal acts. The system of market risk limits, defined in coordination with the Parent Group's relevant structures and approved by the Board of Directors, operationalises the market risk monitoring process. The system of limits is aligned with the strategic goals of the Bank, RAF system and regulatory requirements. Market risk limits utilisation is reported to the relevant functions of the Bank on a daily basis, while reporting to the ALCO is on a monthly level or more frequently, if necessary. The ALCO monitors market risk exposures on a strategic level and provides guidelines for general management of the Bank's balance sheet within its responsibility.

During 2017, the foreign exchange risk exposure was significantly below the maximum level prescribed by the regulator. Internally established limits for open foreign exchange position and foreign exchange Value at Risk were not revised. The limits were breached on a few occasions (primarily due to dividend payments in March and October) as a consequence of preapproved and agreed business actions requiring the open FX position not to be closed immediately but in the course of few days.

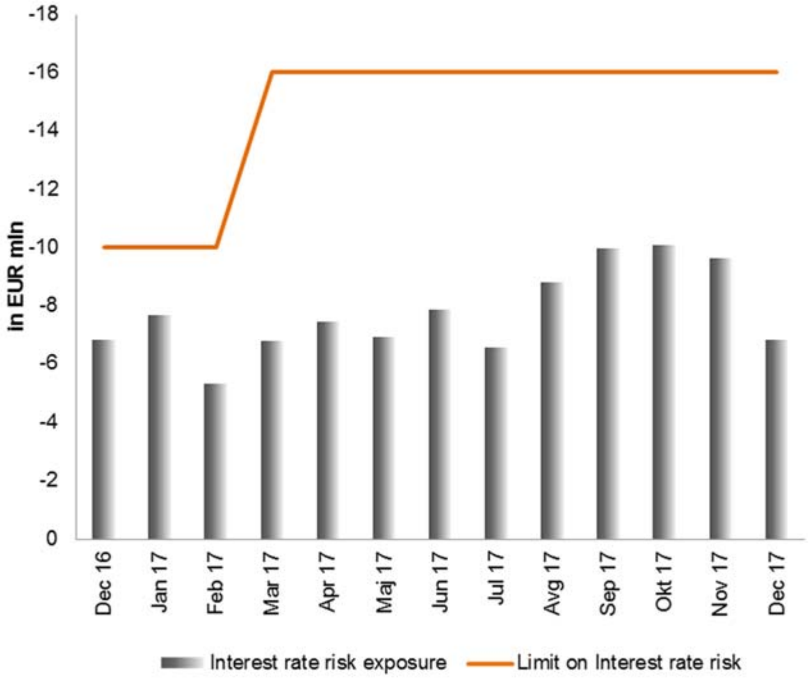
Chart 27 – Trend of foreign exchange risk exposure



Regarding interest rate risk, the Trading Book was constantly within the defined limits: the position limit, the Value at Risk limit, the duration limit.

As for the Banking Book, the position was below the prescribed limits throughout the year. The interest rate risk principles applied in the monitoring process were revised through the updated Policy on IRRBB Management and implementation of new regulatory requirements and Intesa Sanpaolo Group requirements.

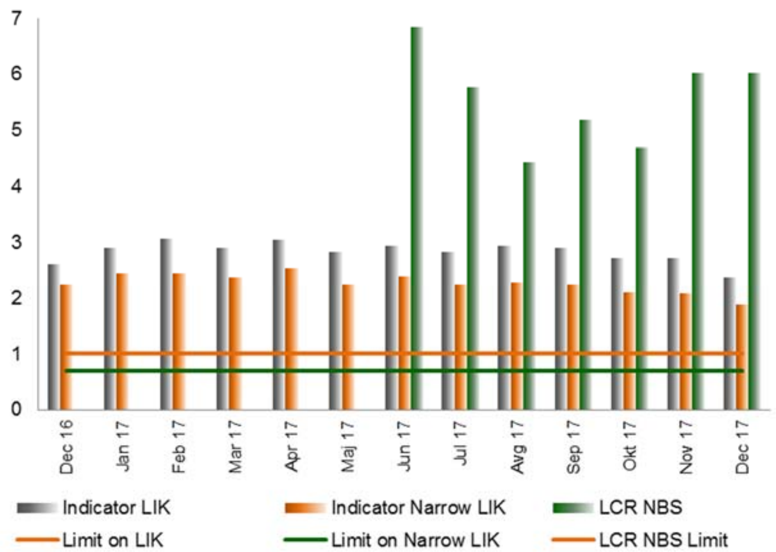
Chart 28 – Trend of interest rate risk exposure



Liquidity Risk

In the course of 2017, the liquidity level of Banca Intesa was significantly above the minimum threshold and the Bank invested its excess liquidity in debt securities of the Republic of Serbia and the Republic of Italy. All the liquidity indicators, regulatory ones and those defined by the Group, were within the set limits at all times.

Chart 29 – Trend of regulatory liquidity indicators



Operational Risks

Operational risk management is conducted in line with the methodology of the Parent Group, according to the model supported by appropriate IT solutions, enabling regular monitoring, assessment and reporting on operational risks.

Banca Intesa complies with the requirements related to the regulatory capital defined by the NBS and applies a standardised approach to the measurement of capital requirement for operational risk. The Risk Management Department regularly reports to the Executive Board, the Board of Directors and the Parent Group on operational risks and measures for their mitigation.

Operational risk identification, assessment and monitoring are undertaken through the process of collecting data on operational risks/losses and the process of assessment of exposure to operational risk. Data on operational risks/losses are analysed on a monthly basis, while the process of assessing the exposure to operational risk is carried out once a year, including a subjective assessment of operational risks for the period of 12 months. Various scenarios are analysed and the possibility and frequency of occurrence of operational risk are assessed, as well as the average and the worst possible loss in case of occurrence of each scenario. The process of operational risk exposure assessment also includes an evaluation of the business environment through an analysis of the level of risk factor management, identification of potential critical operational issues and mitigation actions proposed to reduce the operational risk exposure and ICT risk analysis, which applies to infrastructural services, IT governance, the Bank’s applications, information security and business continuity.

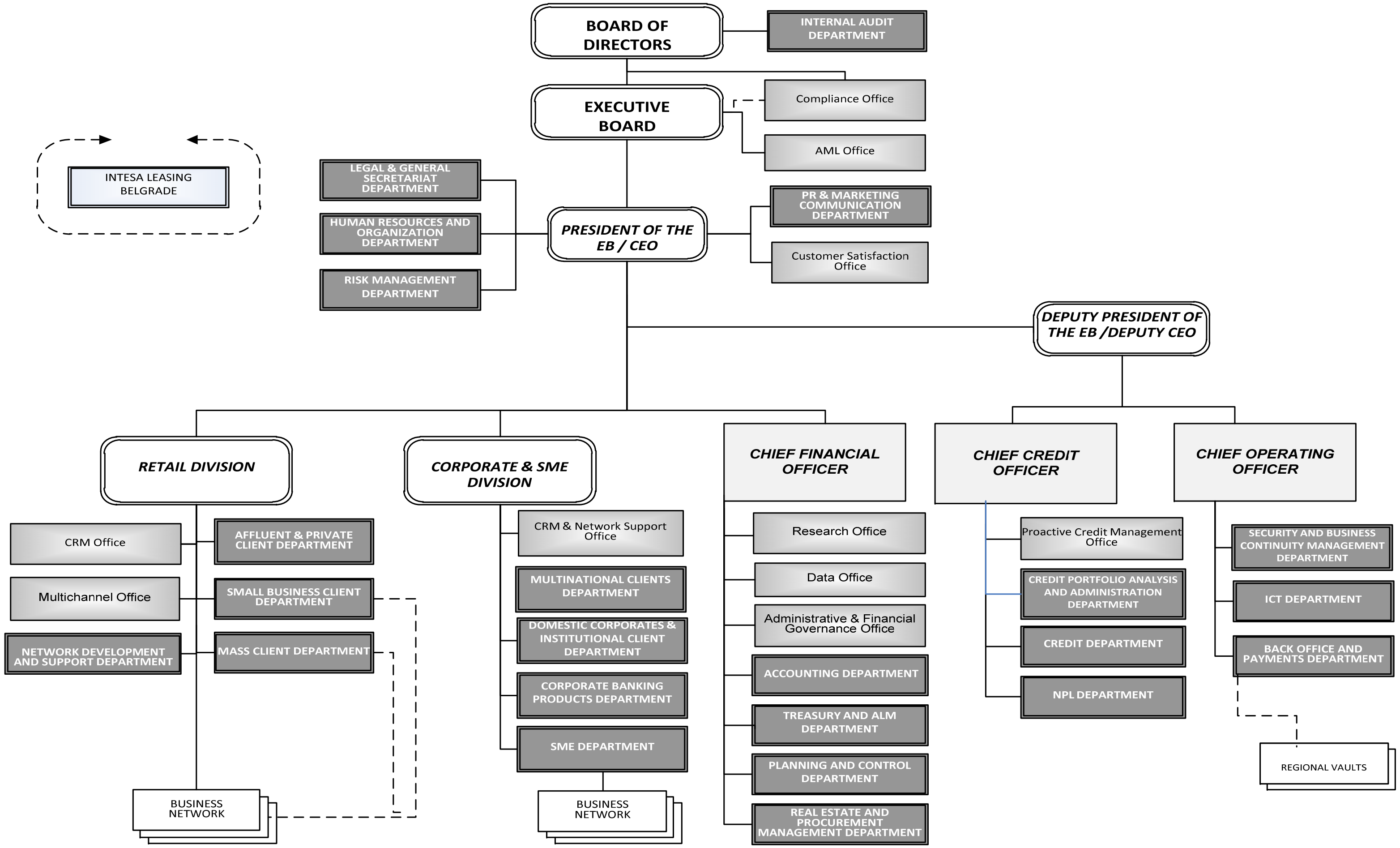
By applying an advanced measurement model, the Parent Group calculates the level of expected and unexpected operational losses, i.e. the level of capital required to cover operational risks, based on a database on operational risks/losses and results of such assessment.

Operational risks in 2017 were at the same level as in the previous year. The biggest operational risks appear as a result of errors in the processes of execution and management, but also due to external fraud and abuse. In the assessment of exposure to operational risk for 2018, it was determined that the expected and unexpected losses from operational risks are somewhat lower compared to the previous year, but still in line with the Bank's size and its business model type.

11. Events After the Reporting Period

There have been no significant events after the reporting period, which would require disclosures in the Notes to the financial statements of the Bank as of and for the year ended 31 December 2017.

12. Organisational Chart



*In its business operation so far, the Bank has neither established nor been engaged in business activities through affiliates

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13. Branch Network

Location	Name of the branch	Regional centre	Address
Ada	Ada, Vuka Karadžića 18	Novi Sad	Vuka Karadžića 18
Aleksandrovac	Aleksandrovac, 29. Novembra bb	Niš	29. Novembra bb
Aleksinac	Aleksinac, Knjaza Miloša 115	Niš	Knjaza Miloša 115
Apatin	Apatin, Petefi Šandora 2	Novi Sad	Petefi Šandora 2
Aranđelovac	Aranđelovac, Knjaza Miloša 192	Kragujevac	Knjaza Miloša 192
Arilje	Arilje, Stevana Čolovića 2	Kragujevac	Stevana Čolovića 2
Bačka Palanka	Bačka Palanka, Žarka Zrenjanina 80	Novi Sad	Žarka Zrenjanina 80
Bačka Topola	Bačka Topola, Glavna 29	Novi Sad	Glavna 29
Bački Petrovac	Bački Petrovac, Maršala Tita 4	Novi Sad	Maršala Tita 4
Batajnica	Zemun, Batajnica, Majke Jugovića 1	Belgrade	Majke Jugovića 1
Bajina Bašta	Bajina Bašta, Kneza Milana Obrenovića 22	Kragujevac	Kneza Milana Obrenovića 22
Bečej	Bečej, Novosadska 2	Novi Sad	Novosadska 2
Beočin	Beočin, Trg Cara Lazara 8	Novi Sad	Trg Cara Lazara 8
Beograd	Novi Beograd, Otona Župančića 1	Belgrade	Otona Župančića 1
Beograd	Čukarica, Požeška 128	Belgrade	Požeška 128
Beograd	Čukarica, Požeška 45	Belgrade	Požeška 45
Beograd	Novi Beograd, Milutina Milankovića 134g	Belgrade	Milutina Milankovića 134g
Beograd	Novi Beograd, Milentija Popovića 7b	Belgrade	Milentija Popovića 7b
Beograd	Novi Beograd, Nedeljka Gvozdenovića 24a	Belgrade	Nedeljka Gvozdenovića 24a
Beograd	Novi Beograd, Milentija Popovića 7v	Belgrade	Milentija Popovića 7v
Beograd	Zvezdara, Bulevar Kralja Aleksandra 240	Belgrade	Bulevar Kralja Aleksandra 240
Beograd	Palilula, Marjane Gregoran 60	Belgrade	Marjane Gregoran 60
Beograd	Voždovac, Ustanička 69	Belgrade	Ustanička 69
Beograd	Zvezdara, Mirijevski venac 23	Belgrade	Mirijevski venac 23
Beograd	Voždovac, Kumodraška 174	Belgrade	Kumodraška 174
Beograd	Zvezdara, Bulevar Kralja Aleksandra 156	Belgrade	Bulevar Kralja Aleksandra 156
Beograd	Stari Grad, Knez Mihailova 30	Belgrade	Knez Mihailova 30
Beograd	Stari Grad, Kolarčeva 5	Belgrade	Kolarčeva 5
Beograd	Stari Grad, Studentski trg 7	Belgrade	Studentski trg 7
Beograd	Stari Grad, Karađorđeva 67	Belgrade	Karađorđeva 67
Beograd	Vračar, Bulevar oslobođenja 3	Belgrade	Bulevar oslobođenja 3
Beograd	Voždovac, Vojvode Stepe 77	Belgrade	Vojvode Stepe 77
Beograd	Vračar, Cara Nikolaja 82-84	Belgrade	Cara Nikolaja 82-84
Beograd	Palilula, Ruzveltova 8	Belgrade	Ruzveltova 8
Beograd	Rakovica, Vukasovićeva 50a	Belgrade	Vukasovićeva 50a
Beograd	Savski Venac, Sarajevska 31	Belgrade	Sarajevska 31
Beograd	Savski Venac, Vase Pelagića 48b	Belgrade	Vase Pelagića 48b
Beograd	Rakovica, Vidikovački venac 80b	Belgrade	Vidikovački venac 80b
Beograd	Novi Beograd, Bulevar maršala Tolbuhina 34	Belgrade	Bulevar maršala Tolbuhina 34
Beograd	Novi Beograd, Partizanske avijacije 14	Belgrade	Partizanske avijacije 14
Beograd	Novi Beograd, Omladinskih brigada 90	Belgrade	Omladinskih brigada 90
Beograd	Palilula, 27. marta 23	Belgrade	27. marta 23
Beograd	Stari Grad, Džordža Vašingtona 8	Belgrade	Džordža Vašingtona 8
Beograd	Voždovac, Braće Jerković 137b	Belgrade	Braće Jerković 137b
Beograd	Čukarica, Trgovačka 15	Belgrade	Trgovačka 15

Location	Name of the branch	Regional centre	Address
Beograd	Savski Venac, Nemanjina 4	Belgrade	Nemanjina 4
Beograd	Surčin, Vojvođanska 85	Belgrade	Vojvođanska 85
Beograd	Novi Beograd, Jurija Gagarina 36b	Belgrade	Jurija Gagarina 36b
Beograd	Palilula, Borča, Ivana Milutinovića 73	Belgrade	Ivana Milutinovića 73
Beograd	Stari Grad, Cara Dušana 50	Belgrade	Cara Dušana 50
Beograd	Vračar, Kneza Miloša 23	Belgrade	Kneza Miloša 23
Beograd	Voždovac, Banjica, Crnotravska 7-9	Belgrade	Crnotravska 7-9
Beograd	Rakovica, Miška Kranjca br. 12	Belgrade	Miška Kranjca br. 12
Beograd	Novi Beograd, Jurija Gagarina 14	Belgrade	Jurija Gagarina 14
Beograd	Vračar, Južni Bulevar 84	Belgrade	Južni Bulevar 84
Beograd	Vračar, Kursulina 41	Belgrade	Kursulina 41
Beograd	Centar za stambene kredite, Stari Grad, Knez Mihailova 30	Belgrade	Knez Mihailova 30
Beograd	Kancelarija za stambene kredite, Voždovac, Ustanička 69	Belgrade	Ustanička 69
Beograd	Kancelarija za stambene kredite, Novi Beograd, Bulevar maršala Tolbuhina 34	Belgrade	Bulevar maršala Tolbuhina 34
Beograd	Kancelarija za stambene kredite, Čukarica, Požeška 128	Belgrade	Požeška 128
Beograd	Kancelarija za stambene kredite, Novi Beograd, Omladinskih brigada 90a	Belgrade	Omladinskih brigada 90a
Bor	Bor, Đorđa Vajferta 3	Niš	Đorđa Vajferta 3
Bogatić	Bogatić, Vojvode Stepe 35	Kragujevac	Vojvode Stepe 35
Brus	Brus, Kralja Petra I bb	Niš	Kralja Petra I bb
Bujanovac	Bujanovac, Karađorđa Petrovića 111	Niš	Karađorđa Petrovića 111
Čačak	Čačak, Kuželjeva 1	Kragujevac	Kuželjeva 1
Ćuprija	Ćuprija, Karađorđeva 36	Niš	Karađorđeva 36
Despotovac	Despotovac, Despota Stefana Lazarevića 2	Niš	Despota Stefana Lazarevića 2
Gornji Milanovac	Gornji Milanovac, Vojvode Milana 1	Kragujevac	Vojvode Milana 1
Inđija	Inđija, Novosadska 21	Novi Sad	Novosadska 21
Ivanjica	Ivanjica, Majora Ilića 1	Kragujevac	Majora Ilića 1
Jagodina	Jagodina, Maksima Gorkog 2	Niš	Maksima Gorkog 2
Kanjiža	Kanjiža, Glavna 3	Novi Sad	Glavna 3
Kikinda	Kikinda, Braće Tatića 16	Novi Sad	Braće Tatića 16
Kladovo	Kladovo, 22. septembra 9	Niš	22.septembra 9
Kostolac	Kostolac, Nikole Tesle 5-7	Niš	Nikole Tesle 5-7
Kovačica	Kovačica, Maršala Tita 31a	Novi Sad	Maršala Tita 31a
Kovin	Kovin, Cara Lazara 73	Novi Sad	Cara Lazara 73
Kragujevac	Kragujevac, Save Kovačevića 12 b	Kragujevac	Save Kovačevića 12 b
Kragujevac	Kragujevac, Kralja Petra I 19	Kragujevac	Kralja Petra I 19
Kragujevac	Kragujevac, Kralja Aleksandra I Karađorđevića 120	Kragujevac	Kralja Aleksandra I Karađorđevića 120
Kraljevo	Kraljevo, Trg Jovana Sarića 8	Kragujevac	Trg Jovana Sarića 8
Kruševac	Kruševac, Vidovdanska 4	Kragujevac	Vidovdanska 4
Kruševac	Kruševac, Vece Korčagina 18	Kragujevac	Vece Korčagina 18
Kučevo	Kučevo, Trg Veljka Dugoševića 2	Niš	Trg Veljka Dugoševića 2
Kula	Kula, Maršala Tita 242	Novi Sad	Maršala Tita 242
Lajkovac	Lajkovac, Vojvode Mišića 84	Kragujevac	Vojvode Mišića 84
Lazarevac	Lazarevac, Karađorđeva 41	Kragujevac	Karađorđeva 41
Leskovac	Leskovac, Trg Revolucije 7	Niš	Trg Revolucije 7
Loznica	Loznica, Trg Vuka Karadžića bb	Kragujevac	Trg Vuka Karadžića bb
Ljig	Ljig, Vojvode Mišića 12	Kragujevac	Vojvode Mišića 12
Ljubovija	Ljubovija, Vojvode Mišića 44	Kragujevac	Vojvode Mišića 44
Mionica	Mionica, Dr. Jove Aleksića bb	Kragujevac	Dr. Jove Aleksića bb
Mladenovac	Mladenovac, Kralja Petra I 217	Kragujevac	Kralja Petra I 217
Negotin	Negotin, Trg Đorđa Stanojevića 70/II	Niš	Trg Đorđa Stanojevića 70/II

Location	Name of the branch	Regional centre	Address
Niš	Centar za stambene kredite, Niš, Milojka Lešjanina 1	Niš	Milojka Lešjanina 1
Niš	Niš, Sinđelićev trg 18	Niš	Sinđelićev trg 18
Niš	Niš, Vizantijski bulevar 78	Niš	Vizantijski bulevar 78
Niš	Niš, Obrenovićeva 82 (Fontana)	Niš	Obrenovićeva 82 (Fontana)
Niš	Niš, Milojka Lešjanina 1	Niš	Niš, Milojka Lešjanina 1
Niš	Niš, Bulevar Nemanjića 28-32	Niš	Bulevar Nemanjića 28-32
Novi Bečej	Novi Bečej, Trg Oslobođenja 5	Novi Sad	Trg Oslobođenja 5
Novi Pazar	Novi Pazar, AVNOJ-a 6	Kragujevac	AVNOJ-a 6
Novi Sad	Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihaila Pupina 4
Novi Sad	Novi Sad, Bulevar Oslobođenja 32	Novi Sad	Bulevar Oslobođenja 32
Novi Sad	Novi Sad, Bulevar Jovana Dučića 1	Novi Sad	Bulevar Jovana Dučića 1
Novi Sad	Novi Sad, Bulevar Cara Lazara 79a	Novi Sad	Bulevar cara Lazara 79a
Novi Sad	Novi Sad, Bulevar Oslobođenja 76a	Novi Sad	Bulevar Oslobođenja 76a
Novi Sad	Novi Sad, Fruškogorska 10	Novi Sad	Fruškogorska 10
Novi Sad	Novi Sad, Rumenačka 33	Novi Sad	Rumenačka 33
Novi Sad	Novi Sad, Zmaj Jovina 15	Novi Sad	Zmaj Jovina 15
Novi Sad	Novi Sad, Bulevar Oslobođenja 8	Novi Sad	Buleva Oslobođenja 8
Novi Sad	Centar za stambene kredite,Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihajla Pupina 4
Obrenovac	Obrenovac, Miloša Obrenovića 133-135	Kragujevac	Miloša Obrenovića 133-135
Pančevo	Pančevo, Štrosmajerova 1	Novi Sad	Štrosmajerova 1
Pančevo	Pančevo, Karađorđeva 2-4	Novi Sad	Karađorđeva 2-4
Paraćin	Paraćin, Kralja Petra I 4	Niš	Kralja Petra I 4
Petrovac na Mlavi	Petrovac na Mlavi, Bate Bulića 37	Niš	Bate Bulića 37
Pirot	Pirot, Branka Radičevića 18	Niš	Branka Radičevića 18
Požarevac	Požarevac, Trg Radomira Vujovića 8	Niš	Trg Radomira Vujovića 8
Požega	Požega, Knjaza Miloša 6	Kragujevac	Knjaza Miloša 6
Priboj	Priboj, Nemanjina 48-50	Kragujevac	Nemanjina 48-50
Prijepolje	Prijepolje, Sandžačkih brigada 39	Kragujevac	Sandžačkih brigada 39
Prokuplje	Prokuplje, 9. oktobra 6	Niš	9. oktobra 6
Raška	Raška, Miluna Ivanovića 8	Kragujevac	Miluna Ivanovića 8
Ruma	Ruma, Glavna 170	Novi Sad	Glavna 170
Ruma	Ruma, 15. maja 143	Novi Sad	15. maja 143
Sjenica	Sjenica, Milorada Jovanovića bb	Kragujevac	Milorada Jovanovića bb
Smederevo	Smederevo, Cvijićeva 3	Niš	Cvijićeva 3
Smederevska Palanka	Smederevska Palanka, Svetog Save 19	Kragujevac	Svetog Save 19
Sombor	Sombor, Venac Stepe Stepanovića 32	Novi Sad	Venac Stepe Stepanovića 32
Sremska Mitrovica	Sremska Mitrovica, Kralja Petra I 6	Novi Sad	Kralja Petra I 6
Sremska Mitrovica	Sremska Mitrovica, Svetog Dimitrija 2	Novi Sad	Svetog Dimitrija 2
Srbobran	Srbobran, Zmaj Jovina 18	Novi Sad	Zmaj Jovina 18
Senta	Senta, Zlatne grede 6	Novi Sad	Zladne grede 6
Stara Pazova	Stara Pazova, Ćirila i Metodija 2	Novi Sad	Ćirila i Metodija 2
Subotica	Subotica, Dimitrija Tucovića 2	Novi Sad	Dimitrija Tucovića 2
Subotica	Subotica, Štrosmajerova 6	Novi Sad	Štrosmajerova 6
Surdulica	Surdulica, Ulica Kralja Petra I bb	Niš	Kralja Petra I bb
Svilajnac	Svilajnac, Svetog Save 52	Niš	Svetog Save 52
Šabac	Šabac, Gospodar Jevremova 44	Kragujevac	Gospodar Jevremova 44
Šid	Šid, Karađorđeva 11-13	Novi Sad	Karađorđeva 11-13
Temerin	Temerin, Novosadska 403	Novi Sad	Novosadska 403
Titel	Titel, Mihajla Krestića 8a	Novi Sad	Mihaila Krestića 8a
Topola	Topola, Tomislava Karađorđevića 3	Kragujevac	Tomislava Karađorđevića 3

Location	Name of the branch	Regional centre	Address
Trstenik	Trstenik, Cara Dušana bb	Kragujevac	Cara Dušana bb
Ub	Ub, Kralja Petra I 44	Kragujevac	Kralja Petra I 44
Užice	Užice, Dimitrija Tucovića 129	Kragujevac	Dimitrija Tucovića 129
Valjevo	Valjevo, Karađorđeva 71	Kragujevac	Karađorđeva 71
Valjevo	Valjevo, Železnička 7	Kragujevac	Železnička 7
Velika Plana	Velika Plana, Momira Gajića br 2	Kragujevac	Momira Gajića br 2
Veliko Gradište	Veliko Gradište, Kneza Lazara 35	Niš	Kneza Lazara 35
Veternik	Veternik, Kralja Petra I 7a	Novi Sad	Kralja Petra I 7a
Vladičin Han	Vladičin Han, Svetosavska 16a	Niš	Svetosavska 16a
Vlasotince	Vlasotince, Nemanjina 2	Niš	Nemanjina 2
Vranje	Vranje, Lenjinova bb	Niš	Lenjinova bb
Vrbas	Vrbas, Maršala Tita 66	Novi Sad	Maršala Tita 66
Vrnjačka Banja	Vrnjačka Banja, Kruševačka 1	Kragujevac	Kruševačka 1
Vršac	Vršac, Sterijina 19a	Novi Sad	Sterijina 19a
Zaječar	Zaječar, Nikole Pašića 70	Niš	Nikole Pašića 70
Zemun	Zemun, Glavna 30	Belgrade	Glavna 30
Zemun	Zemun, Gornjogradska 38	Belgrade	Gornjogradska 38
Zlatibor	Zlatibor, Kraljev trg bb	Kragujevac	Kraljev trg bb
Zrenjanin	Zrenjanin, Kralja Aleksandra I Karađorđevića bb	Novi Sad	Kralja Aleksandra I Karađorđevića bb
Žabalj	Žabalj, Nikole Tesle 47	Novi Sad	Nikole Tesle 47

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