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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS OF

BANCA INTESA A.D. BEOGRAD

Report on separate financial statements

We have audited the accompanying separate financial statements of Banca Intesa a.d. Beograd ("the Bank"), which comprise the separate balance sheet as at 31 December 2018, the separate income statement, separate statement of other comprehensive income, separate statement of changes in equity and separate cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and true and fair view 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

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

Other matter

The separate financial statements of the Bank as at and for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those separate financial statements on 14 February 2018.

Report on Other Legal and Regulatory Requirements

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

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

Belgrade, 13 February 2019 KPMG d.o.o. Beograd

(L.S.)

Katarina Kecko
Partner

Nikola Đenić
Certified Auditor

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Belgrade, 13 February 2019 KPMG d.o.o. Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD (L.S.)

Katarina Kecko
Partner

Nikola Đenić
Certified Auditor

SEPARATE BALANCE SHEET as at 31 December 2018

in RSD thousand	**Note**	**December 31, 2018**	**December 31, 2017**
ASSETS			
Cash and assets held with the central bank	16, 2.15	86,962,607	82,851,636
Receivables under derivatives	17, 2.10	331,839	802,299
Securities	17, 2.9	92,872,485	129,425,899
Loans and receivables from banks and other financial organisations	18, 2.8	33,039,264	29,253,557
Loans and receivables from clients	18, 2.8	339,749,114	301,894,205
Investments in associated companies and joint ventures	17, 2.7	1,199,472	962,496
Intangible investments	19, 2.16	3,774,866	2,610,573
Property, plant and equipment	20, 2.17	7,951,099	7,871,143
Investment property	20, 2.17	30,995	51,251
Deferred tax assets	14, 2.24	704,800	153,397
Non-current assets held for sale and discontinued operations	20, 2.17	143,015	1,653,117
Other assets	21	4,315,623	7,330,005
TOTAL ASSETS		**571,075,179**	**564,859,578**
LIABILITIES			
Liabilities under derivatives	22, 2.10	21,497	4,847
Deposits and other liabilities to banks, other financial organisations and central bank	23, 2.11	50,746,761	32,375,037
Deposits and other financial liabilities to clients	23, 2.11	405,175,217	397,705,235
Provisions	24, 2.3	1,801,197	1,277,294
Current tax liabilities	14, 2.24	21,386	387,008
Deferred tax liabilities	14, 2.24	106,337	-
Other liabilities	25	6,601,598	14,103,355
TOTAL LIABILITIES		**464,473,993**	**445,852,776**
CAPITAL			
Share capital	26, 2.22	41,748,469	41,759,627
Profit	26, 2.22	16,080,705	28,220,984
Reserves	26, 2.22	48,772,012	49,026,191
TOTAL CAPITAL		**106,601,186**	**119,006,802**
TOTAL CAPITAL SHORTFALL		**571,075,179**	**564,859,578**

Belgrade, 11 February 2019

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	CFO	CEO

SEPARATE INCOME STATEMENT in the period from 1 January to 31 December 2018

in RSD thousand	**Note number**	**2018.**	**2017.**
Interest income	3, 2.4	23,371,120	22,840,992
Interest expenses	3, 2.4	(2,883,264)	(3,592,295)
Net interest gains		**20,487,856**	**19,248,697**
Income from fees and commissions	4, 2.5	11,766,485	10,595,219
Expenses on fees and commissions	4, 2.5	(4,574,927)	(4,019,393)
Net gains from fees and commissions		**7,191,558**	**6,575,826**
Net gains from change in fair value of financial instruments	5, 2.7	299,658	795,981
Net gains from derecognition of the financial instruments measured at fair value	6, 2.7	33,765	165,167
Net exchange rate gains and gains from agreed currency clause	7, 2.6	2,047,748	2,059,207
Net expenses on impairment of financial assets not measured at fair value through income statement	8, 2.7	(3,257,274)	(3,071,947)
Other operating income	9	234,068	329,551
Total net operating income		**27,037,379**	**26,102,482**
Salaries, salary compensations and other personal expenses	10, 2.23	(5,999,255)	(5,701,726)
Depreciation costs	11, 2.17	(1,057,751)	(987,173)
Other income	12	1,069,660	914,209
Other expenses	13	(7,815,864)	(7,316,034)
Profit before tax		**13,234,169**	**13,011,758**
Profit tax	14, 2.24	(630,059)	(1,164,064)
Profit after tax		**12,604,110**	**11,847,694**
Earnings per share (in RSD)	15	59,130	55,581

Belgrade, 11 February 2019

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	CFO	CEO

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME in the period from 1 January to 31 December 2018

in RSD thousand	**2018**	**2017**
Profit for the period	**12,604,110**	**11,847,694**
Components of other comprehensive income which cannot be reclassified to profit or loss:		
(Decrease)/increase in revaluation reserves based on intangible assets and fixed assets	(10,523)	721,294
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	(1,477)	-
Components of other comprehensive income that may be reclassified to profit or loss:		
(Negative)/ positive effects of change in value of debt instruments measured at fair value through other comprehensive income	(1,057,906)	516,182
Tax losses relating to other comprehensive income for the period	-	(108,194)
Total (negative)/positive comprehensive income for the period	(1,069,906)	1,129,282
Total positive comprehensive income for the period	**11,534,204**	**12,976,976**

Belgrade, 11 February, 2019

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	CFO	CEO

SEPARATE STATEMENT OF CHANGES IN EQUITY in the period from 1 January to 31 December 2018

in RSD thousand	**Share capital and other equity**	**Premium on issue of shares**	**Reserves from profit and other reserves**	**Revaluation reserves**	**Profit**	**Total**
Opening balance as at 1 January, 2017	21,327,058	20,432,569	47,484,121	412,788	34,484,276	124,140,812
Positive effects of change in fair value of financial assets available for	-	-	-	516,182	-	516,182
Increase in revaluation reserves based on intangible assets and fixed assets	-	-	-	721,294	-	721,294
Deferred taxes recognized within equity	-	-	-	(108,194)	-	(108,194)
Profit for the current year	-	-	-	-	11,847,694	11,847,694
Dividend payments	-	-	-	-	(18,110,986)	(18,110,986)
Balance as at 31 December, 2017	21,327,058	20,432,569	47,484,121	1,542,070	28,220,984	119,006,802
Effects of the first implementation of IAS 9	-	-	-	815,727	(4,765,550)	(3,949,823)
Adjusted opening balance as at 1 January, 2018	21,327,058	20,432,569	47,484,121	2,357,797	23,455,434	115,056,979
Decrease in revaluation reserves based on intangible assets and fixed assets	-	-	-	(10,523)	-	(10,523)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(1,459)	-	(1,459)
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(1,057,924)	-	(1,057,924)
Profit for the current year	-	-	-	-	12,604,110	12,604,110
Dividend payments	-	-	-	-	(20,034,339)	(20,034,339)
Other	(11,158)	-	-	-	55,500	44,342
Balance as at 31 December, 2018	21,315,900	20,432,569	47,484,121	1,287,891	16,080,705	106,601,186

Belgrade, 11 February 2019

Rada Radović Head of Accounting Department	Dragica Mihajlović CFO	Draginja Đurić CEO

SEPARATE CASH FLOW STATEMENT in the period from 1 January to 31 December 2018
in RSD thousands

	2018	2017
Cash inflow from operating activities	**37,901,073**	**35,518,800**
Interest	22,711,654	21,310,170
Fees	11,936,263	10,692,838
Other operating income	3,110,935	2,724,267
Dividends and profit sharing	142,221	791,525
Cash outflow from operating activities	**(21,491,025)**	**(20,757,238)**
Interest	(2,693,726)	(2,849,121)
Fees	(4,570,377)	(4,062,104)
Gross salaries, salary compensations and other personal expenses	(6,044,960)	(5,940,716)
Taxes, contributions and other duties charged to income	(173,653)	(260,155)
Other operating expenses	(8,008,309)	(7,645,142)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	**16,410,048**	**14,761,562**
Decrease in financial assets and increase in financial liabilities	**63,882,209**	**27,938,588**
Decrease in receivables under securities and other financial assets not intended for investment	37,634,473	-
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	26,247,736	27,938,588
Increase in financial assets and decrease in financial liabilities	**(45,843,268)**	**(39,691,672)**
Increase in loans and receivables from banks, other financial organisations, central bank and clients	(45,838,421)	(32,916,822)
Increase in receivables under securities and other financial assets not intended for investment	-	(6,773,522)
Decrease in other financial liabilities	(4,847)	(1,328)
Net cash inflow from operating activities before profit tax	**34,448,989**	**3,008,478**
Profit tax paid	(1,438,889)	(856,821)
Dividends paid	(20,034,339)	(18,110,988)
Net cash inflow from operating activities	**12,975,761**	**(15,959,331)**
Cash inflow from investing activities	**1,497,867**	**169,817**
Investment in investment securities	-	505
Sale of intangible investments, property, plant and equipment	1,486,687	4,220
Sale of investment property	11,180	165,092

Cash outflow from investing activities	**(1,920,814)**	**(1,500,203)**
Purchase of intangible investments, property, plant and equipment	(1,920,814)	(1,500,203)
Net cash inflow from investing activities	**(422,947)**	**(1,330,386)**
Cash inflow from financing activities	**74,849,000**	**13,111,001**
Loans taken	74,849,000	13,111,001
Cash outflow from financing activities	**(76,829,827)**	**(12,325,998)**
Loans taken	(76,829,827)	(12,325,998)
Net cash (outflow)/inflow from financing activities	**(1,980,827)**	**785,003**
TOTAL CASH INFLOW	**178,130,149**	**76,738,206**
TOTAL CASH OUTFLOW	**(167,558,162)**	**(93,242,920)**
TOTAL CASH INFLOW/(OUTFLOW)	10,571,987	(16,504,714)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**49,358,882**	**67,541,230**
EXCHANGE RATE GAINS	363,111	443,336
EXCHANGE RATE LOSSES	(503,501)	(2,120,970)
CASH AND CASH EQUIVALENTS AT END-PERIOD (Note16)	**59,790,479**	**49,358,882**

Belgrade, 11 February 2019

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	CFO	CEO

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the Year Ended 31 December 2018

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CONTENT

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.

The Bank is authorised by National Bank of Serbia and registered to perform the following operations: payment transactions, credit and deposit operations, issuance of payment cards; also, the Bank is registered for operations with securities, issuance of guarantees and other warranties. In accordance with articles of Law on banks, the Bank operates in accordance with principles of liquidity, security and profitability. In addition, the Bank is authorised for selling of investment units as well for representing insurance, with prior consent of National bank of Serbia.

As of 31 December 2018, 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 154 branches.

The Bank had 2,995 employees as of 31 December 2018 (31 December 2017: 2,934 employees).

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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 2018 (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 2018

IFRS 9 Financial instruments is effective for annual periods beginning on or after 1 January 2018 and it replaced previously applicable accounting standard IAS 39.
Significant effects arising from the implementation of IFRS9 are disclosed in Note 2.26. The effects of the first time adoption of IFRS 9, as well as in Note 29.1. Credit risk.

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 2018, did not result in substantial changes to the Bank's accounting policies and did not have an materially significant impact on the Bank's accompanying separate financial statements:

- IFRS 15 "Revenue from Contracts with Customers" and subsequent amendments (effective for annual periods beginning on or after 1 January 2018). It replaces the existing guidance on revenue recognition, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The Bank performed analysis of income based on the new requirements of IFRS 15, with the special focus on fee and commission income. Based on the analysis, it is concluded that the application of IFRS 15 requirements does not require change in timing or amount of related income.
- Amendments to IFRS 2 "Share-based Payment" – clarifies accounting treatment of specific types of share-based payments.
- Amendments to IFRS 4 "Insurance Contracts" regarding the implementation of IFRS 9 Financial Instruments".
- Amendment to IAS 40 "Investment Property" – amendments relate to basis for transfers of assets from or to investment property, and are bases on the evidence for transfer, rather than on intention.
- Annual improvements to IFRSs "2014-2016 Cycle" - Amendments to IFRS 1 First time adoption and IAS 28 Investments in Associates and Joint ventures.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – clarifies the transaction date used to determine the exchange rate.
- Conceptual Framework for Financial Reporting (revised), effective from 1 March 2018 – changes mainly have implications for how and when assets and liabilities are recognized and derecognized in the financial statements.

(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:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

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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)

- 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. Lessor continues 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 considers that the most significant impact on the financial statements in the next reporting period will have IFRS 16 "Leases", which is effective for annual periods beginning on or after 1 January 2019 (with early adoption permitted) and which the Bank will apply from 1 January 2019.

Impact of implementation of IFRS 16 “Leases” on the Bank’s financial statements

IFRS 16 „Leases“(hereinafter IFRS 16) introduces the model of leasing recognition in the balance sheet of lessees. Lessee recognizes the right-of-use assets and related lease liability representing obligation for lease payments in the balance sheet. There are recognition exceptions for short-term leases and leases of low-value items.
Lessor accounting remains similar to the current principles defined by existing standard IAS 17 “Leases” (hereinafter: IAS 17). The Bank as a lessor continues to classify leases as finance or operating.

The Bank as a lessee

The Bank will recognize new assets and liabilities for its operating leases of premises, cars and IT equipment.

The nature of expenses related to these leases is changed with IFRS 16, which requires recognition of depreciation charge for right-of-use assets an interest expense on related lease liabilities.

According to the standard currently effective, IAS 17, the Bank recognizes operating lease expense on the straight-line basis over the term of the lease, and recognizes asset or liability only to the extent that there was a timing difference between actual lease payments and the expense recognized.

The Bank has completed initial assessment of IFRS 16 potential impact on its financial statements. The actual impact of applying IFRS 16 in the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank’s lease portfolio and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

As of 31 December 2018, it is assessed that the amount of future minimum lease payments under non-cancellable operating lease is in the range from 1,8 billion RSD to 2,5 billion RSD, while the corresponding lease liability is in the same range.

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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)

In respect of initial implementation of IFRS 16, the following should be taken into consideration:

- Disclosed measurement is preliminary, since all requirements and transitional provisions are not yet completed, and therefore further adjustments are possible;
- New standard requires the Bank to review its accounting processes and internal controls, while these activities are still not performed completely;
- The Bank did not complete testing and assessing of controls over calculations. Consequently, disclosed preliminary effects may be changed when implementation completes;
- Systems and related controls, established in accordance with new requirements, have not been operative during the entire reporting period;
- New accounting policies, assumptions, judgments and measurement techniques in use, are the subject of changes, until the Bank submits first financial reports that include date of initial application of standard.

The Bank will apply IFRS 16 “Leases” starting from 1 January 2019 by using modified retrospective approach. Therefore, accumulated effect of IFRS 16 adoption will be recognized as adjustment to retained earnings opening balance as of 1 January 2019, without correction of comparative data.

The accompanying financial statements are separate financial statements, since they include unconsolidated captions of receivables, liabilities, operating results, changes in equity and cash flows of the Bank, excluding its subsidiaries – Intesa Leasing d.o.o. Belgrade and Intesa Invest, which are 100% owned by the Bank. The Bank recognizes its investment in this subsidiary at cost. Total asset of subsidiary Intesa Leasing is 2.82%, while total assets of subsidiary Intesa Invest is 0.038% of the total Bank`s assets as at 31 December 2018.

In accordance with the provisions of IFRS 10 “Consolidated financial statements”, the Bank is exempted from preparation of consolidated financial statements, taking into consideration that 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.

Although the Bank is obliged to prepare annual consolidated financial statements and submit them to the Business Registers Agency in accordance with the Law on accounting, still the Bank uses its right specified by Law on banks, article 55 paragraph 4, by which it does not include subsidiaries in annual audit of its consolidated financial statements, based on the consent of National bank of Serbia.

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 other than functional currency are considered 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.

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

2.2. Comparative data

Accounting policies and estimates relating to recognition and measurement of assets and liabilities, applied in the preparation of these financial statements, are consistent with those applied in the preparation of the annual financial statements of the Bank for the year31 December 2017, except for the changes in accounting policies arising from application of IFRS9. The Bank used exemption by which it is allowed not to adjust comparative data for previous years relating to the changes in respect of classification and measurement of financial assets and financial liabilities, as well in respect of related impairment. Differences between carrying amounts of financial assets and financial liabilities before and after application of IFRS9 are recognized within equity, i.e. retained earnings, as of 1 January 2018 as opening balance adjustment. Consequently, comparative data presented for 2017 do not correspond to IFRS9 requirements and are not comparable with data presented for 2018 (Note 2.26).

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

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

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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

Policy applicable from 1 January 2018

The Bank recognizes impairment for expected credit losses for financial assets that are measured at amortized cost as well as for debt financial assets that are measured at fair value through other comprehensive income, lease receivables, loan commitments and issued guarantees. Carrying value of financial instruments measured at amortized cost is decreased by the amount of impairment for expected credit losses.

Judgments and estimates that the Bank uses as input in the expected credit loss model, together with the assessment on significant increase of credit risk, are disclosed in the Note 29.1. Credit risk.

Policy applicable before 1 January 2018

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. 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.

Classification of financial assets

The Bank assesses business model within the assets are held. Besides, the Bank assesses if contractual cash flows of financial assets are solely payments of principal and interest (Note 2.7.2.).

Useful lives of intangible assets, property, plant and equipment

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

Due to the significant share of fixed assets 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.

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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 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.

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. Commitments, as well as positions that do not meet the criteria for 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 interest expenses

Interest income and interest 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.

Policy applicable from 1 January 2018
Interest income and interest expense are recognized in profit and loss using effective interest rate, presenting the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset (amortized cost before decrease for expected credit losses), or
- The amortized cost of the financial liability

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

2.4. Interest income and interest expenses

When calculating effective interest rate for financial instruments that are not POCI (purchased originated credit impaired), the Bank assesses future cash flows taking into consideration all contractual terms of financial instruments, but not including expected credit losses. For POCI loans, credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

Interest income is recognized for financial assets measured at amortized cost as well as for debt instruments measured through other comprehensive income. Interest expense are recognized for financial liabilities measures at amortized cost.

Loan origination fee, as part of effective interest rate, is recognized in interest income and interest expense. Loan origination fees are calculated and collected upfront, while related income is deferred and discounted using the effective interest rate method, over the life of the loan.

Policy applicable before 1 January 2018

For all interest-bearing financial instruments, except those classified as 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.

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.

The Bank continues to calculate interest on bad debt, 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.

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

2.5. Fee and commission income and fee and commission expenses

Fees and commissions income and expenses originating from providing or using the 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.

Fee and commission income relating to current accounts and financial instruments maintenance services are recognized over time, when the service is provided.

Income relating to transaction fees are recognized in the moment of transaction occurrence.

A contract with a customer that results in recognition of financial instrument in the Bank’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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, published by National Bank of Serbia, 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, published by National Bank of Serbia, 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 Net foreign exchange gains/Net foreign exchange losses and effects of contracted foreign currency clause (Note 7).

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 Net foreign exchange gains/Net foreign exchange losses and effects of contracted foreign currency clause (Note 7).

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

2.7.1. Initial recognition of financial instruments

Financial instruments are initially measured at fair value, increased by transaction costs (except financial assets or financial liabilities measured at fair value through profit and loss), that are directly related to acquisition or issuance of financial asset or financial liability.

Financial assets and financial liabilities are recorded in the Bank’s balance sheet in the moment when the Bank is contractually committed to the instrument. Acquisition or sale of financial assets is recorded as of the settlement date, presenting the date when asset is delivered to the counterparty.

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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. Initial recognition of financial instruments (Continued)

In order to determine classification and measurement, all financial assets, except derivatives and equity investments, are analyzed by the Bank through the combination of business model managing the financial asset as well as characteristics of contractual cash flows.

2.7.2. Classification

i. Financial assets – policy applicable from 1 January 2018

At initial recognition, financial asset is classified in accordance with one of the following methods of measurement: at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit and loss (FTVPL).

Financial asset is measured at amortized cost if it meets both of the following conditions and is designated as at FTVPL:

- Asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instrument is measured as FVOCI only if it meets both the following conditions and is not designated as at FTVPL:

- The assets is held within the business model whose objective is achieved by both collecting contractual cash flows and selling contractual assets, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instruments held with the aim to collect contractual cash flows and selling comprise treasury bills and the bonds of Republic of Serbia.

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value through OCI, at the level of particular equity instrument. As of 31 December 2018, the Bank opt for FVOCI accounting of equity investment, other than investment in subsidiaries, since these instruments are not held for trading. This choice is made based on the each particular instrument in the moment of initial recognition and cannot be recalled.

Besides, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measures at amortized cost or at FVOCI as at FTVPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

Then Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level, because this better reflects the way the business is managed and information is provided to management.

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

2.7.2. Classification (Continued)

The information considered includes policies and strategies for the portfolio, as well as their application in practice. In particular, it is important if management strategy is focused on earning contractual interest revenue, matching duration of the financial assets to the duration of liabilities that are funding those assets, or realizing cash flows through the sale of the assets. Also, the Bank considers information on how the performance of the portfolio is evaluated and reported, together with information on risks affecting the performance of the portfolio and how they are managed. Besides, the Bank considers frequency, volume and timing of financial assets sales in prior periods, the reasons for sales and plans for future sales of financial assets.

Financial assets that are managed with the aim of trading, and whose performances are assessed based on the fair value, are measured as FTVPL since they are neither held in portfolio with the purpose to collect contractual cash flows nor they are held with the double purpose of collecting the contractual cash flows and selling.

Assessment of whether contractual cash flows are solely payments of principal and interest

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

In assessing whether contractual cash flows are solely payment of principal and interest (SPPI), the Bank considers the contractual terms of the instrument and analyses if they contain contractual terms that could change the timing or amount of contractual cash flows, resulting in fair value measurement of the instrument. Main contractual terms that are considered in assessment are: leverage features, extension and prepayment terms, characteristics that limit the Bank's claim to cash flows to specified assets as well as features that modify consideration of time value of money, such as periodical reset of interest rates in case of financial assets with variable interest rate.

Reclassifications

Financial assets are reclassified only in case when the business model for managing financial assets is changed. Reclassification is performed in line with the principles defined by IFRS.

Financial liabilities are not reclassified.

ii. Financial assets – policy applicable before 1 January 2018

The Bank classified financial assets within the following categories (Note 2.9.):

- Loans and receivables
- Available for sale
- Held to maturity
- At fair value through profit and loss, through categories:
  - Held for trading, or
  - Designated as at FTVPL

Financial liabilities

The Bank measured financial liabilities at amortized costs, except derivatives that are measured at FTVPL, where fair value adjustment is recognized in profit or loss.

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

2.7.3. Derecognition of financial assets and financial liabilities

Financial assets

Policy applicable before and after 1 January 2018

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when any of the following criteria are fulfilled:

- 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.

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

2.7. Financial instruments (Continued)

2.7.3 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.

Apart from abovementioned criteria, IFRS 9 implementation from 1 January 2018 specifies additional criteria that lead to derecognition of financial assets. Financial asset is derecognised when it is written-off. Also, derecognition of financial asset will occur if subsequent changes of contractual terms of financial assets arisen, leading to significant modification of financial asset's cash flows (Note 2.7.4.).
Implementation of IFRS 9 from 1 January 2018 specifies that, in case when financial asset is derecognised, cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit and loss in case of debt securities measured at FVOCI. The same principle was applied for financial assets available for sale up to 1 January 2018. However, starting from 1 January 2018, in case of equity instruments measured at FVOCI, accumulated gain/loss recognized through other comprehensive income will not be recognized in profit and loss in the moment of derecognition but in equity.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is satisfied, 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 exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, while the difference in the respective carrying amounts is recognized in profit or loss.

In addition to mentioned criteria, implementation of IFRS9 from 1 January 2018 specifies additional criteria for derecognition of financial liability when the contractual terms are modified, while cash flows of modified liability are significantly changed. In that case, new financial liability is based on the modified terms and is recognised at fair value. Difference between carrying amount of financial liability and new financial liability with modified terms is recognised in profit and loss.

2.7.4. Modification of contractual cash flows

Policy applicable from 1 January 2018

Financial assets

If contractual terms of financial asset are subsequently modified, the Bank evaluates whether the cash flows of the modified assets are substantially different. If so, then contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

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

2.7.4. Modification of contractual cash flows(Continued)

If the originally contracted cash flows of financial asset are subsequently contractually modified and such modification does not lead to derecognition of financial asset, the Bank recalculates gross carrying amount of financial asset as present value of renegotiated future cash flows, discounted at original effective interest rate and recognizes the amount, arising from adjustment with the new gross carrying amount, as modification gain or loss in profit and loss.
Abovementioned gains or losses are amortized during residual lifetime of modified financial asset.

Financial liabilities

The Bank derecognizes financial liability when contractual terms are modified and the cash flows of the modified liability are substantially different. In this case, new financial liability is based on the modified terms and is recognized at fair value. The difference between the carrying amount of the financial liability and new financial liability with modified terms is recognized in profit and loss.

Policy applicable before 1 January 2018

Financial assets

If contractual terms of financial assets are subsequently modified, the Bank assesses if cash flows of modified asset are significantly different. If so, contractual rights to cash flows of original financial asset are considered expired. In this case, the financial asset is derecognised for accounting purposes, while new financial asset is recognised at fair value.

Financial liabilities

The Bank derecognises financial liability when contractual terms are modified and cash flows of modified liability are significantly changed. In this case, new financial liability is based on the modified terms and is recognised at fair value. Difference between carrying amount of financial liability and new financial liability with modified terms is recognised in profit and loss.

2.7.5. Impairment of financial assets and provisions for risks

Policy applied from 1 January 2018

Recognition of expected credit losses
Bank calculates expected credit losses for financial assets measured at amortized cost or for debt securities measured at fair value through other comprehensive income (FVOCI), loan commitments and issued guarantees. Carrying amount of financial instruments measured at amortized cost is decreased by the amount of expected credit losses.

Expected credit loss for financial assets measured at fair value through other comprehensive income (FVOCI) is recognized through other comprehensive income and income statement, and it should not decrease the carrying value of the asset in the balance sheet.

After the initial recognition, expected credit loss is calculated at every reporting date. Bank assesses, at each reporting date, the level of financial assets impairment for assets measured at amortized cost or at fair value through other comprehensive income (FVOCI), except equity instruments, and as well as on contract assets. Bank's assessment is based on *"forward-looking"* expected credit loss (ECL) model.

Loss allowances is 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.

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

2.7.5. Impairment of financial assets and provisions for risks

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, while 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 financing component; the Bank may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

Financial assets's 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.

If the Bank estimates that the problems of debtors and their delay in payment are temporary and that, under adjusted agreed conditions, the client could fulfil obligations toward the 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 monitored and reviewed to ensure that all criteria are met and that future payments are likely to occur.
Details regarding credit risk policy are presented in Note 29.1 Credit Risk.

Policy applied before 1 January 2018

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 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 difficulties, 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, 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.
The present value of the expected 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 of collateral, less costs for obtaining and selling that collateral.
For the purpose of a collective assessmnet of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that takes into account credit risk characteristics.

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.

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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. Impairment of financial assets and provisions for risks(Continued)

Uncollectable receivables write-off

Financial assets' 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 criteria: 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 abovementioned 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.

2.7.6. Renegotiated loans

If the Bank estimates that the problems of debtors and their 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 and monitored, to ensure that all criteria are met and that future payments are likely to occur.

2.8. Loans and receivables from banks and other financial organizations and Loans and receivables from customers (hereinafter: Loans and receivables)

Policy applied from 1 January 2018

Loans and receivables include:

- Loans and receivables valued at amortized cost. Initial recognition of these loans and receivables is at fair value increased by direct transactional costs, while subsequently they are measured at amortized cost using effective interest rate method (Note 2.7.2) and
- Loans and receivables measured at fair value through profit or loss, in accordance with business model or cash flow characteristics

As of 31 December 2018, the Bank's portfolio does not include loans that meet the criteria to be valued at fair value through profit or loss.

Policy applied before 1 January 2018

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

Loans and receivables approved by the Bank are recognized in the balance sheet when funds are transferred to debtors. All loans and receivables are initially recognized at fair value. As of balance sheet date, loans are measured at amortized cost using the effective interest rate method, less allowance for loan impairment and any amounts written off.

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

2.9. Securities

Policy applicable from 1 January 2018

Securities caption in the Statement of financial position includes:

- Debt securities measured at fair value through other comprehensive income (FVOCI)

For debt securities measured at FVOCI, gains or losses are recognized in OCI, except interest income, expected credit losses and foreign exchange differences that are recognized in profit and loss.

When debt securities measured at FVOCI are derecognized, accumulated gain or loss previously recognized in OCI in equity is reclassified from equity to profit and losses.

- Equity investments measured at fair value through other comprehensive income, excluding investments in subsidiaries and associates

For equity investments that are accounted as FVOCI, changes in fair value after initial recognition are recognized in equity and are never recognized in profit and loss, not even on sale. Accumulated gains or losses recognized in other comprehensive income are transferred to retained earnings when equity investment is derecognized.
Equity investments that are accounted at FVOCI are not subject of impairment. Dividends on equity investments are accounted in profit and loss.

- Debt securities measures at fair value through profit and loss (FTVPL)

For debt securities measured at FTVPL, gains and losses from fair value adjustments are recorded through profit and loss and are not subject to impairment.

- Shares measured at fair value through profit and loss (FTVPL)

For shares measured at FTVPL, gains and losses on fair value adjustments are recognized through profit and loss.

Policy applicable before 1 January 2018

At initial recognition, securities are measured at fair value increased by transaction costs, except in case of securities held for trading. Subsequently securities are accounted based on their classification, that is: financial assets held to maturity, financial assets available for sale and financial assets at fair value through profit and loss.

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 are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. The amount of impairment loss for 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.

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

2.9. Securities (Continued)

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 price, are classified as “available for sale”.

Financial assets available for sale 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 to quoted prices of materially significant instruments, in order to reflect illiquid/non-existent market if the need for their sale arises.

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 profit and loss, while the increase in fair value after recognition of impairment is recognized in equity.

2.10. Receivables from derivatives and Liabilities based on derivatives (hereinafter:derivatives)

The Bank has in its portfolio financial derivatives, for which foreign exchange rate is basic underlying variable. Derivatives used by the Bank are currency swap (FX swap) and currency forward (FX forward) contracts. For accounting purposes, derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value.

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

2.10. Receivables from derivatives and Liabilities based on derivatives (hereinafter:derivatives) (Continued)

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. 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 asset or liability) 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 derivatives receivable or liabilities based on derivatives, 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 fair value adjustment of currency financial derivatives (that the Bank currently solely as in derivatives portfolio) is recorded against realized foreign exchange differences, while 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 that would be achieved on an active market.

The methodology mainly incorporates market factors (middle exchange rate, market 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.

2.11. Deposits and other financial liabilities due to banks, other financial organizations and Central Bank and Deposits and other financial liabilities due to customers

Deposits and other financial liabilities due to banks, other financial organizations and central banks, as well as deposits and other financial liabilities due to customers are initially recognized at fair value decreased by transaction costs, except for financial liabilities at fair value through profit and loss. After initial recognition, mentioned financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Within this caption, borrowings are initially measured at fair value net of transaction costs incurred and are subsequently measured 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.

2.12. Other liabilities

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

2.13. 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.

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

2.14. Special reserve for estimated losses on bank balance sheet assets and off-balance sheet items

The amount of special reserve for estimated losses for balance sheet risk assets and off-balance sheet items is calculated based on the Decision of the National Bank of Serbia on classification of balance sheet and off-balance sheet items ("Official Gazette of Republic of Serbia", number 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 single debtor (balance and off-balance items) are classified in categories from A to D, depending on the potential of receivables collection. Collection of receivables from single debtor is based on timely settlement of debts, his financial position, days past due in principal and interest, as well as based on the quality of collaterals.

In addition, for the purpose of monitoring the quality of assets, the Bank classifies its balance sheet assets and off-balance items either in the group of default receivables or in the non-default receivables, where each of these groups contains subgroup restructured receivables.

Based on the classification of receivables, in accordance with the mentioned Decision of National Bank of Serbia, special reserve for estimated 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 debtor's defaults in settlement of liabilities, financial position and business performance, adequacy of cash flows and collaterals.

The calculated special reserve for estimated losses is 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 2.7.5. and charged to the income statement (Note 8).

The amount of special reserve 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.

Decision on capital adequacy ("Official gazette of Republic of Serbia", no. 103/2016 and 103/2018), special reserve for estimated losses shall be calculated until 31 December 2018, after which its calculation and application in the process of capital calculation ceases.

2.15. Cash and balances with central bank

Cash and balances with central bank are comprised of cash in dinars and in foreign currency, i.e. is cash at gyro and current accounts, cash on hand and other cash in dinars 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.

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

2.16. 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).

Computer software licenses are capitalized for 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%

Comparing to 2017, there were no changes in estimated useful lives of intangible assets.

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

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

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

2.17.1. 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 to be used more than one year period.

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.

At initial recognition, 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 2018 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.

(b) Investment property

As of 31 December 2018, 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.

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

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

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

(c) Depreciation

As of 31 December 2018 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:

	2018	2017
Buildings	3-%-5%	2.5%
Computer equipment	20%	20%
Furniture and other equipment	7% - 25%	7% - 25%

Useful life of buildings is changed in 2018 in order to be reconciled with the new criteria of Intesa Sanpaolo Group.

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount 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 live of asset is 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)).

2.17.2. 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 is expected to 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 occur within one year from the date of recognition. 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).

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

2.18. 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.

2.19. 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 of lease object and recognized within 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, 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.

2.20. 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.

2.21. 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. Contingent liabilities 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.

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

2.22. 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.

2.23. 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 in order to decrease number of employees.

(c) Other employee benefits - retirement benefits

In accordance with the Labor Law and Article 31 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)).

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

2.24. 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:

- of status changes resulting with taxpayer termination, when tax return is submitted within 60 days from the date of status change
- bankruptcy debtor or legal entity in liquidation, under which bankruptcy proceeding has been suspended due to sell of bankruptcy debtor as legal entity, or liquidation procedure has been terminated – tax return is submitted within 15 days from the date of the decision on termination of bankruptcy/liquidation proceedings validity.

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 from 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.

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

2.24. Taxes and contributions (Continued)

(a) Income tax (Continued)

Transfer pricing

Up to the date of Bank's financial statements, Tax balance for 2018 has not been submitted, considering that deadline for its submission is 180 days from the date for which the tax is determined. Bank has calculated tax effects in accordance with provisions of Corporate income tax law. Bank has not yet finished transfer pricing study, however, the management believes that there will not be material effects on 2018, since so far there were no or minimal corrections based on related parties transactions, and there was no significant changes of services types in 2018, compared to the previous year.

(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).

2.25. 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.

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

2.26. Effect of first time adoption IFRS 9

Net book value In thousands of RSD

	IAS 39					Effect			
								Reclassification	
POSITION	**Portfolio**	**Measurement method**	**New classification under IFRS 9**	**The net value as of December 31, 2017 - IAS 39**	**The net value as of Januray 1, 2018 - IFRS 9**	**Re-evaluation**		**Required**	**Optionally**
ASSETS									
Cash and balances with Central Bank	Loans and receivables	Amortized cost	Amortized cost	82,851,636	82,851,636	-	-	-	-
Financial assets held for trading	Assets held for trading	FVTPL	FVTPL	1,555,694	1,555,694	-	-	-	-
Financial assets at fair value through profit and loss	Assets held for trading	FVTPL	FVTPL	46,143	46,143	-	-	-	-
Financial assets available for sale – equity securities	AFS	Fer value through OCI	FVOCI	18,567	18,567	-	-	-	-
Financial assets available for sale – debt securities	AFS	Fer value through OCI	FVOCI	128,607,794	128,607,794*	-	-	-	-
Loans and receivables from banks and other financial organizations				29,253,557	29,217,399	36,158	-	-	-
Loans and receivables from customers	Loans and receivables	Amortized cost	Amortized cost	301,894,205	297,944,391	3,949,814	-	-	-
Other assets	Amortized cost	Amortized cost	Amortized cost	7,330,004	7,333,472	(3,468)	-	-	-
Total financial assets				**551,557,600**	**547,575,096**	**3,982,504**	**-**	**-**	**-**
Off- balance item classified, net	**Amortized cost**	**Amortized cost**	**Amortized cost**	**119,274,736**	**119,242,054**	**(32,682)**	**-**	**-**	**-**

** In accordance with IFRS 9, the effect of impairment of debt securities FVOCI are recognised through other comprehensive income and profit and loss and do not decrease carrying amount of related debt securities in the balance sheet*

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

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3. INTEREST INCOME AND INTEREST EXPENSES

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

In RSD thousand

	2018.	2017.
Interest income		
– Central bank and other banks	662,455	1,020,905
– Holding companies	1	-
– Corporate customers	5,183,261	5,551,206
– Retail customers	12,380,666	10,551,961
– Public sector	4,577,067	5,080,661
– Foreign banks and financial organizations	79,318	59,521
– Foreign entities	187,594	226,999
– Other customers	300,758	349,739
Total	**23,371,120**	**22,840,992**
Interest expenses		
– Central bank and other banks	(85,177)	(101,785)
– Corporate customers	(924,184)	(1,074,774)
– Retail customers	(415,245)	(517,049)
– Public sector	(1,066,729)	(1,448,337)
– Foreign banks and financial organizations	(271,469)	(235,173)
– Foreign entities	(12,984)	(95,453)
– Other customers	(107,476)	(119,724)
Total	**(2,883,264)**	**(3,592,295)**
Net interest income	**20,487,856**	**19,248,697**

Total interest income on impaired loans for the year ended 31 December 2018 amounts to RSD 278,779 thousand (2017: RSD 525,912 thousand).

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

In RSD thousand

	2018.	2017.
Interest income		
Loans	18,152,005	16,875,128
REPO transactions	195,700	427,252
Obligatory reserves	376,805	460,316
Deposits	117,446	117,629
Securities	4,355,018	4,785,232
Other placements	174,146	175,435
Total	**23,371,120**	**22,840,992**
Interest expenses		
Loans	(313,113)	(260,727)
Deposits	(1,629,333)	(2,180,380)
Securities	(940,120)	(1,141,673)
Other interest expenses	(698)	(9,515)
Total	**(2,883,264)**	**(3,592,295)**
Net interest income	**20,487,856**	**19,248,697**

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3. INTEREST INCOME AND INTEREST EXPENSES

(c) Interest income and expenses by measurement method are presented as follows:

In RSD thousand

	2018	2017
Interest income		
Financial assets at amortized cost	19,016,102	18,055,760
Financial assets fer velue through OCI	4,324,397	-
Financial assets available for sale	-	4,749,849
Financial assets at fair value through profit and loss	30,621	35,383
Total	**23,371,120**	**22,840,992**
Interest expenses		
Financial assets at amortized cost	(1,943,144)	(2,450,623)
Financial assets fer velue through OCI	(928,003)	-
Financial assets available for sale	-	(1,131,488)
Financial assets at fair value through profit and loss	(12,117)	(10,184)
Total	**(2,883,264)**	**(3,592,295)**
Net interest income	**20,487,856**	**19,248,697**

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4. FEE AND COMMISSION INCOME AND EXPENSES

In RSD thousand

	RETAIL		CUSTOMERS (except retail)		UKUPNO	
	2018	2017	2018	2017	2018	2017
Fee and commission income						
Fee for banking services:						
– Domestic payment transaction services	30,985	29,623	3,147,211	2,825,917	3,178,196	2,855,540
– International payment transaction services	155,996	143,772	729,817	650,897	885,813	794,669
– Loan operations	109,385	91,011	44,758	68,078	154,143	159,089
– Cards operations	11,005	501,248	4,402,835	3,428,378	4,413,840	3,929,626
	307,371	**765,654**	**8,324,621**	**6,973,270**	**8,631,992**	**7,738,924**
Commissions related to issued guaranties and letter of credits	171,838	146,330	599,258	524,806	771,096	671,136
Current accounts maintenance	1,870,569	1,654,431	-	-	1,870,569	1,654,431
Fees slips, EDB and Telekom	196,494	248,312	-	-	196,494	248,312
Other fee and commission	115,378	112,680	180,956	169,736	296,334	282,416
Total	**2,661,650**	**2,927,407**	**9,104,835**	**7,667,812**	**11,766,485**	**10,595,219**
Rashodi od naknada i provizija						
Payment services fee:						
– Domestic	(168,595)	(16,542)	(14,594)	(158,812)	(183,189)	(175,354)
– International	(11,222)	(12,852)	(156,769)	(144,086)	(167,991)	(156,938)
National Bank of Serbia’s fee and commission			(79,330)	(59,995)	(79,330)	(59,995)
Credit Bureau’s fees	(164,027)	(141,374)	-	-	(164,027)	(141,374)
Cards operations fee	-	-	(3,739,792)	(3,249,667)	(3,739,792)	(3,249,667)
Other fees and commissions	-	-	(240,598)	(236,065)	(240,598)	(236,065)
Total	**(343,844)**	**(170,768)**	**(4,231,083)**	**(3,848,625)**	**(4,574,927)**	**(4,019,393)**
Net fee and commission income	**2,317,806**	**2,756,639**	**4,873,752**	**3,819,187**	**7,191,558**	**6,575,826**

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5. NET GAINS/LOSSES FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

In RSD thousand

	2018.	2017.
Gains from changes in value of:		
- currency swap	325,332	800,177
- forward	6,507	2,123
- financial instruments measured at fair value through profit and loss account- Securities	2,763	9,871
- gold and silver	7,642	5,727
- liabilities at arising from purchased shares-ISP	521	2,333
Total	**342,765**	**820,231**
Losses from changes in value of:		
- currency swap	(20,908)	(4,847)
- forward	(589)	-
- financial instruments measured at fair value through profit and loss account- Securities	(15,309)	(18,658)
- gold and silver	(5,917)	-
- liabilities at arising from purchased shares-ISP	(384)	(745)
Total	**(43,107)**	**(24,250)**
Net gains	**299,658**	**795,981**

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6. NET GAINS/LOSSES ARISING FROM DERECOGNATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In RSD thousand

	2018	2017
Gains arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	320	481
- financial instruments measured at fair value through OCI	38,532	175,711
Total	**38,852**	**176,192**
Losses arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	-	(483)
- financial instruments measured at fair value through OCI	(5,087)	(10,541)
Total	**(5,087)**	**(11,025)**
Net gains/(losses)	**33,765**	**165,167**

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

In RSD thousand

	2018	2017
Foreign exchange gains	19,889,523	40,570,531
Positive effects of contracted foreign currency clause application	2,834,849	3,188,459
Total	**22,724,372**	**43,758,990**
Foreign exchange losses	(17,574,493)	(29,635,623)
Negative effects of contracted foreign currency clause application	(3,102,131)	(12,064,160)
Total	**(20,676,624)**	**(41,699,783)**
Net gains	**2,047,748**	**2,059,207**

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8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Overview by classes

	2018	2017
Revenue from reversal of impairment of financial assets at amortized cost	1,923,903	2,771,663
Revenue from reversal of provisions from off-balance sheet items	329,171	371,053
Revenues from collected written-off financial assets at amortized cost	391,038	166,920
Revenue from reversal of impairment of financial assets at fair value through OCI	537,587	-
Total	**3,181,699**	**3,309,636**
Impairment losses of financial assets at amortized cost	(5,583,180)	(5,988,103)
Provisions losses from off-balance sheet items	(683,726)	(244,622)
Written-off uncollectible financial assets at amortized cost	(95,313)	(148,858)
Impairment losses on financial assets at fair value through OCI	(76,754)	-
Total	**(6,438,973)**	**(6,381,583)**
Net impairment loss	**(3,257,274)**	**(3,071,947)**

(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 2018 and 2017 were as follows:

Movements in the allowance for impairment and provisions in 2018	**In RSD thousand**
Opening balance – 31st December 2017	**16,076,970**
First time adoptions IFRS 9	3,949,823
Opening balance – 1st January 2018	**20,026,792**
Charge for the year	6,266,906
Reversal of impairment losses and release of provisions during the year	(2,253,073)
Increase in provisions due to exchange rate changes	102,814
Reversal of provisions due to exchange rate changes	(122,011)
Transfer to off-balance sheet items	(2,365,887)
Transfer from off-balance sheet items	-
Sale (transfer) of receivables	(3,293,937)
Reversal of provisions due to passage of time (unwinding)	(278,779)
Closing balance - 31 December 2018	**18,082,825**

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8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

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	(3,142,767)
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	**16,076,970**

9. OTHER OPERATING INCOME

	2018	In RSD thousand 2017
Property rental income	35,814	68,578
Reimbursed expenses	12,394	18,261
Income from dividends and equity interests	88,221	142,138
Income from fees from Credit biro	36,501	30,641
Income from IT services from foreign banks	25,459	31,149
Other income	35,679	38,784
Total	**234,068**	**329,551**

10. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	2018	In RSD thousand 2017
Net salaries	3,661,969	3,480,971
Tax on employee benefits	448,299	441,993
Contributions on employee benefits	1,766,365	1,723,092
Expenses for temporary and occasional work	68,785	14,705
Other personal expenses	34,483	22,704
Provisions for retirement benefits and other employee benefits	19,354	18,261
Total	**5,999,255**	**5,701,726**

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11. DEPRECIATION AND AMORTIZATION

	2018	In RSD thousand 2017
Depreciation and amortization:		
– Amortization of intangible assets (Note 19)	463,197	457,555
– Depreciation of fixed assets and investment property (Note 20)	594,554	529,618
Total	**1,057,751**	**987,173**

12. OTHER INCOME

	2018.	U hiljadama dinara 2017.
Release of unused provisions of liabilities	85,166	168,121
Gains on sales of fixed assets	20,323	45,922
Surpluses	3,333	4270
Gains on disposal on loans and receivables	645,484	515,220
Other income	315,353	180,676
Ukupno	**1,069,660**	**914,209**

13. OTHER EXPENSES

	2018	In RSD thousand 2017
Material, energy and spare parts	476,750	387,898
Professional services	1,320,187	1,286,283
Advertising, marketing and entertainment expenses	233,617	264,023
Mail and telecommunication expenses	328,624	283,108
Insurance premiums	2,518,336	2,472,037
Maintenance of property, plant and equipment	295,677	241,573
Rental cost	966,231	962,365
Fees and commissions	209,684	171,793
Taxes and contributions	129,650	206,343
Physical-technical security	153,664	160,629
General and administrative expenses	286,653	272,986
Losses from write-offs, disposals and shortage of property, plant equipment and intangible assets	38,889	1,824
Expenses for provisions for liabilities	383,572	60,853
Impairment of lend plant equipment and intangible assets	82,096	-
Losses from the sale of financial assets at amortized cost	15,231	143,383
Other expenses	377,003	400,936
Total	**7,815,864**	**7,316,034**

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13. OTHER EXPENSES

Operating leasing

Operating leasing is contracted typically to the period of 5 years, with possibility of its renewal by the will of both contracting parties, as well as with the possibility to be terminated by the Lessee, with a contracted notice period of 30 or 60 days for most contracts.

At 31 December, the future minimum lease payments under operating leases for planned rental period, are payable as follows:

In RSD thousand

Minimum leasing payments	**2018.**	**2017.**
Less than 1 year	34,908	18,624
Between 1 and 5 years	1,084,203	914,633
More than 5 years	1,837,583	2,206,365
	2,956,694	**3,139,622**

14. INCOME TAXES

(a) Components of income taxes

The components of income taxes are:

In RSD thousand

	2018	**2017**
Current income tax	1,073,267	1,188,161
Income from deferred tax assets and reduction of deferred tax liabilities	(744,547)	(24,309)
Expenses from reduction of deferred tax assets and creation of deferred tax liabilities	301,339	212
Total income tax expense	**630,059**	**1,164,064**

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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

	2018	2017
Profit before tax	**13,234,169**	**13,011,758**
Income tax at the rate of 15%	**1,985,125**	**1,951,764**
Tax effects of expense reconciliation – permanent differences	3,129	7,639
Tax effects of revenue reconciliation – permanent differences	(707,078)	(815,721)
Tax effects of depreciation differences recognized for tax and statutory reporting – temporary differences	18,219	14,294
Tax effects of expenses that will be recognized in subsequent period – temporary differences	(85,136)	28,358
Tax effects of first-time adoption IFRS 9	(142,966)	-
Other (capital gains)	1,974	1,827
Current income tax stated in the income statement	**1,073,267**	**1,188,161**
Effective tax rate	***8.11%***	***9.13%***

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2018, the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions.

The most significant increase in the tax base for permanently unrecognized expenses in the total amount of RSD 20,860 thousand (tax effect RSD 3,129 thousand) relates to non-operating expenses that were not incurred for business purposes in the amount of RSD 10,734 thousand (tax effect RSD 1,610 thousand), as well as to the permanently unrecognized write-off of receivables in the amount of 9,732 thousand (tax effect RSD 1,460 thousand).

In addition, the Bank increased the tax base for temporary unrecognized depreciation expense in the amount of RSD 121,460 thousand (tax effect RSD 18,219 thousand), formed as a difference between tax and accounting depreciation.

In accordance with the regulations, the Bank also made an adjustment on the revenue side, where the most significant amount is interest income generated from debt securities issued by the Republic, local governments and the National Bank of Serbia, and they are excluded from the tax base in the total amounting to RSD 4,543,832 thousand, which resulted in a tax effect in the amount of RSD 681,575 thousand, for 2018 (31 December, 2017, tax base: RSD 5,130,021 thousand; tax effect RSD 769,503 thousand), of the total permanent income adjustments tax effect amounting to RSD 707,078 thousand.

Also, in accordance with the regulations, the Bank has decreased tax base for one fifth of the IFRS 9 first time adoption tax effects (953,100 thousand RSD), registered at the date of the standard first application (1 January, 2018) by debiting Retained earnings from previous years in full amount of 4,765,550 thousand RSD,which resulted in tax effect of RSD 142,966 thousand.

For remaining amount, proportional tax base adjustments will be done in period 2019-2022, in accordance with Corporate income tax law provisions.

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14. INCOME TAXES (Continued)

(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.

The most significant temporary differences effects determined in 2018, relate to the tax assets decrease based on the impairment of land BLOK 11 expense recognition, from previous periods, due to its repayment in 2018 by the Belgrade Land Development Public Agency, in the amount of RSD 141,480 thousand, and the tax assets increase based on recognition of the IFRS 9 first time application effects, in the net amount of RSD 571,866 thousand, as well as on the basis of provisions for restructuring in accordance with IAS 37, in the amount of RSD 16,577 thousand.

Movements in deferred tax assets were as follows:

In RSD thousand

	2018	2017
Balance as of 1 January	**153,397**	**237,494**
Effect of temporary differences credited to income statement	443,209	24,097
Effect of temporary differences credited to equity	-	(108,194)
Reclassification from the asset to the obligation	108,194	-
Balance as of 31 December	**704,800**	**153,397**

Bank has stated deferred tax liabilities within revaluation reserves, incurred from assessed fair value of real estate properties in previous year, and which has been decreased by selling two properties, one in Novi Sad, Maksima Gorkog 2 (investment property), and the other in Sombor, Venac Stepe Stepanovica 11 (functional property), during 2018, so that it amounts to RSD 106,337 thousand as of December 31, 2018.

Movements in deferred tax liabilities were as follows:

In RSD thousand

	2018.	2017.
Balance as of 1 January	**-**	**-**
Effect of temporary differences credited to income statement	-	-
Effect of temporary differences credited to equity	(1,857)	-
Reclassification from the asset to the obligation	108,194	-
Stanje na dan 31. decembra	**106,337**	**-**

Finally calculated current tax liabilities reported in the balance sheet at 31 December 2018 amount to RSD 21,386 thousand (31 December 2017: RSD 387,008 thousand), and has been created by decreasing the amount of current income tax liability by the amount of prepaid income taxes for 2018, paid during 2018.

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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.

	2018	2017
Net profit for the year (in thousand RSD)	12,604,110	11,847,694
Weighted average number of ordinary shares during the year	213,159	213,159
Basic earnings per share in RSD (no decimals)	**59,130**	**55,581**

16. CASH AND BALANCES WITH CENTRAL BANK

(a) Cash and balances with central bank

In RSD thousand

	2018	2017
In RSD		
Gyro account	29,824,775	34,170,673
Cash on hand	9,122,225	5,767,453
Receivables for calculated interest, fee and commission based on cash and balances with central bank	13,649	18,404
Accruals related to cash and balances with central bank	-	3,583
	38,960,649	**39,960,113**
In foreign currency		
Cash on hand	3,608,590	5,429,729
Other monetary assets	14,445	59,443
Obligatory reserves with the National Bank of Serbia	44,320,277	37,345,430
	47,943,312	**42,834,602**
Gold and precious metals	58,646	56,921
Balance as of 31 December	**86,962,607**	**82,851,636**

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. 76/2018).

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.

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16. CASH AND BALANCES WITH CENTRAL BANK (Continued)

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

As of 31 December 2018, calculated obligatory reserves in dinars amounted to RSD 28,077,247 thousand (31 December 2017: RSD 27,042,772 thousand) and were in accordance with the above mentioned National Bank of Serbia's Decision.

At 31 December 2018 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 1.25% per annum.

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. 76/2018), 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 2018, calculated foreign currency obligatory reserves amounted to EUR 303,795,645.37 (31 December 2017: EUR 279,977,622.34) 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 2018:

In RSD thousand

	Balance sheet	Cash flows	Difference
In RSD			
Gyro account	29,824,775	29,824,775	-
Cash on hand	9,122,226	9,122,226	-
Receivables for calculated interest, fee and commission based on cash and balances with central bank	13,649	-	13,649
	38,960,650	**38,947,001**	**13,649**
In foreign currency			
Cash on hand	3,608,590	3,608,590	-
Other monetary assets	14,445	14,445	-
Obligatory reserve with the NBS	44,320,276	-	44,320,276
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	17,140,307	(17,140,307)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	21,490	(21,490)
	47,943,311	**20,784,832**	**27,158,479**
Gold and other precious metals	**58,646**	**58,646**	**-**
Balance as of 31 December	**86,962,607**	**59,790,479**	**27,172,128**

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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 2017 (Continued):

In RSD thousand

	Balance sheet	Statement of 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 equivalents with the Central Bank	18,404	-	18,404
Accruals on cash and cash equivalents 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 cash assets	59,443	59,444	(1)
Obligatory reserves with 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	**82,851,636**	**49,358,882**	**33,492,754**

c) Changes on financing activities, received loans

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	2018	2017
Opening balance 1 January	27,835,553	26,014,777
Inflow from borrwings	6,878,998	8,175,461
Outflow fom borrowings	(8,006,827)	(5,236,258)
Exchange Rate Effect	(61,548)	(1,118,427)
Closing balance - 31 December	**26,646,176**	**27,835,553**

17. FINANCIAL ASSETS CLASSIFICATION

a) RECEIVABLES FROM DERIVATIVES

In RSD thousand

	2018	2017
In RSD		
Financial derivatives	331,839	802,299
	331,839	**802,299**
Balance as of 31 December	**331,839**	**802,299**

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17. FINANCIAL ASSETS CLASSIFICATION (Continued)

b) INVESTMENTS IN SUBSIDIARIES AND SECURITIES

In RSD thousand

	2018				2017				
	Securities carried at fair value through Profit and Loss	**Securities carried at fair value through OCI**	**Investments in subsidiaries**	**Total**	**Financial assets held for trading**	**Financial assets initially carried at fair value through Profit and Loss**	**Financial assets available for sale**	**Investments in subsidiaries**	**Total**
– Shares and equity investment	42,880	43,062	1,199,472	1,285,414	-	37,576	49,342	962,496	1,049,414
– Debt securities issued by the Republic of Serbia	372,221	89,449,904	-	89,822,125	717,051	-	124,331,988	-	125,049,039
- Accrued interest on debt securities issued by the Republic of Serbia	2,715	2,663,496	-	2,666,211	32,446	-	3,346,818	-	3,379,264
	417,816	**92,156,462**	**1,199,472**	**93,773,750**	**749,497**	**37,576**	**127,728,148**	**962,496**	**129,477,717**
Fer value adjustment	(6,665)	304,872	-	298,207	3,898,	8,567	898,213	-	910,678
Balance as of 31 December	**411,151**	**92,461,334**	**1,199,472**	**94,071,957**	**753,395**	**46,143**	**128,626,361**	**962,496**	**130,388,395**

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17. FINANCIAL ASSETS CLASSIFICATION (Continued)

(c) SECURITIES AND INVESTMENTS PER SHARE

	In RSD thousand 2018
Investment in subsidiaries:	
– Intesa Leasing d.o.o., Beograd 100% udela	962,496
– Intesa Invest, Beograd 100% udela	236,976
	1,199,472
Debt securities carried at fair value through profit and loss	
INTESA SANPAOLO	42,880
OBVEZNICE MINISTARSTVA FINANSIJA REPUBLIKE SRBIJE	374,936
Fer value adjustment	(6,665)
	411,151
Debt securities carried at fair value through OCI	
KOSMAJ-MERMER	37
ALMA MONS	30
BANKOR CONSULTING	34
IMK 29.NOVEMBAR	15,073
VEEDA	29
PANON CRVENKA AD KELEBIJA	25,729
RAZVOJNA BANKA VOJVODINE AD NOVI SAD	1,566
TRŽIŠTE NOVCA	564
OBVEZNICE MINISTARSTVA FINANSIJA REPUBLIKE SRBIJE	92,113,399
Fer value adjustment	304,872
	92,461,333
Balance as of 31 December	**94,071,956**

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17. FINANCIAL ASSETS CLASSIFICATION (Continued)

(c) SECURITIES AND INVESTMENTS PER SHARE

	2017
Investment in subsidiaries:	
Intesa Leasing d.o.o., Beograd – 100% udela	962,496
	962,496
Financial assets initially carried at fair value through profit and loss*:*	
INTESA SANPAOLO	37,576
OBVEZNICE MINISTARSTVA FINANSIJA REPUBLIKE SRBIJE	749,497
Fer value adjustment	12,465
	799,538
Financial assets available for sale*:*	
KOSMAJ-MERMER	37
ALMA MONS	30
BANKOR CONSULTING	34
PAN TRGOVINA	466
IMK 29.NOVEMBAR	15,073
VEEDA	29
MENTA AD PADEJ U STEČAJU	5,814
PANON CRVENKA AD KELEBIJA	25,729
RAZVOJNA BANKA VOJVODINE AD NOVI SAD	1,566
TRŽIŠTE NOVCA	564
OBVEZNICE MINISTARSTVA FINANSIJA REPUBLIKE SRBIJE	124,111,152
OBVEZNICE REPUBLIKE ITALIJE	3,567,654
Fair value adjustment	898,213
	128,626,361
Stanje na dan 31. decembra	**130,388,395**

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

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

In RSD thousand

	2018	2017
In RSD		
Loans under reverse repo transactions	533,058	10,438,349
Receivables for calculated interest	5,061	2,523
Current account loans	98	60
Loans approved and due with one day (overnight)	500,000	-
Liquidity and current assets loans	3,974,756	1,092,354
Investment loans	6,301	200,724
Other loans	990,539	1,059,685
Other placements	591,220	1,540,890
Deferred income on receivables carried at amortized cost using the effective interest rate	(9,663)	(3,366)
Accrued interest calculated on the basis of loans, deposits and other placements	5,798	1,543
Total in RSD	**6,597,168**	**14,332,762**
In foreign currency		
Foreign currency accounts	17,143,725	3,841,323
Cheques	21,490	34,400
Loans approved and due with one day (overnight)	-	710,836
Other loans	2,709	1,440
Other non-purpose deposits	6,912,526	3,080,290
Special-purpose deposits	4,728	4,739
Other placements	2,386,776	7,253,320
Accrued interest calculated on the basis of loans, deposits and other placements	14,215	1,510
Total in foreign currency	**26,486,169**	**14,927,858**
Gross loans and receivables	**33,083,337**	**29,260,620**
Less: Allowance for impairment		
– in RSD	(16,221)	(836)
– in foreign currency	(27,852)	(6,227)
	(44,073)	**(7,063)**
Balance as of 31 December	**33,039,264**	**29,253,557**

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

(b) LOANS AND RECEIVABLES FROM CUSTOMERS

In RSD thousand

	2018	2017
In RSD		
Receivables for calculated interest	2,142,985	2,141,545
Accrued fee and commission	-	16
Current account loans	5,835,607	5,907,087
Consumer loans	1,655,336	1,113,824
Liquidity and current assets loans	65,119,208	58,586,691
Investment loans	93,825,015	81,359,452
Mortgage loans	68,739,458	60,028,302
Cash loans	39,059,273	34,162,030
Other loans	54,588,042	49,966,971
Receivables arising from purchased placements - forfeiting	-	43,610
Receivables based on factoring without the right of recourse and reverse factoring	2,137,817	1,196,927
Receivables based on factoring with the right of recourse	350,608	293,597
Placements based on acceptances, endorsements and payments made under guarantees	165,571	196,854
Placements on ceded receivables on other grounds	2,114,156	2,499,502
Deferred income on receivables carried at amortized cost using the effective interest rate	(1,134,067)	(1,021,205)
Accrued interest calculated on the basis of loans, deposits and other placements	599,328	554,784
Total in RSD	**335,198,337**	**297,029,987**
In foreign currency		
Interest receivable	108,965	89,312
Loans for payment of import of goods and services in foreign currency	16,704,146	15,192,415
Loans for the purchase of immovable property in the country approved to a natural person	17,506	18,777
Other loans	4,229,026	4,505,206
Receivables from factoring without recourse factoring and reverse	233,650	119,174
Accrued interest calculated on the basis of loans, deposits and other placements	47,571	56,264
Total in foreign currency	**21,340,864**	**19,981,149**
Gross loans and receivables	**356,539,201**	**317,011,135**
Less: Allowance for impairment		
– in RSD	(15,225,069)	(14,052,490)
– in foreign currency	(1,565,018)	(1,064,440)
	(16,790,087)	**(15,116,930)**
Balance as of 31 December	**339,749,114**	**301,894,205**

As of 31 December, 2018 the Banks portfolio does not have loans and receivables measured at fair value

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

(c) OVERVIEW BY TYPE OF CLIENT

In RSD thousand

	2018			2017		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	3,303,298	3,293,870	6,597,168	12,766,781	380,980	13,147,761
– Holding companies	-	-	-	260	-	260
– Corporate customers	40,502,420	116,790,110	157,292,530	37,701,435	102,798,583	140,500,018
– Retail customers	6,693,178	154,587,250	161,280,428	6,291,478	131,962,203	138,253,681
– Public sector	38,646	7,760,764	7,799,410	276,217	8,462,067	8,738,284
– Foreign banks and financial organizations	-	-	-	1,185,000	-	1,185,000
– Foreign entities	107	218,437	218,544	(16,983)	228,623	211,640
– Other customers	620,339	7,987,089	8,607,428	421,669	8,904,434	9,326,103
Total in RSD	**51,157,988**	**290,637,520**	**341,795,508**	**58,625,857**	**252,736,890**	**311,362,747**
In foreign currency						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	4,252,614	2,709	4,255,323	7,826,578	309	7,826,887
– Holding companies	-	317	317	303	-	303
– Corporate customers	102,100	14,711,179	14,813,279	270,860	12,953,359	13,224,219
– Retail customers	43,446	922,283	965,729	68,699	767,628	836,327
– Public sector	3,587	318,272	321,859	4,785	373,107	377,892
– Foreign banks and financial organizations	22,230,846	-	22,230,846	7,100,972	-	7,100,972
– Foreign entities	2,076,364	3,153,514	5,229,878	1,980,191	3,555,578	5,535,769
– Other customers	1,185	8,615	9,801	6,627	12	6,639
Total in foreign currency	**28,710,142**	**19,116,889**	**47,827,031**	**17,259,015**	**17,649,993**	**34,909,008**
Gross loans and receivables	**79,868,130**	**309,754,409**	**389,622,539**	**75,884,872**	**270,386,883**	**346,271,755**
Less: Allowance for impairment - banks and other financial organizations	(42,170)	(1,903)	(44,073)	(6,304)	(759)	(7,063)
Less: Allowance for impairment - customers	(2,829,327)	(13,960,761)	(16,790,088)	(2,357,980)	(12,758,950)	(15,116,930)
	(2,871,497)	**(13,962,664)**	**(16,834,161)**	**(2,364,284)**	**(12,759,709)**	**(15,123,993)**
Balance as of 31 December	**76,996,633**	**295,791,745**	**372,788,378**	**73,520,588**	**257,627,174**	**331,147,762**

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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 2.9% and 9.7% per annum on RSD loans, and from 0.8% and 7.4% 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 6.1%, and on RSD long-term loans with the foreign currency clause, as well as on foreign currency loans, from 0.8% and 7.1% per annum.

Short-term loans to retail customers, have been approved with interest rates ranging from 5.00% to 15.00% per annum for loans with no currency clause.

Short-term loans to small business customers, have been approved with interest rates ranging from 4.5% to 14% per annum for loans with no currency clause, and from 2.4% 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 12.57% to 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 1.38% to 7.25% per annum for loans with the foreign currency clause, as well as from 4.24% to 15% 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 10 years with interest rates ranging from 2.2%+3m EURIBOR to 10% per annum for loans with the foreign currency clause.

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 12 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.

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19. INTANGIBLE ASSETS

In RSD thousand

	Licenses	Software	Intangible assets under construction	Total
COST				
Balance as of 1 January 2017	**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**
Additions during the year	-	-	1,659,851	1,659,851
Transfers	-	411,286	(411,286)	-
Disposals and write offs	-	(111,919)	-	(111,919)
Balance as of 31 December 2018	**483,323**	**3,309,195**	**2,988,383**	**6,780,901**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2017	**447,665**	**1,717,176**	**-**	**2,164,841**
Amortization charge (Note 11)	**35,640**	**421,915**	**-**	**457,555**
Balance as of 31 December 2017	**483,305**	**2,139,091**	**-**	**2,622,396**
Amortization charge (Note 11)	18	463,179	-	463,197
Disposals and write offs	-	(79,558)	-	(79,558)
Balance as of 31 December 2018	**483,323**	**2,522,712**	**-**	**3,006,035**
Carrying value as of:				
– 31 December 2018	**-**	**786,483**	**2,988,383**	**3,774,866**
– 31 December 2017	**18**	**870,737**	**1,739,818**	**2,610,573**

Intangible assets under construction represent investments in the new CORE system.

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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 2017	**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)	-	-
Adjustment of carrying value of land to its fair value	4,138	-	-	-	4,138	(4,138)
Transfer to Assets held for sale		-	-	-		-
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**
Additions during the year	-	-	-	693,388	693,388	-
Transfers from construction in progress	52,660	420,080	97,296	(570,036)	-	-
Disposals and write-offs	(12,558)	(264,605)	(39,475)		(316,638)	(11,018)
Effects of fair value appraisal as of 31 December 2018	-	-	-	-	-	(9,238)
Balance as of 31 December 2018	**6,798,495**	**4,144,550**	**816,092**	**141,725**	**11,900,862**	**30,995**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2017	**1,305,088**	**2,983,273**	**565,184**	**-**	**4,853,545**	**27,402**
Depreciation charge (Note 11)	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 2017	**-**	**3,049,306**	**603,663**	**-**	**3,652,969**	**-**
Depreciation charge (Note 11)	237,517	286,923	70,114	-	594,554	-
Disposals and write/offs	(209)	(258,076)	(39,475)		(297,760)	-
Balance as of 31 December 2018	**237,308**	**3,078,153**	**634,302**	**-**	**3,949,763**	**-**
Carrying value as of:						
– 31 December 2018	**6,561,187**	**1,066,397**	**181,790**	**141,725**	**7,951,099**	**30,995**
– 31 December 2017	**6,758,393**	**939,769**	**154,608**	**18,373**	**7,871,143**	**51,251**

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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 2018, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

As of 31 December 2018, the carrying value of equipment under finance lease amounts to RSD 2,044 thousand (31 December 2017: RSD 12,964 thousand).

In accordance with the accounting policies changes from 2017 (passage from the cost model to the redetermination of value for measurement subsequent to initial disclosure of functional property; passage from accounting at cost to accounting at fair value for investment property), Parent bank has engaged the authorized appraisal company to assess fair value of the properties, at the level of the Intesa Sanpaolo Group, including Banca Intesa a.d. Beograd. On 31 December 2018, the authorized appraiser carried out the assessment of the properties fair value that Banca Intesa ad Beograd uses for its own business, and has concluded that market prices of real estates did not significantly oscillated (+/-5 to 8%) compared to the actual prices as of December 31, 2017, so that new assessment are not recorded as of December 31, 2018.

If the Bank continued to apply cost model for real estate valuation, net present value would amount to RSD 5,905,675 thousand, at December 31, 2018.

On the other hand, in accordance with IAS 40, for investment properties, there have been reassessment of its fair value as of December 31, 2018 performed, and positive and negative effects on this basis were recorded within profit and loss accounts.

Functional properties, valued using the criterion of revaluation according to IAS 16 started from 2018, have been amortized for the useful life. Investment property (under IAS 40), are not amortized, yet, those are measured at fair value through profit and loss.

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

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

As it is disclosed in Note 2.17 (c), 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

	2018	2017
Non-current assets held for sale	143,015	1,653,117
Balance as of 31 December 2017	**143,015**	**1,653,117**

As of 31 December 2018, the Banks non-current assets held for sale entirely related to business premises with surface area of 1.824 m² on Novi Beograd, Goce Delceva 36 which book value has been adjusted to its market value based on the assessment performed by the authorizad appraisal company CBRE. Impairment of the property has been posted as expense within the profit and loss, amounted to RSD 38,024 thousand..

At the beginning of 2018, Banka and Belgrade Land Development Public Agency, terminated the contract on leas of cadastral plot no. 1005/14, and the plot BLOK 11a, Novi Beograd, at the corner of Mihaila Pupina Boulevard and Tresnjinog cveta, has been returned to the Agency, while the Agency has compensated the Bank fee for the building land development, in the amount of net book value of the mentioned building land, 1,472,078 thousand of RSD.

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

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21. OTHER ASSETS

		In RSD thousand
	2018.	**2017.**
Trade receivables	377	538
Other receivables	86,000	140,000
Receivables from employees	4,916	4,871
Receivables for overpaid taxes, except income tax	475	1,323
Advances paid	45,068	260,864
Other receivables from operating activities	2,452,713	5,535,710
Assets received through collection of receivables	332,395	332,395
Other assets	829,813	413,475
Interest receivable related to other assets:		
– in RSD	5	290
Fee and commission receivables related to other assets:		
– in RSD	163,305	178,680
– in foreign currency	16,814	19,257
Accrued interest expenses:		
– in RSD	579	1,279
– in foreign currency	-	27,341
Accrued other expenses:		
– in RSD	341,661	390,039
– in foreign currency	198	745
Other accruals:		
– in RSD	134,042	106,530
– in foreign currency	1	2
Total other assets	**4,408,362**	**7,413,339**
Less: Allowance for impairment	(92,739)	(83,334)
Balance as of 31 December	**4,315,623**	**7,330,005**

Other receivables from operating activities amounting to RSD 2,452,713 thousand as of 31 December 2018 (31 December 2017: RSD 5,535,710 thousand) mostly relate to receivables in RSD with respect to payment cards from other cards issuers - Master Card, VISA and DINA in the amount of RSD 1,620,621 thousand (31 December 2017: RSD 1,968,592 thousand).

For the business premise in Palmira Toljatija 5, evidenced within the Assets received through collection of receivables, Bank impaired its book value as of December 31, 2018, in amount of RSD 34,603 thousand, ie. at amount of its market value, determined by the authorized appraisal company, CBRE.
The amount of impairment is presented as loss in profit and loss.

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22. LIABILITIES BASED ON DERIVATIVES

In RSD thousand

	2018.	2017.
Liabilities based on derivatives - swap	20,908	4,847
Liabilities based on derivatives - forward	589	-
ılance as of 31 December	**21,497**	**4,847**

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

	2018.	2017.
In RSD		
Transaction deposits	1,327,326	1,788,777
Deposits underlying granted loans	13,454	18,045
Special-purpose deposits	473,152	21,368
Other deposits	1,408,365	1,785,474
Borrowings	-	853,000
Other financial liabilities	1,124,537	1,658,713
Interest payable	2,758	7,282
Fee and commission payable	32	12
Total in RSD	**4,349,624**	**6,132,671**
In foreign currency		
Transaction deposits	657,885	779,981
Deposits underlying granted loans	948,393	2,843
Special-purpose deposits	399	103,380
Other deposits	17,732,182	6,001
Borrowings	24,777,007	23,858,565
Other financial liabilities	2,365,757	1,585,370
Interest payable	35,421	26,508
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(119,907)	(120,673)
Fee and commission payable	-	391
Total in foreign currency	**46,397,137**	**26,242,366**
Balance as of 31 December	**50,746,761**	**32,375,037**

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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

	2018	2017
In RSD		
Transaction deposits	107,136,250	96,948,702
Savings deposits	4,558,554	2,898,418
Deposits underlying granted loans	655,460	474,487
Special-purpose deposits	2,872,204	2,382,296
Other deposits	15,928,537	28,496,714
Deposits and loans due within one day (overnight)	1,080,055	551,013
Interest payable	402,340	597,560
Total in RSD	**132,633,400**	**132,349,190**
In foreign currency		
Transaction deposits	197,862,445	175,383,409
Savings deposits	57,218,806	65,288,066
Deposits underlying granted loans	5,270,750	5,524,134
Special-purpose deposits	1,554,718	2,046,001
Other deposits	6,923,988	9,326,960
Borrowings	1,869,169	3,976,988
Other financial liabilities	1,448,955	3,285,991
Interest payable	392,986	524,496
Total in foreign currency	**272,541,817**	**265,356,045**
Balance as of 31 December	**405,175,217**	**397,705,235**

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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 CONTRACTUAL MATURITY

In RSD thousand

	2018			2017		
	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	108,463,575	-	108,463,575	98,737,479	-	98,737,479
Saving deposits	3,809,966	748,588	4,558,554	2,661,138	237,280	2,898,418
Deposits related to granted loans	294,911	374,003	668,914	132,794	359,738	492,532
Special-purpose deposits	3,034,556	310,801	3,345,357	2,108,447	295,217	2,403,664
Other deposits	15,006,175	2,330,726	17,336,901	26,178,163	4,104,025	30,282,188
Overnight deposits and loans	1,080,055	-	1,080,055	551,013	-	551,013
Borrowings	-	-	-	853,000	-	853,000
Other financial liabilities	1,124,536	-	1,124,536	1,658,713	-	1,658,713
Interest payable	405,098	-	405,098	604,791	50	604,841
Fee and commission payable	32	-	32	12	-	12
Total in RSD	**133,218,904**	**3,764,118**	**136,983,022**	**133,485,550**	**4,996,310**	**138,481,860**
In foreign currency						
Transaction deposits	198,520,330	-	198,520,330	176,163,391	-	176,163,391
Saving deposits	43,870,409	13,348,397	57,218,806	49,966,360	15,321,706	65,288,066
Deposits related to granted loans	4,770,470	1,448,673	6,219,143	3,891,896	1,635,081	5,526,977
Special-purpose deposits	864,486	690,631	1,555,117	1,341,665	807,716	2,149,381
Other deposits	24,270,743	385,427	24,656,170	9,166,424	166,537	9,332,961
Borrowings	-	26,646,176	26,646,176	-	27,835,553	27,835,553
Other financial liabilities	3,814,714	-	3,814,714	4,871,362	-	4,871,362
Interest payable	428,407	-	428,407	551,003	-	551,003
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	-	(119,907)	(119,907)	(120,673)	-	(120,673)
Fee and commission payable	-	-	-	391	-	391
Total in foreign currency	**276,539,559**	**42,399,397**	**318,938,956**	**245,831,819**	**45,766,593**	**291,598,412**
Balance as of 31 December	**409,758,463**	**46,163,515**	**455,921,978**	**379,317,369**	**50,762,903**	**430,080,272**

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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

	2018			2017		
	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	3,651,729	300,000	3,951,729	5,221,915	130,001	5,351,916
– Holding companies	2,906	-	2,906	3,076	-	3,076
– Corporate customers	70,236,244	2,656,952	72,893,196	71,336,455	4,617,153	75,953,608
– Retail customers	45,604,080	756,140	46,360,220	35,083,993	247,858	35,331,851
– Public sector	4,580,293	46,867	4,627,160	12,309,799	400	12,310,199
– Foreign banks and financial organizations	397,892	-	397,892	780,756	-	780,756
– Foreign entities	532,371	3,260	535,631	359,033	-	359,033
– Other customers	8,213,387	900	8,214,287	8,390,524	900	8,391,424
Total in RSD	**133,218,902**	**3,764,119**	**136,983,021**	**133,485,551**	**4,996,312**	**138,481,863**
In foreign currency						
– Central bank, banks and other financial sector and insurance	2,201,035	2,837	2,203,872	976,134	2,843	978,977
– Holding companies	353	-	353	192	-	192
– Corporate customers	43,962,039	1,740,768	45,702,807	49,352,863	1,813,320	51,166,183
– Retail customers	203,292,549	13,839,691	217,132,240	186,517,067	15,814,981	202,332,048
– Public sector	999,171	1,871,551	2,870,722	1,556,118	4,011,116	5,567,234
– Foreign banks and financial organizations	19,536,167	24,657,101	44,193,268	1,404,823	23,858,565	25,263,388
– Foreign entities	4,035,097	236,272	4,271,369	3,853,620	214,233	4,067,853
– Other customers	2,513,148	51,178	2,564,326	2,171,000	51,534	2,222,534
Total in foreign currency	**276,539,559**	**42,399,398**	**318,938,957**	**245,831,817**	**45,766,592**	**291,598,409**
Balance as of 31 December	**409,758,461**	**46,163,517**	**455,921,978**	**379,317,368**	**50,762,904**	**430,080,272**

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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 75% of the annual reference interest rate depending on the currency and the amount of deposit.

On term deposits in RSD and foreign currency, the Bank pays interest at rates ranging up to 3.2% 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
	2018	**2017**
Provisions for off-balance sheet items (a)	1,223,001	902,184
Provisions for employee benefits:		
– restructuring (b)	112,388	23,525
– long-term retirement benefits and unused days of vacation (c)	190,545	171,191
Provisions for litigations (Note 30 (a))	275,262	180,394
Balance as of 31 December	**1,801,197**	**1,277,294**

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24. PROVISIONS (Continued)

In RSD thousand

	2018	2017
Movements in provisions for off-balance sheet items		
Opening balance	902,184	1,055,247
First time adoption effect IFRS 9	(32,682)	-
Release of provisions	(337,594)	(371,053)
Release of provisions - exchange rate	(7,093)	(31,728)
Increase of provisions	683,726	244,621
Increase of provisions – exchange rate	14,459	5,097
Balance as of 31 December	**1,223,001**	**902,184**
Movements in provisions for restructuring		
Opening balance	23,525	236,702
Release of provisions directly from provisions	(22,850)	(213,177)
Increase of provisions	111,713	-
Balance as of 31 December	**112,388**	**23,525**
Movements in provisions for employee retirement benefits and unused days of vacation		
Opening balance	171,191	152,930
Increase of provisions	19,354	18,261
Balance as of 31 December	**190,545**	**171,191**
Movements in provisions for litigations		
Opening balance	180,394	308,637
Release of provisions through profit and loss	(85,166)	(168,121)
Release of provisions directly from provisions	(91,825)	(20,975)
Increase of provisions	271,859	60,853
Balance as of 31 December (Notes 30)	**275,262**	**180,394**

(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 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 4% per annum, which reflects the long-term rate of return on high quality debt securities, Republic of Serbia bonds and treasury bonds of the Ministry of Finance Republic of Serbia.

The provision was determined in accordance with the Bank's Collective Agreement, using the assumption of average salary increase rate of 4.3% 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.

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25. OTHER LIABILITIES

	2018	In RSD thousand 2017
Net salaries and compensations	252,215	285,579
Taxes, VAT, contributions and other duties payable, excluding income tax payable	358,174	196,819
Vendor liabilities	777,475	783,772
Advances received	296,225	658,157
Other liabilities (a)	3,128,525	4,881,329
	4,812,614	**6,805,656**
Accruals and deferred income		
Accrued liabilities for other expenses:		
– in RSD	836	1,233
– in foreign currency	12,970	8,109
Deferred interest income:		
– in RSD	129,153	70,489
Other deferred income:		
– in RSD	112,557	86,033
– in foreign currency	7,039	14,343
Other deferrals (b)		
– in RSD	455,301	4,577,456
– in foreign currency	961,796	2,419,293
	1,679,652	**7,176,956**
Long-term finance lease liabilities (c)	4,611	15,130
Total	**6,496,877**	**13,997,742**
Other tax liabilities	104,721	105,613
Balance as of 31 December	**6,601,598**	**14,103,355**

a) Other liabilities in 2018 mostly consist of liabilities to suppliers and sales of foreign currency, while in 2017 the highest amount is related to payment for credit card obligations.

b) Other accruals in foreign currency in 2018 and 2017 mostly consist of accruals accounts balances – sales of foreign currency.

c) Financial liabilities for leased equipment as of 31 December 2018 and 2017 are as follows:

In RSD thousand

	2018		2017	
Minimal lease payments	**Present value**	**Future value**	**Present value**	**Future value**
Up to 1 year	3,646	4,003	10,509	699
From 1 to 5 years	965	1,186	4,621	579
Balance as of 31 December	**4,611**	**5,189**	**15,130**	**1,278**

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26. EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2018 consists of shares 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

	2018	2017
Share capital – ordinary shares	21,315,900	21,315,900
Other capital	-	11,158
Share premium	20,432,569	20,432,569
Reserves from profit	47,484,121	47,484,121
Fair value reserves	1,287,891	1,542,070
Retained earnings	3,476,594	16,373,290
Current year profit	12,604,111	11,847,694
Balance as of 31 December	**106,601,186**	**119,006,802**

/i/ *Share capital*

As of 31 December 2018 the Bank's registered share capital consists of 213,159 ordinary shares with nominal value of RSD 100 thousand per share.

The Bank's shareholder as of 31 December 2018 and 2017 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 2018 (31 December 2017: 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.

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26. EQUITY (Continued)

(a) Equity structure (Continued)

/iii/ Reserves

	2018	In RSD thousand 2017
Reserves from profit for estimated losses	47,484,121	47,484,121
Gains/losses from the change in the value of equity instruments	(1,478)	(18)
Gains/losses from the change in the value of debt instruments	686,791	928,988
Revaluation reserves arising from changes in fair value of buildings	602,578	613,100
Total	**48,772,012**	**49,026,191**

(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 2018, the Bank was in compliance with all prescribed performance indicators.

Performance indicators	**Prescribed**	**Realized**	
		31 December 2018	**31 December 2017**
Regulatory capital	Minimum EUR 10 million	EUR 608 miliona	EUR 552 million
Minimum ratio of the adequacy of the basic share capital specified by the bank	Minimum 4,5%	19.76%	20.59%
Minimum ratio of the adequacy of the basic capital specified by the bank	Minimum 6%	19.76%	20.59%
Minimum ratio of the adequacy of the capital specified by the bank	Minimum 8%	19.76%	20.59%
Permanent investments indicator	Maximum 60%	11.12%	12.15%
Indicator of large and the largest permissible loans	Maximum 400%	62.14%	42.94%
Liquidity ratio	Minimum 0.8	2.28	2.38
Acid-test ratio (quick ratio)	Minimum 0.5	1.83	1.88
Liquidity coverage ratio – LCR	Minimum 1.0	4.50	3.27
Foreign currency risk indicator	Maximum 20%	2.95%	0.88%
Exposure to a single entity or to a group of related parties	Maximum 25%	22.29%	16.34%
Bank's investment in non-financial legal entity	Maximum 10%	0.02%	0.03%

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27. OFF-BALANCE SHEET ITEMS

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

RSD thousand

Off-balance sheet items	2018	2017
Off-balance sheet items to be classified	140,473,801	119,274,736
Off-balance sheet items not to be classified	417,643,155	455,427,491
Balance as of 31 December	**558,116,956**	**574,702,227**

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	Off-balance sheet items not to be classified	Off-balance sheet items as of 31 December 2018	Provisions for Off-balance sheet items to be classified
Funds managed on behalf of third parties (b)	-	3,460,446	3,460,446	-
Guarantees and other irrevocable commitments (c)	79,495,493	23,326,899	102,822,392	(1,152,707)
Derivatives (d)	-	96,554,278	96,554,278	-
Other off-balance sheet items (e)	60,978,308	294,301,532	355,279,840	(70,294)
Balance as of 31 December	**140,473,801**	**417,643,155**	**558,116,956**	**(1,223,001)**

In RSD thousand

	Off-balance sheet items to be classified	Off-balance sheet items not to be classified	Off-balance sheet items as of 31 December 2017	Provisions for Off-balance sheet items to be classified
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)**

(b) Funds managed on behalf of third parties

In RSD thousand

	2018	2017
Funds managed on behalf of third parties:		
– Long-term	3,460,446	3,571,794
Balance as of 31 December	**3,460,446**	**3,571,794**

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27. OFF-BALANCE SHEET ITEMS (Continued)

(c) Guarantees and other irrevocable commitments

		In RSD thousand
	2018	**2017**
Financial guarantees:		
– in RSD	7,782,591	7,742,986
– in foreign currency	11,162,132	8,592,327
	18,944,723	**16,335,313**
Commercial guarantees:		
– in RSD	23,230,871	17,918,946
– in foreign currency	5,106,913	3,812,229
	28,337,784	**21,731,175**
Uncovered letters of credit in foreign currency	823,060	1,705,612
Sureties and Acceptances	134	832
Sureties	23,502,914	18,234,681
Irrevocable commitments for undisbursed loans	31,211,215	31,648,705
Collateralized securities	2,562	2,539
	55,539,885	**51,592,369**
Balance as of 31 December	**102,822,392**	**89,658,857**

(d) Derivatives

		In RSD thousand
	2018	**2017**
Foreign currency SWAP contracts	95,300,059	106,409,594
Foreign currency Forward contracts	1,254,219	405,622
Balance as of 31 December	**96,554,278**	**106,815,216**

(e) Other off-balance sheet items

		In RSD thousand
	2018	**2017**
Loro guarantees	49,277,602	48,018,240
Foreign currency savings’ bonds	175,500	176,854
Suspended interest	4,167,136	5,800,527
Transfer from balance sheet	-	6,288,627
Revocable commitments for undisbursed loans	60,842,458	47,278,470
Receivables under repurchase agreements	571,150	10,458,150
Other	240,245,994	256,635,493
Balance as of 31 December	**355,279,840**	**374,656,361**

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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 2018 and 2017, 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:

2018	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	CIB Bank, Hungary	Intesa Sanpaolo Holding International S.A., Luxemburg	Banca IMI S.p.a
Loans and receivables from banks and other financial organisations	8,981,589	82,951	4,509,034	71,557	20,738	-	11,893	-	-	-
Loans and receivables from customers		-	-	-	-	-	-	-	-	-
Receivables from derivatives	324,206	-	-	-	-	-	-	-	-	-
Other assets	40,976	817	101,354	154	26	-	10	-	-	-
Total assets	**9,346,771**	**83,768**	**4,610,388**	**71,710**	**20,763**	**-**	**11,902**	**-**	**-**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central bank	19,891,045	1,119	932,181	-	-	-	91	-	707	-
Deposits and other liabilities to customers				-	-	-	-	-		-
Liabilities based on hedging derivative instruments	13,468	206		-	-	-	-	-	-	-
Other liabilites	217,225	17,020	4,611	-	-	-	-	2,127	-	-
Total liabilities	**20,121,739**	**18,346**	**936,792**	**-**	**-**	**-**	**91**	**2,127**	**707**	**-**
Interest income	74,544	-	41,315	-		-		-	-	-
Fee and commission income	36,738	3,115	1,213	636	131	-	24	-	82	-
Net profit from changes in fair value of financial instruments	324,206	-	-	-	-	-	-	-	-	-
Net profit on foreign exchange rate and FX contracts	24,436	-	-	-	-	-	-	-	-	-
Other operating income	25,459	-	103,322	-	-	-	-	-	-	-
Total income	**485,384**	**3,115**	**145,850**	**636**	**131**	**-**	**24**	**-**	**82**	**-**
Interest expense	(9,510)	(3,783)	(2,849)			-	-	-	-	-
Fee and commission expenses	(110,996)	(4,820)	-	(790)	(2,353)	-	(704)	-		-
Net loss from changes in fair value of financial instruments	(13,468)	(206)	-	-	-	-	-	-	-	-
Net loss on foreign exchange rate and FX contracts	(12,093)		-	-	-	-	-	-	-	-
Other expenses	(532,570)	(29,286)	-	-	-		-	(2,127)	-	
Total expenses	**(678,637)**	**(38,095)**	**(2,849)**	**(790)**	**(2,353)**	**-**	**(704)**	**(2,127)**	**-**	**-**
Off-balance sheet items - derivatives FX SWAPs	46,250,790	**622,311**	-		-	-	-	-	-	-
Off-balance sheet items - guarantees	3,265,060	21,493	-	1,818,757	-	31,117	-	4,962	-	-
Total off-balance sheet items	**49,515,850**	**643,804**	**-**	**1,818,757**	**-**	**31,117**	**-**	**4,962**	**-**	**-**

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28. RELATED PARTY DISCLOSURES (Continued)

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	CIB Bank, Hungary	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	-	-	-	-	-	-	-	-	-	-
Receivables from derivatives	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	-	-	-	-	-	-	-	-		-
Liabilities based on hedging derivative instruments	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 from changes in fair value of financial instruments	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 loss from changes in fair value of financial instruments		-	-	-	-	-	-	-	-	-
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	53,636,220	-	-	-	-	-	-	-	-	-
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	**54,645,331**	**21,544**	-	**1,833,178**	**1,859,141**	**30,425**	-	**5,147**	-	-

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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 2018 and 2017, are presented as follows:

		In RSD thousand
	2018	**2017**
Remunerations to the members of the Executive Board, Board of Directors and other key management of the Bank	284,225	263,290
Total	**284,225**	**263,290**

(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
	2018	**2017**
Loans	61,561	127,547
Total allowances for impairment	(41)	(407)
Balance as of 31 December	**61,520**	**127,140**

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 adopts 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.

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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.

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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 2018 and 2017 are presented as follows:

In RSD thousand

December 31st 2018	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 2018
Cash and balances with Central Bank	14,445	-	86,948,162	86,962,607
Receivables from derivatives	-	-	331,839	331,839
Securities	92,199,341	(355,985)	1,029,129	92,872,485
Loans and receivables from banks and other financial organizations	30,550,178	(44,072)	2,533,159	33,039,264
Loans and receivables from banks	26,019,208	(41,851)	-	25,977,357
Loans and receivables from other financial organizations	4,530,970	(2,221)	2,533,159	7,061,907
Loans and receivables from customers	356,539,202	(16,790,088)	-	339,749,114
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	3,774,866	3,774,866
Property, plants and equipment	-	-	7,951,099	7,951,099
Investment property	-	-	30,995	30,995
Deferred tax assets	-	-	704,800	704,800
Non-current assets held for sale and discontinued operations	143,015	-	-	143,015
Other assets	3,281,821	(25,643)	1,059,445	4,315,623
TOTAL ASSETS:	**482,728,002**	**(17,215,788)**	**105,562,966**	**571,075,179**

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29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Maximal exposure to credit risk (Continued)

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
Receivables from derivatives	-	-	802,299	802,299
Securities	95,467	-	129,330,432	129,425,899
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	***341,808,651***	**(15,174,835)**	***238,225,762***	**564,859,578**

Classification of off balance sheet items is shown in Note 27.

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.

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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.

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29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Derivative financial instruments (Continued)

In accordance with the above mentioned, as of 31 December 2018 and 31 December 2017 the Bank has the following exposures to counterparties:

		In RSD thousand
	Nominal value	**Total exposure**
Total 2018	**47,976,728**	**811,237**
Currency (FX) Swap	47,476,272	800,094
Currency(FX) Forward	500,455	11,142
Total 2017	**52,735,082**	**1,328,312**
Currency (FX) Swap	52,685,524	1,327,032
Currency(FX) Forward	49,558	1,280

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 2018 the exposure to the CVA risk was negligible. As of 31 December 2018, the Bank has the following exposure to the CVA risk:

	In RSD thousand
	Total exposure
Total 2018	**10,868**
Currency (FX) Swap	-
Currency (FX) Forward	10,868

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.

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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

Bank applies expected credit losses model for valuating financial assets measured at amortized cost or fair value through other comprehensive income (FVOCI), except equity instruments. Banks performs this valuation on individual and collective basis.

- **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. In order to calculate expected credit loss different scenarios have been introduced (weighted by different probabilities) to assess future cash flows, with additional correction which take into consideration assessed macroeconomic impact (add-on).
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**

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 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). Stage 2 relates to 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*).

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29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Stage 3 consists of loans, where objective evidence (days past due over 90 days) or subjective evidence (liquidation, account blockage etc.) that the loan has been impaired exists

Different impairment stages result in different ways of calculating the expected credit losses:

- Stage 1 exposuresthe 12-month expected credit losses are calculated
- Stage 2 and Stage 3 exposures - *"lifetime"* expected credit losses

Bank has developed an internal methodology and calculated the risk parameters (EAD, PD, LGD,CCF) . 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:

- transition from TTC (Through the cycle) to PIT (Point in time) concept,
- introduction of coefficients (as PD corrections) that reflect the macroeconomic impact on the parameter for future periods, using three scenarios (baseline, best, adverse),
- *"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 .

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 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).

The Bank incorporates forward-looking information both into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Losses.

Inclusion of forward-looking information has been performed through the adjustment of PD and LGD values in order to consider the expectations of its change linked to macroeconomic environments that can occur in the future years with respect to reporting date. The macro-conditioning has been carried out by using EBA Stress Test Coefficients in the absence of internally developed stress satellite models. Since EBA releases only Baseline and Adverse coefficients, Best scenario coefficients have been calculated internally on the basis of Group's methodology defined for that purpose. The forward looking elements are calculated for the next 3 years of the residual maturity with respect to the reporting date so that Baseline risk parameters are adjusted with Add-on which takes into account all three scenarios.

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29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

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.

Based on the all above mentioned rules on 1 January 2018 Bank has booked IFRS9 first time adoption effect in the amount of RSD 4,765,549 thousand, representing a reduction related to the increase in impairment of financial assets.

Table below represents IFRS9 first time adoption effects by client type:

In RSD thousand

	Exposure 31.12.2017	**Allowances /Provision 31.12.2017.**	**IFRS9 first time adoption effects**	**Allowances /Provision 01.01.2018.**
Loans to Banks	14,342,913	6,314	37,344	43,658
Loans to Retail	154,549,846	3,738,877	2,177,983	5,916,860
Loans to Corporate	292,190,628	12,331,779	1,734,495	14,066,274
Securities	129,118,183	-	815,727	815,727
Total	**590,201,571**	**16,076,9700**	**4,765,549**	**20,842,519**

Overview of stock and movement in the allowance for impairment and provisions in 2018 by client type:

Movement in the allowance for impairment and provisions in 2018	**Loans and receivables**			**In RSD thousand**
	Stage 1	**Stage 2**	**Stage 3**	**Total 2018**
Opening balance - 01.01.2018.	**2,185,395**	**2,718,517**	**15,122,880**	**20,026,792**
Transfer to stage 1	690,367	(600,281)	(90,086)	**-**
Transfer to stage 2	(155,088)	799,497	(644,409)	**-**
Transfer to stage 3	(45,577)	(366,099)	411,675	**-**
Re-measurement	(593,081)	672,210	1,342,296	**1,421,425**
New production	1,310,670	468,442	2,247,906	**4,027,018**
Collection	(930,391)	(801,228)		**(1,731,619)**
Transfer to off balance	-	-	(2,366,320)	**(2,366,320)**
Sale of receivables	-	-	(3,294,471)	**(3,294,471)**
Closing balance - 31.12.2018.	**2,462,295**	**2,891,057**	**12,729,427**	**18,082,824**

Movement in the allowance for impairment and provisions in 2018	**Securities (FVOCI)**			**In RSD thousand**
	Stage 1	**Stage 2**	**Stage 3**	**Total 2018**
Opening balance - 01.01.2018.	**741,256**	**74,471**	**-**	**815,727**
Transfer to stage 1	(177,057)	(30,227)	-	**(207,284)**
New production	126,798	-	-	**126,798**
Collection	(335,033)	(44,244)	-	**(379,277)**
Closing balance - 31.12.2018.	**355,964**	**-**	**-**	**355,964**

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In RSD thousand

Movement in the allowance for impairment and provisions in 2018	Banks			
	Stage 1	Stage 2	Stage 3	Total 2018
Opening balance - 01.01.2018.	**43,647**	**-**	**11**	**43,658**
Transfer to stage 1	-	-	(1)	**-**
Transfer to stage 2	(1)	1	-	**-**
Transfer to stage 3	-	-	-	**-**
Re-measurement	(1)	2	-	**1**
New production	22,575	-	9	**22,575**
Collection	(24,201)	-	7	**(24,201)**
Closing balance - 31.12.2018.	**42,020**	**3**	**19**	**42,043**

Movement in the allowance for impairment and provisions in 2018	Retail			
	Stage 1	Stage 2	Stage 3	Total 2018
Opening balance - 01.01.2018.	**1,105,686**	**1,621,297**	**3,186,907**	**5,913,890**
Transfer to stage 1	503,553	(422,771)	(80,782)	**-**
Transfer to stage 2	(107,635)	193,486	(85,851)	**-**
Transfer to stage 3	(35,543)	(289,091)	324,634	**-**
Re-measurement	(434,694)	498,078	809,147	**872,531**
New production	520,532	360,300	387,130	**1,267,962**
Collection	(350,709)	(352,736)	-	**(703,444)**
Transfer to off balance	-	-	(1,419,886)	**(1,419,886)**
Closing balance - 31.12.2018.	**1,201,191**	**1,608,563**	**3,121,298**	5,931,052

Movement in the allowance for impairment and provisions in 2018	Corporate			
	Stage 1	Stage 2	Stage 3	Total 2018
Opening balance - 01.01.2018.	**1,036,062**	**1,097,220**	**11,935,962**	**14,069,244**
Transfer to stage 1	186,813	(177,510)	(9,303)	**-**
Transfer to stage 2	(47,452)	606,010	(558,558)	**-**
Transfer to stage 3	(10,034)	(77,007)	87,041	**-**
Re-measurement	(158,386)	174,129	533,150	**548,893**
New production	767,380	108,142	1,860,949	**2,736,471**
Collection	(555,481)	(448,492)	-	**(1,003,973)**
Transfer to off balance	-	-	(946,434)	**(946,434)**
Sale of receivables	-	-	(3,294,471)	**(3,294,471)**
Closing balance - 31.12.2018.	**1,218,901**	**1,282,492**	**9,608,336**	**12,109,730**

Based on bank’s management assessment, loss from modification of financial assets which doesn’t lead to derecognition in 2018, is not materially significant, and therefore it has not been recorded in profit and loss.Also in 2018, there are no financial assets which are credit impaired, and whose conditions have been significantly modified, so that asset has been derecognized and new financial instrument recognised (POCI).

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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 2018 and 2017 is presented in the table below:

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified*		Total 2018
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Serbia	352,875,876	3,320,888	139,145,971	40,653	**495,383,388**
Europe	11,617,617	21,623,904	950,350	333,987	**34,525,858**
America	4,146	1,020,422	1,279	-	**1,025,847**
Rest of the world	11,813	53,994	1,561	-	**67,368**
Total	**364,509,452**	**26,019,208**	**140,099,161**	**374,640**	**531,002,461**

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	322,439,433	6,640,153	118,549,397	39,304	**447,668,287**
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	**328,048,980**	**13,759,671**	**118,691,494**	**583,242**	**461,083,388**

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

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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 2018 and 2017 is presented in the table below:

In RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2018
Industry	**206,684,118**	**114,690,794**	**321,374,911**
Trade	43,907,565	25,312,191	69,219,755
Transportation and communication	9,181,529	3,968,616	13,150,144
Construction	18,541,503	23,836,616	42,378,119
Services, tourism and accommodation services	3,005,315	4,128,815	7,134,130
Food and beverage production	20,904,603	5,458,826	26,363,430
Permanent goods production	14,559,701	11,917,375	26,477,076
Agriculture, hunting, fishing and forestry	12,965,396	7,288,103	20,253,499
Other	83,618,506	32,780,252	116,398,758
Banks	**26,019,208**	**374,640**	**26,393,848**
Local government	**5,861,184**	**87,864**	**5,949,048**
Retail loans	**151,964,151**	**25,320,503**	**177,284,654**
Mortgage loans	67,789,954	0	67,789,954
Other	84,174,197	25,320,503	109,494,700
	390,528,661	**140,473,801**	**531,002,462**

In RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2017
Industry	**190,869,716**	**93,703,616**	**284,573,333**
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	80,818,398	23,491,474	104,309,873
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
Total	**341,808,651**	**119,274,736**	**461,083,388**

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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 2018 and 2017 based on the Bank's rating system:

In RSD thousand

	Loans to customers			Loans to banks			Total 2018.	Total 2017.
	Stage 1	*Stage 2*	*Stage 3*	*Stage 1*	*Stage 2*	*Stage 3*	*Loans to customers and banks*	*Loans to customers and banks*
Classes:								
Performing	451,616,515	31,325,495	0	26,019,023	126	0	508,961,160	431,754,522
Past Due	0	0	467,013	0	0	0	467,013	666,937
Unl.to Pay	0	0	8,933,613	0	0	39	8,933,652	13,895,705
Doubtful	0	0	12,640,616	0	0	21	12,640,637	14,766,223
Total	**451,616,515**	**31,325,495**	**22,041,243**	**26,019,023**	**126**	**59**	**531,002,462**	**461,083,387**

	Allowances for impairment and provision customers			Allowances for impairment and provision banks			Total 2018.	Total 2017.
	Stage 1	*Stage 2*	*Stage 3*	*Stage 1*	*Stage 2*	*Stage 3*	*Loans to customers and banks*	*Loans to customers and banks*
Klase:								
Performing	2,420,092	2,891,054	0	42,020	3	0	5,353,169	2,667,943
Past Due	0	0	191,503	0	0	0	191,503	272,254
Unlikely to Pay	0	0	4,257,312	0	0	12	4,257,324	4,658,711
Doubtful	0	0	8,280,820	0	0	7	8,280,827	8,478,062
Total	**2,420,092**	**2,891,054**	**12,729,636**	**42,020**	**3**	**19**	**18,082,824**	**16,076,970**

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

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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 and impaired receivables, as of 31 December 2018 and 2017is presented as follows:

In RSD thousand

	Loans to customers and banks			**Total 2018**
	Stage 1	***Stage 2***	***Stage 3***	
Receivables undue:	**341,812,978**	**21,356,273**	**2,908,044**	**366,077,295**
Receivables overdue:	**4,688,416**	**2,144,039**	**17,618,911**	**24,451,366**
01-30 days	4,688,416	1,343,397	380,483	6,412,296
31-60 days	-	553,964	262,436	816,400
61-90 days	-	246,679	315,593	562,272
>90 days	-	-	16,660,398	16,660,398
Total	**346,501,394**	**23,500,312**	**20,526,955**	**390,528,661**

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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 2018 and 2017 is presented below:

In RSD thousand

	Balance sheet assets to be classified	`Off-balance sheet items to be classified	Total 2018
Corporate loans:	**206,684,118**	**114,690,793**	**321,374,912**
Guaranteed by government	3,878,400	1,026,260	4,904,660
Secured by mortgage	34,634,348	5,738,952	40,373,300
Secured by deposit	1,736,788	511,045	2,247,834
Unsecured	166,434,582	107,414,536	273,849,118
Loans to banks:	**26,019,208**	**374,640**	**26,393,848**
Unsecured	26,019,208	374,640	26,393,848
Loans to local government:	**5,861,184**	**87,864**	**5,949,048**
Secured	137,076	-	137,076
Unsecured	5,724,108	87,864	5,811,972
Retail loans:	**151,964,151**	**25,320,503**	**177,284,654**
Secured by residential mortgage	55,757,576	-	55,757,576
Secured by non-residential mortgage	2,535,060	-	2,535,060
Secured by deposit	395,602	-	395,602
Unsecured	93,275,913	25,320,503	118,596,416
Total	**390,528,660**	**140,473,801**	**531,002,461**

In RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2017
Corporate loans:	**190,869,716**	**73,703,616**	**284,573,333**
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	135,807,936	86,568,966	222,376,902
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	**341,808,651**	**119,274,736**	**461,083,388**

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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 2018 and 2017 is as follows:

In RSD thousand

Mortgage LTV	2018.	Mortgage LTV	2017
< 50%	16,345,916	< 50%	15,300,079
51%-70%	21,796,133	51%-70%	15,274,118
71%-90%	23,004,366	71%-90%	18,509,882
91%-100%	1,829,340	91%-100%	2,548,367
> 100%	4,814,199	> 100%	7,202,888
Total	**67,789,954**	**Total**	**58,835,334**

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 2018 and 2017 are presented as follows:

In RSD thousand

	Balance sheet assets to be classified		Allowances for impairment		Total 2018	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowances for impairment*
Individual assessment	15,888,042	-	8,971,782	-	15,888,042	8,971,782
Collective assessment	6,153,201	59	3,757,854	19	6,153,261	3,757,873
Total	**22,041,243**	**59**	**12,729,636**	**19**	**22,041,302**	**12,729,655**

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	24,081,471	-	10,108,063	-	24,081,471	10,108,063
Collective assessment	5,247,392	3	3,300,961	2	5,247,395	3,300,963
Total	**29,328,862**	**3**	**13,409,024**	**2**	**29,328,865**	**13,409,026**

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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 2018 and 2017 are presented as follows:

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2018
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	11,596,967	-	63	-	11,597,030
Allowances for impairment	(5,536,334)	-	(1)	-	(5,536,335)
Total	**6,060,633**	**-**	**62**	**-**	**6,060,695**

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**

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.

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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 2018 and 31 December 2017 are presented as follows:

	Off-balance sheet items to be classified			Total 2018.
	Corporate Loans	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
CCF				
20%	53,749,052	-	-	53,749,052
26%	5,418,914	-	-	5,418,914
27%	1,676,554	-	-	1,676,554
41%	511,003	-	-	511,003
47%	1,811,348	-	-	1,811,348
48%	-	-	17,998,494	17,998,494
50%	34,642,342	238,963	7,273,567	42,154,872
100%	16,969,448	135,677	48,438	17,153,563
	114,778,661	**374,640**	**25,320,499**	**140,473,800**

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**

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.

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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. and 2018.

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 . 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 in accordance with the regulation prescribed by the National Bank of Serbia;
- 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 2018 with an average value that was more than three times higher than prescribed limit of 1.0 (100%).

LCR	31 December	Average	Maximum	Minimum
2018	4.50	3.79	6.33	2.60
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 indiator is monthly reported to the ALCO board by the most significant currencies (RSD and EUR), As of 31 December 2018 LCR is 8.40 (2017: 10.28) for liquidity position in domestic currency and 1.33 (2017:1.13) for liquidity position in foreign currency (EUR).

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29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

Regulatory liquidity indicators (Continued)

Liquidity ratio and Narrow liquidity ratio

In 2018 the regulatory liquidity ratio and narrow regulatory liquidity ratio were significantly above the legally prescribed limit.Average regulatory liquidity ratio and narrow liquidity ratio were two times above the required level (at least 1.0 if calculated as the average of liquidity indicators for all working days within a month, or at least 0.7 if calculated as the average of narrow liquidity indicators for all working days within a month).
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Liquidity ratio	31 December	Average	Maximum	Minimum
2018	2.28	2.34	2.66	1.92
2017	2.38	2.86	3.25	2.22

Narrow liquidity ratio	31 December	Average	Maximum	Minimum
2018	1.83	1.88	2.25	1.40
2017	1.88	2.30	2.78	1.69

Liquidity indicators – reporting to the Parent Bank

By adopting Group Liquidity Risk Management Guidelines 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 .

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, i.e. prescribed by the National Bank of Serbia.

In accordance with the Parent Bank’s requirement and the local Liquidity risk management policy through LCR indicator calculation, in particular liquidity reserves, haircuts have been applied to securities issued by the Republic of Serbia (50% to securities in the local currency and 10% to securities in USD) .

LCR limit is defined according to Intesa Group’s guidelines and it must not be less than 1.03 (103%). In 2018 LCR indicators were above the required limit.

LCR	31 December	Average	Maximum	Minimum
2018	2.48	1.54	2.48	1.21
2017	1.39	2.11	3.11	1.39

LCR is monthly reported to the ALCO Board by the most significant currencies (RSD and EUR), and as of 31 December 2018 it is 4.35 for liquidity position in the domestic currency and 1.03 for liquidity position in foreign currency (EUR). Considering USD as 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 2.8%.

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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 ISP Group's guidelines and it must not be less than 1.0 (100%).

NSFR	31 December	Average	Maximum	Minimum
2018	1.72	1.83	1.92	1.72
2017	1.88	1.99	2.05	1.88

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 13,560,463 thousand as of 31 December 2018 (2017: RSD 14,009,861 thousand).

Structure of the total liquidity reserves as of **31 December 2018** is presented in the following table:

In RSD thousand

Liquidity reserves	Carrying amount/ Fair value	Haircut	Available amount
Required Central bank reserves in the amount above the amount required for the period	13,560,463	0%	13,560,463
- of which required reserves in local currency	3,596,863	0%	3,596,863
- of which required reserves in foreign currency	9,963,601	0%	9,963,601
Reverse repo transaction with Central Bank	0	0%	0
Cash and cash equivalents	12,789,462	0%	12,789,462
Available no-load government securities issued by the Republic of Serbia	92,821,825	47.49%	48,740,687
- of which in local currency	59,235,687	50%	29,617,844
- of which in Euro	27,761,703	50%	13,880,851
- of which in Dollar	5,824,435	10%	5,241,992
Total liquidity reserves	119,171,750		75,090,612

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29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

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**

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.

As of 31 December 2018, available unencumbered financial assets issued by the Republic of Serbia amounted to RSD 92,821,825 thousand (2017: RSD 125,787,568 thousand), out of which RSD 59,235,687 thousand is in local currency (2017: RSD 70,323,131 thousand), RSD 27,761,703 thousand is in Euro (2017: RSD 49,115,564 thousand) and RSD 5,824,435 thousand is in USD (2017: RSD 6,348,873 thousand).

As of 31 December 2018, Bank did not have unencumbered financial assets issued by the Republic of Italy (2017: RSD 3,573,620 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 2018, the outstanding balance of foreign currency accounts was RSD 17,143,725 thousand, out of which RSD 2,415,587 thousand was on the foreign account with the National Bank of Serbia (2017: RSD 2,369,454 thousand), while RSD 14,728,138 thousand was on nostro accounts (2017: RSD 1,471,869 thousand dinars).

The currency structure of cash on nostro accounts at the reporting date was as follows: EUR – RSD 13,295,569 thousand (2017: RSD 838,101 thousand), USD – RSD 1,022,852 thousand (2017: RSD 266,722 thousand), GBP – RSD 65,751 thousand (2017: RSD 81,734 thousand), CAD – RSD 53,235 thousand (2017: RSD 57,397 thousand), AUD – RSD 53,559 thousand (2017: RSD 51,936 thousand), DKK – RSD 59,161 thousand (2017: RSD 52,702 thousand), CHF – RSD 117,400 thousand (2017: RSD 43,141 thousand), SEK – RSD 24,480 thousand (2017: RSD 40,648 thousand), RUB – RSD 14,557 thousand (2017: RSD 30,820 thousand) and other currencies – RSD 21,575 thousand (2017: RSD 8,668 thousand).

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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 2018**:

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	86,948,959					13,648	86,962,607
Receivables from derivatives						331,839	331,839
Securities	8,043,734	32,073,071	10,900,309	41,854,749		622	92,872,485
Loans and receivables from banks and other financial organisations	28,491,273	630,111	1,668,589	2,068,232	225,133	(44,074)	33,039,264
Loans and receivables from customers	30,260,770	26,781,711	85,757,363	148,576,518	65,162,839	(16,790,087)	339,749,114
Investments in subsidiaries						1,199,472	1,199,472
TOTAL ASSETS	**153,744,736**	**59,484,893**	**98,326,261**	**192,499,499**	**65,387,972**	**(15,288,580)**	**554,154,781**

In maturity mismatch report table as of 31 December 2018, allowances for impairment are presented within the category with non-defined maturity.

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29. RISK MANAGEMENT (Continued)

29.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of **31 December 2018** (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							
Liabilities based on derivatives						21,497	21,497
Deposits and other financial liabilities due to banks, other financial organisations and Central Bank	5,386,830	18,084,914	4,872,970	12,447,380	8,143,384	1,811,283	50,746,761
Deposits and other financial liabilities due to customers	326,041,371	14,037,054	50,881,554	11,136,327	834,629	2,244,282	405,175,217
TOTAL LIABILITIES	**331,428,201**	**32,121,968**	**55,754,524**	**23,583,707**	**8,978,013**	**4,077,062**	**455,943,475**
TOTAL EQUITY						**106,601,186**	**106,601,186**
TOTAL LIABILITIES AND EQUITY	**331,428,201**	**32,121,968**	**55,754,524**	**23,583,707**	**8,978,013**	**110,678,248**	**562,544,661**
OFF-BALANCE SHEET ITEMS			**13,388,323**			**127,085,478**	**140,473,801**
MATURITY MISMATCH	**(177,683,465)**	**27,362,925**	**29,183,414**	**168,915,792**	**56,409,959**		
CUMULATIVE MATURITY MISMATCH	**(177,683,465)**	**(150,320,540)**	**(121,137,126)**	**47,778,666**	**104,188,625**		

The remaining maturity mismatch report table as of 31 December 2018 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.

Projected outflows based on off-balance sheet items are presented in accordance with the methodology of the National Bank of Serbia, which refers to the Report Indicator of Liquidity Coverage Ratio.

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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
Receivables from derivatives	-	-	-	-	-	802,299	802,299
Securities	6,498,640	17,053,242	34,604,841	71,290,999		(21,823)	129,425,899
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
Total assets	**149,379,517**	**40,161,178**	**114,945,183**	**198,084,906**	**56,999,547**	**(14,380,239)**	**545,190,092**

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

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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							
Liabilities based on derivatives	-	-	-	-	-	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
TOTAL LIABILITIES	**311,729,738**	**14,656,862**	**63,871,130**	**26,886,659**	**7,384,365**	**5,556,365**	**430,085,119**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**119,006,802**	**119,006,802**
TOTAL LIABILITIES AND EQUITY	**311,729,738**	**14,656,862**	**63,871,130**	**26,886,659**	**7,384,365**	**124,563,167**	**549,091,921**
OFF-BALANCE SHEET ITEMS			**10,737,933**			**108,536,803**	**119,274,736**
MATURITY MISMATCH	**(162,350,221)**	**25,504,316**	**40,336,120**	**171,198,247**	**49,615,182**		
CUMULATIVE MATURITY MISMATCH	**(162,350,221)**	**(136,845,905)**	**(96,509,785)**	**74,688,462**	**124,303,644**		

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2017 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. Such assumptions do not give a true picture of the liquidity situation, considering that according to the time series of the sight deposits position in previous years, it can be concluded that they represent an extremely stable source of financing. Projected outflows based on off-balance sheet items are presented in accordance with the methodology of the National Bank of Serbia, which refers to the Report Liquidity Coverage Ratio.

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29. RISK MANAGEMENT (Continued)

29.3. Market risk

In 2018, the Bank acquired Trading Book (positions) and, therefore, was exposed to interest rate risk and price risk which could be caused by the Trading Book. Trading Book refers to portfolio of securities consisted of bonds and derivatives. In accordance with the Trading Book Policy, or the Group Guidelines and a document issued by the Basel Committee on Banking Supervision, the „Fundamental Review of the Trading Book“, the portfolio of derivatives has been transferred from the Banking Book to the Trading Book, as derivatives held by the Bank are not instruments used for hedge accounting. During 2018 there was no registered breach of the limit defining the maximum allowed nominal value of bonds in 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 2018.

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 84% in average during 2018.

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 2018, the first class limit (FX VaR limit) and the second class limit (limit of net open FX position), remained unchanged. During 2018 breaches of the first class and the second class limits were registered (primarily due to the dividend payments in March and October), as the result of previously announced and agreed business actions which require that the open foreign currency position is not closed directly, but within few days.

During 2018, 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 2018 regulatory indicator of foreign currency risk was 2.95%. Considering that the regulatory indicator for foreign exchange risk is above 2%, the Bank has calculated capital requirement as of 31.12.2018.

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29. RISK MANAGEMENT (Continued)

29.3. Market risk (Continued)

The following table presents the open foreign currency position as of **31 December 2018**:

In RSD thousand

	Carrying amount	Trading book	Banking book
Assets complied with market risks	**369,018,505**	**377,599**	**368,640,906**
Cash and balances with Central Bank	48,001,330		48,001,330
Securities	33,619,690	377,599	33,242,091
Loans and receivables from banks and other financial organisations	32,074,717	-	32,074,717
Loans and receivables from customers	254,938,424	-	254,938,424
Other assets	384,344	-	384,344
Liabilities complied with market risks	**322,068,932**	**-**	**322,068,932**
Deposits and other financial liabilities due to banks, other financial organisations and Central Bank	47,466,754	-	47,466,754
Deposits and other financial liabilities due to customers	272,895,524	-	272,895,524
Other liabilities	1,706,654	-	1,706,654
Off-balance sheet financial derivatives which impact FX position	(36,070,984)	(36,070,984)	-
Allowances for impairment	(8,755,686)	-	(8,755,686)
Open net foreign currency position	**2,122,903**	**(35,693,385)**	**37,816,288**

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
Securities	59,084,200	110,582	58,973,618
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**

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29. RISK MANAGEMENT (Continued)

29.3. Market risk (Continued)

Following table represents the currency structure of open net foreign currency position as of 31 December 2018 and 31 December 2017:

In RSD thousand

Net open foreign currency position	2018	2017
EUR	1,974,276	416,739
USD	37,978	22,209
CHF	(5,459)	12,223
Other currencies	58,090	73,396
Gold and other precious metals	58,018	56,264
Total	**2,122,903**	**580,830**

In EUR

Foreign currency VaR	31 December	Average	Maximum	Minimum
2018	29,637	15,546	224,607	846
2017	14,218	12,355	166,835	1,433

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

In RSD thousand

Scenario	Effect 2018	Effect 2017
10% depreciation of RSD	212,290	58,083
20% depreciation of RSD	424,581	116,166

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 (HTCS -portfolio of securities hold to collect and sell) and for the Trading Book (HFT -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 expected loss. Applying the guidelines of the European Bank Authority (EBA) and Basel III regulations, the Parent Bank continuously improves the methodology and Guidelines relating to interest rate risk . 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.

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29. RISK MANAGEMENT (Continued)

29.4. Interest rate risk (Continued)

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 2018.

During 2018 the total interest rate risk exposure limit on the Banking Book, was decreased on the Parent Bank's request while the interest rate VaR limit on the Trading Book has been increased due to the transfer of derivatives from Banking Book to Trading Book.

Interest rate risk is daily monitored and submitted for the financial assets hold to collect and sell (HTCS)as well as for portfolio of securities held for trading (HFT). For (HTCS), as well as for HFT porfolio 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 hold to collect and sell, 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 2018 there was no registered breach of the VaR limits referring to neither HTCS nor HFT portfolio.

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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 2018**:

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	86,948,959					13,648	86,962,607
Pledged financial assets - Assets encumbrance							
Receivables from derivatives						331,839	331,839
Securities	8,043,734	32,073,071	10,900,309	41,854,749		622	92,872,485
Loans and receivables from banks and other financial organisations	31,180,755	541,649	1,174,510	186,424		(44,074)	33,039,264
Loans and receivables from customers	127,391,747	71,208,717	79,865,919	71,195,491	6,877,327	(16,790,087)	339,749,114
Investments in subsidiaries						1,199,472	1,199,472
TOTAL ASSETS	**253,565,195**	**103,823,437**	**91,940,738**	**113,236,664**	**6,877,327**	**(15,288,580)**	**554,154,781**

In table that represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2018, allowances for impairment are presented within the category with non-defined maturity.

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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 2018 (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							
Liabilities based on derivatives						21,497	21,497
Deposits and other financial liabilities due to banks, other financial organisations and Central Bank	5,396,830	22,986,246	3,821,241	9,828,821	6,902,340	1,811,283	50,746,761
Deposits and other financial liabilities due to customers	327,766,738	14,278,674	49,879,688	10,311,565	694,270	2,244,282	405,175,217
TOTAL LIABILITIES	**333,163,568**	**37,264,920**	**53,700,929**	**20,140,386**	**7,596,610**	**4,077,062**	**455,943,475**
TOTAL EQUITY						**106,601,186**	**106,601,186**
TOTAL LIABILITIES AND EQUITY	**333,163,568**	**37,264,920**	**53,700,929**	**20,140,386**	**7,596,610**	**110,678,248**	**562,544,661**
MATURITY MISMATCH	**(79,598,373)**	**66,558,517**	**38,239,809**	**93,096,278**	**(719,283)**		
CUMULATIVE MATURITY MISMATCH	**(79,598,373)**	**(13,039,856)**	**25,199,953**	**118,296,231**	**117,576,948**		

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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
Pledged financial assets - Assets encumbrance	-	-	-	-	-	-	-
Receivables from derivatives	-	-	-	-	-	802,299	802,299
Securities	6,498,640	17,053,242	34,604,841	71,290,999	-	(21,823)	129,425,899
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
Total assets	**229,486,267**	**90,583,915**	**97,204,498**	**134,304,518**	**7,991,133**	**(14,380,239)**	**545,190,092**

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.

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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							
Liabilities based on derivatives	-	-	-	-	-	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
TOTAL LIABILITIES	**315,216,872**	**24,358,530**	**58,486,501**	**21,089,989**	**5,376,862**	**5,556,365**	**430,085,119**
TOTAL EQUITY	-	-	-	-	-	**119,006,802**	**119,006,802**
TOTAL LIABILITIES AND EQUITY	**315,216,872**	**24,358,530**	**58,486,501**	**21,089,989**	**5,376,862**	**124,563,167**	**549,091,921**
MATURITY MISMATCH	**(85,730,605)**	**66,225,385**	**38,717,997**	**113,214,529**	**2,614,271**		
CUMULATIVE MATURITY MISMATCH	**(85,730,605)**	**(19,505,220)**	**19,212,777**	**132,427,306**	**135,041,577**		

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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
2018				
As of 31 December	(367,607)	363,459	(697,511)	654,809
Period average	(579,629)	600,492	(1,114,254)	1,208,583
Period maximum	(961,003)	1,021,694	(1,851,320)	2,196,250
Period minimum	(270,014)	261,266	(504,757)	448,935
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	(1,201,924)	1,282,586	(2,314,199)	2,763,081
Period minimum	(657,033)	714,329	(1,244,490)	1,324,416

In RSD thousand

Sensitivity of the Bank's net income on the change in interest rates	Increase by 50bps	Decrease by 50bp
2018		
As of 31 December	703,798	(729,319)
Period average	637,025	(639,733)
Period maximum	727,793	(729,319)
Period minimum	541,441	(541,900)
2017		
As of 31 December	483,364	(483,817)
Period average	(34,400)	23,085
Period maximum	483,364	(483,817)
Period minimum	(2,014)	2,037

The following table represents value at risk for portfolio of *financial assets hold to collect and sell (HTCS)*:

In EUR

IRR AFS VaR	31 December	Average	Maximum	Minimum
2018	276,810	383,230	497,569	276,810
2017	377,015	497,629	702,762	349,315

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

In EUR

IRR HFT VaR	31 December	Average	Maximum	Minimum
2018	7,736	16,283	26,626	1,269
2017	2,980	7,593	17,082	682

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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 4,303,257 thousand as of 31 December 2017 (31 December 2017: RSD 4,325,887 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 2018, 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.

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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 Bank is obliged to calculate the following ratios and at any moment keeps them at levels that are not lower than prescribed:
- ratio of the adequacy of the basic share capital of the bank, which represents the percentage ratio of the basic share capital and risky assets of the bank - 4.5%;
- an indicator of the basic capital adequacy of the bank, which represents a percentage ratio of the basic capital and risky assets of the bank - 6%;
- Indicator of the adequacy of (total) capital of the bank, which represents the percentage ratio of capital and risky assets of the bank - 8%.

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks as of 2017 and 2018:

In RSD thousand

Item	31 December 2018
CAPITAL	**71,923,543**
TIER 1 CAPITAL	**71,923,543**
Common equity Tier 1 (CET) capital	**71,923,543**
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	3,476,594
Note: Current period profit not eligible for inclusion in CET 1 capital	12,604,110
Revaluation reserves and other unrealized gains/losses	**1,287,891**
Revaluation reserves and other unrealized gains	1,393,230
(-) Unrealized losses	(105,339)
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	**(93,132)**
(-) Additional value adjustments	(93,132)
(-) Other intangible assets before reduction for deferred tax liabilities	**(3,774,866)**
(-) 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	**(102,797)**
(-) Amount of required reserve for estimated losses on balance sheet assets and off-balance sheet items deducted from CET 1 capital	**(14,626,143)**

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29. RISK MANAGEMENT (Continued)

29.9. Capital management (Continued)

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)**

29.10. 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.

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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:

- Securities (government FX bonds, government bonds issued by foreign governments etc. for which active and liquid market exists, which provides direct information about quoted market prices (Level 1);
- The Republic of Serbia treasury bonds, 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);
- 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)
- Investment properties measured at fair value through profit and loss;
- Property measured at fair value through revaluation reserves.

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.

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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 2018**:

In RSD thousand

	Level 1	Level 2	Level 3	Total
Assets				
Securities	5,857,988	86,997,390	17,107	92,872,485
Receivables from derivatives	-	331,839	-	331,839
Total	**5,857,988**	**87,329,229**	**17,107**	**93,204,324**
Liabilities				
Liabilities based on derivatives	-	21,497	-	21,497
Total	**-**	**21,497**	**-**	**21,497**

Fair value measurement for securities position is divided into three levels. Level 1 instruments refer to bonds issued by Republic of Serbia denominated in USD currency, as well as shares issued by Intesa Sanpaolo for which there is an active market that provides direct information on quoted market prices. Level 2 instruments refer to bonds issued by Republic of Serbia which are valued by using discounting techniques on future contracted cash flows, applying market risk-free yields. Level 3 instruments refer to shares or equity held in legal entities that are not listed on the active market.

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

In RSD thousand

	Level 1	Level 2	Level 3	Total
Assets				
Securities	9,968,636	119,438,696	18,567	129,425,899
Receivables from derivatives		802,299		802,299
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**

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.

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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 2018	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with Central Bank		86,962,607		86,962,607	86,962,607
Loans and receivables from banks and other financial organisations		25,580,087		25,580,087	33,039,264
Loans and receivables from customers			377,574,971	377,574,971	339,749,115
Total		**112,542,694**	**377,574,971**	**490,117,665**	**459,750,986**
Liabilities					
Deposits and other financial liabilities due to banks, other financial organisations and Central Bank		42,865,406		42,865,406	50,746,761
Deposits and other financial liabilities due to customers			404,521,698	404,521,698	405,175,217
Total		**42,865,406**	**404,521,698**	**447,387,104**	**455,921,978**

Fair valued Cash and balances with Central Bank are belonging to the Level 2 and are presented at their carrying amont.

Loans and receivables from banks and other financial organisations, deposits and other financial liabilities due to banks, other financial organisations and Central Bank are presented at their fair value calculated as discounting cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Given the short-term deposits with financial institutions (money market), i.e. transactions with highly rated financial institutions which are contracted at interest rates corresponding to the market, these positions belong to the Level 2.

Fair value for positions Loans and receivables from customers and Deposits and other financial liabilities due to customers are calculated as discounting techniques of future cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Doubtful loans are valued in the same manner as performing loans, while maturity estimated by the NPL Department is assigned to the total net exposure instead of initially contracted maturity. These positions belong to the Level 3.

For the purposes of determining fair values, risk-free yield curves that correspond to the currency and maturity structure of the contracted cash flow are used. For maturities for which there are no market quotes of the BELIBOR yield curve, the yield equals the quoted value of the six-month BELIBOR, increased by the corresponding spread. Spread for a certain maturity is defined as the difference between the executed bond rate with same maturity in the primary market and the value of the six-month BELIBOR on the day of issue of the relevant bond. The European yield curve represents the EUR-STANDARD yield curve that is defined by the money market (for a maturity of up to one year) and the interest rate swap curve which is increased for the country's risk spread (for a maturity more than one year), where the country's risk spread is defined as the difference between issued Serbian and US risk-free bonds.

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29. RISK MANAGEMENT (Continued)

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

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**

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.

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30. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2018, the Bank is a defendant in a certain number of legal proceedings. Total estimated value of damage claims amounts to RSD 6,237,522 thousand (31 December 2017: RSD 446,408 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 2018 the Bank recognized the provision for potential losses that could arise from the aforementioned litigations in the total amount of RSD 275,262 thousand (31 December 2017: RSD 180,394 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The amount of the highest single litigation claim of RSD 5,491,509 thousand, for which the Bank did not recorded provision, is claimed by a physical person, who is the owner of the Bank's corporate debtor and guarantor for the loan granted to that corporate debtor. The Bank did not recognize provision for this litigation and according to the Bank's management opinion, claimant presented in ungrounded and arbitrarily manner, the facts based on which he claims not precise requirements for compensation damage, and it is expected that the Court will completely reject the claim. Nevertheless, the Bank will monitor change in circumstances at the end of each reporting period. 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 2018, and it maintains credible documentation on the circularization process.

Out of the total of 3,537 submitted confirmations (IOS forms), 18 were disputed.

The balance of unreconciled outstanding receivables and liabilities is RSD 368.223 thousand. The most significant amount relates to receivables from legal entities in bankruptcy and entities that undergone status change (96.12% of the total unreconciled balance).

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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 2018 and 2017 into the functional currency (RSD), for the major foreign currencies were as follows:

In RSD

	2018	2017
EUR	118.1946	118.4727
USD	103.3893	99.1155
CHF	104.9779	101.2847

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 2018.

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

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BANCA INTESA BELGRADE

ANNUAL REPORT 2018

Content

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1. Key Financial Indicators

Income Statement

RSD thousands

	2018	2017
Net interest income	**20,487,856**	19,248,697
Net fee and commission income	**7,191,558**	6,575,826
Profit before tax	**13,234,169**	13,011,758
Income tax	**(1,073,267)**	(1,188,161)
Net profit from deferred tax assets and liabilities	**443,208**	24,097
Profit after tax	**12,604,110**	11,847,694

Balance Sheet

	2018	2017
Cash and balances with Central Bank	**86,962,607**	82,851,636
Non-current assets held for sale and discontinued operations	**143,015**	1,653,117
Financial assets available for sale	**93,204,324**	130,228,198
Loans and receivables from banks, other financial organisations and customers	**372,788,378**	331,147,762
Investments in subsidiaries	**1,199,472**	962,496
Intangible assets, property, plants and equipment, investment property and non-current assets held for sale and discontinued operations	**11,756,960**	10,532,967
Other assets, current and deferred tax assets	**5,020,423**	7,483,402
Total assets	**571,075,179**	**564,859,578**
Financial liabilities based on derivatives	**21,497**	4,847
Deposits and other liabilities due to banks, other financial organisations, Central Bank and other customers	**455,921,978**	430,080,272
Provisions	**1,801,197**	1,277,294
Other liabilities and deferred tax liabilities	**6,729,321**	14,490,363
Total liabilities	**464,473,993**	**445,852,776**
Equity	**106,601,186**	**119,006,802**
Total liabilities and equity	**571,075,179**	**564,859,578**

Indicators

	2018	2017
Profit before tax/ Total assets	2.32%	2.30%
Profit before tax / Total equity	12.41%	10.93%
Interest income / Total assets	4.09%	4.04%
Interest expenses / Total liabilities	0.50%	0.64%
Capital adequacy ratio		20.8%
Total assets per employee	190,676	192,522
Number of employees	2,995	2,934

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2. Letter from the Chairman of the Board of Directors

Ladies and gentlemen,

The previous year marked a decade since the start of the global crisis that significantly reshaped financial markets and deeply impacted economies around the world. Ten years after, the global economy has largely recovered and the banking industry has regained its stability. Worldwide leading banks have strengthened their capital positions and their financials while authorities have stepped up banking sector supervision and control. Banks have put risk and compliance culture at the forefront of their business and are investing in digitalisation and state-of-the-art technology to drive efficiency across organization, respond better to customer expectations and ensure sustainable business success in the long run.

For its part, ten years after the breakout of the global crisis, the Serbian banking sector remains stable and resilient, with high liquidity and strong capitalisation, as reflected in a capital adequacy ratio of 22.8% at the end of the third quarter. Profitability has improved, primarily based on lower provisions, while total assets went up 5.8% from the beginning of the year to EUR 30.1 billion in September 2018. What is particularly important is that the NPL level continued on the downward path on the back of national NPL resolution strategy implementation, improved regulatory framework and efforts made by individual banks to clear their balance sheets, hitting its all-time low of 6.4% in September 2018.

The National Bank of Serbia (NBS) continued to relax cautiously its monetary policy against the background of confirmed macroeconomic stability, better-than-projected GDP growth as well as low inflation and a stable domestic currency. In 2018, key policy rate was cut twice to its record low of 3.0%, while being slashed by a total of 875 bps since the central bank started easing its monetary policy in mid-2013. This, coupled with low interest rates in the international market, strong interbank competition and robust economic growth helped stimulate overall lending activity, which rose 6.1% in the first nine months of 2018. Lending growth was led by retail loans, which went up 10.2%, primarily driven by cash loans and mortgages, while corporate lending increased 4.9%, with a noticeable rise in investment lending. In the first three quarters of the year, deposit operations were on the rise as well, growing 5.6% owing to the high level of confidence that households and business have in the Serbian banking industry.

Operating in such an environment, Banca Intesa responded well to the challenges of the market environment and once again confirmed its stable position as leader of the Serbian banking sector by all key performance indicators – total capital, assets, loans and customer deposits. We owe our success to stable fundamentals reflected in strong liquidity and capital positions as well as to our readiness to invest in the development of our business and change in keeping with evolving customer habits and requirements of modern business.

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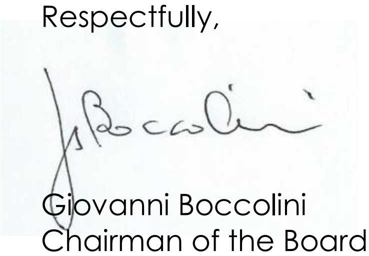
We continued to focus on the needs of our customers by further strengthening our product and service offering, which allowed us to strengthen our leading market position in overall lending with a 15.8% share at the end of the third quarter. At the same time, strong customer trust enabled us to take a 16.9% share in deposits and confirm our number one market position in this segment as well. We also entered the wealth management market in Serbia, bringing vast experience of Intesa Sanpaolo to individual and business investors.

Furthermore, relying on strong support of our Parent Group, we placed a special emphasis on continuing transformation to the digital business model in line with ongoing technological revolution and changing preferences of our customers. The upgrade of our CORE system will lay foundation for our sustainable future and strengthen our capabilities to improve customer experience and provide clients with innovative products and services. At the same time, we launched a branch network transformation program seeking to introduce a new service model that aims to migrate most of transactions to self-service facilities and digital channels while putting an emphasis on building long-term relations with customers.

We managed to improve the efficiency of our performance and reduce operating costs, with our cost-to-income ratio going down to 45.6% at the end of 2018, while additionally bolstering asset quality in keeping with market trends. Also, we kept our capital position robust and our liquidity high, with a loan-to-deposit ratio of 83.9%. Our efforts to become a more customer-centric and efficient bank and grow our business volumes across all major business segments helped us post a strong financial result, with net profit rising 6.4% year-on-year, from 11.8 billion dinars in 2017 to 12.6 billion dinars in 2018.

None of our strong business results would have been possible without the hard work of our employees, and I would like to extend my gratitude for their dedication and commitment. With my term of office slowly nearing its completion, I would also like to thank all members of the Executive Board and the Board of Directors for our effective work and great cooperation over the years and state that it has been a true honour for me to serve as Board of Directors Chairman and I am very proud for it. I am confident that Banca Intesa will continue on the growth path in the years to come, relying on its people, core strengths and Parent Group to provide strong contribution to the Serbian economy and its citizens.

Respectfully,



Giovanni Boccolini
Chairman of the Board of Directors

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3. Foreword by the President of the Executive Board

Dear readers,

It is my pleasure to inform you on behalf of the Executive Board that 2018 was another year of good business results for Banca Intesa. Despite the fact that we are transforming our business model in a challenging environment to keep up with the requirements of the digital age and the needs of our customers, we have succeeded in achieving our strategic goals and maintaining our leadership market position in the past year, while creating value for our customers, shareholders and employees. Customer satisfaction and loyalty attest to our success, which is also confirmed by best bank in Serbia awards that we received from renowned international magazines The Banker and Global Finance.

The previous year will be remembered for strong economic growth, the biggest since the global economic crisis broke out ten years ago. In 2018, macroeconomic stability was reinforced, with a stable dinar, a low inflation rate and an increase in FDI. In addition, positive trends were recorded in the labour market, while public finances strengthened on the back of successful fiscal consolidation in the previous period. A new arrangement concluded with the International Monetary Fund (IMF) in mid-2018 argues in favour of the economic progress that was achieved last year.

Such a macroeconomic environment enabled further easing of the National Bank of Serbia's (NBS) monetary policy. The lowering of the central bank's key policy rate and favourable conditions in the international market encouraged growth of lending to both private individuals and companies. At the same time, total deposits rose as well, indicating that households and businesses still have strong confidence in the domestic banking sector. Also, the NPL rate continued to decline and reached its all-time low in the past ten years, further strengthening the stability of the banking sector and bolstering its lending potential.

For our Bank, the past year was primarily marked by dynamic activities aimed at changing our business model and transforming into a modern, digital-driven bank that keeps pace with technological progress and evolving needs of its customers. CORE banking platform modernisation project Constellation Serbia, which was our priority in 2018, will lay a strong foundation for our sustainable growth in the future and enable us to provide our customers with even more advanced products and simpler interaction with the Bank, in line with their needs and expectations. In parallel, we initiated the process of branch network transformation by implementing the distributive model of our Parent Group. Our goal is to improve our service model by launching a new concept of work with clients that will further boost customer experience.

In the segment of private individuals, we continued to improve our product and service offering, which enabled us to enlarge our client base and reinforce our leading market position in both loans and deposits. We recorded particularly strong results in housing and cash lending, partly due to the introduction of online application and disbursement of cash loans that enabled customers to get hold of necessary funds quickly, without visiting a branch. Still, appreciating that the majority

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of customers want personal interaction with our staff as part of their digital experience, we offered them operational and advisory online support via virtual branch. Furthermore, we brought Visa Infinite and Visa Platinum premium debit cards to the market, providing their holders with a range of special benefits and top-level personalised service.

On the corporate banking front we remained dedicated to supporting economic growth, confirming our market leadership in both loans and deposits. I would especially like to highlight the active implementation of the COSME and InnovFin EU support programmes for SMEs and small businesses. Last year, we added the WB EDIF guarantee scheme to the list of EU support initiatives, further easing access to finance for businesses owing to lower interest rates, relaxed collateral requirements and longer repayment periods. In addition, we launched a new mobile app for legal entities, targeting mainly entrepreneurs and SMEs, which allows them to run their business on the move, regardless of where they are.

Understanding that both the economy and citizens lack adequate investment alternatives for increasing the value of their assets in a low interest rate environment, we established investment fund management company Intesa Invest with support from our Parent Group and offered our customers the best international practice and experience of Intesa Sanpaolo. Continued growth of assets managed by Intesa Invest funds confirms the validity of our decision to enter the investment fund market.

As was the case in previous years, we also put substantial financial and human resources at the disposal of the community to help it resolve important social and environmental issues. We provided financial support to numerous projects in arts and culture, as well as to initiatives of social and humanitarian relevance, while at the same time strengthening the corporate volunteering culture and promoting the values and principles of the Code of Ethics among employees.

Finally, I would like to thank all employees for their selfless commitment and dedication to our customers. The good results we post year after year primarily rest on their expertise, teamwork, constant improvement and their awareness that we have to be better and more successful every year. I would also like to extend my gratitude to our shareholders and members of the Board of Directors for their support to the accomplishment of our business plans. I would particularly like to thank Board Chairman Giovanni Boccolini, whose abundant experience and knowledge had an important role in the development of our Bank, as well as to Ignacio Jaquotot, who, serving as Head of the International Subsidiary Banks Division (ISBD), gave a unique contribution to the success that our Division and our entire Group have been achieving all of those years.

Respectfully,

Đurić

Draginja Đurić
President of the Executive Board

4. Macroeconomic Environment and the Banking Sector

- *The highest economic growth in the past decade, partly influenced by one-off factors*
- *Low and stable inflation level, combined with balanced fiscal policy ensure a further decrease of public debt*
- *Unfavourable impact of relatively high growth in domestic demand, paired up with increased energy prices and dinar appreciation, on external trade position*

Serbia experienced generally favourable economic trends in 2018. Realised economic growth in 2018 is by far the highest since the outbreak of the global financial crisis in 2008, and represents a notable increase compared to the 2.0% growth in 2017. Nevertheless, a significant portion of the GDP growth reached in 2018 was due to the low comparison base in the previous year when agriculture and electricity generation recorded poor results due to unfavourable weather conditions.

Macroeconomic stability was further strengthened in 2018. Inflation was kept at a low and stable level, while the good fiscal result continued to reduce the share of public debt in GDP, which reached a more sustainable level. Moreover, a moderate improvement in the labour market was also noted. The unemployment rate fell and the salaries rose slightly, although this increase is largely owed to higher public sector wages.

In the previous period, public finance management significantly improved and the Government's results in the implementation of basic structural reforms were positively assessed by the International Monetary Fund, through the successful completion of a 3-year Precautionary Stand-by Arrangement in February 2018. A new 30-month advisory arrangement (Policy Coordination Instrument) was concluded with the IMF in July 2018, with the aim of accelerating the initiated structural reforms, which should result in high and sustainable economic growth rates while maintaining the internal and external economic balance. The main priorities of this arrangement include combating the informal economy, reforming public sector employment and wages, and reforming and resolving public and state-owned enterprises. Although the reforms implemented thus far lessened the country's exposure to fiscal risks, long-term sustainability of the achieved results and higher economic growth rates are conditional upon further institutional reforms, strengthening the administrative capacities of the government, and increasing the scope and efficiency of public investment.

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Serbia was ranked 65th according to the World Economic Forum's Global Competitiveness Index, improving its position for five places in comparison with the 2017 ranking. A better score was recorded on almost all topics covered by the index except institutional quality. On the other hand, on the World Bank's Doing Business list, Serbia was ranked 48th, down from the 43rd position in the previous year. The highest score was obtained in dealing with construction permits (ranking 11th), while the weakest rated area was getting electricity (ranking 104th).

Further progress in the accession negotiations with the European Union (EU) was achieved through the opening of four new chapters, bringing the total number of chapters opened to 16 out of 35, of which two have been temporarily closed.

Considering the results achieved so far, Standard and Poor's credit rating agency confirmed BB rating of Serbia in late 2018 and improved its outlook from stable to positive, conditional upon continued strong economic growth, coupled with public debt reduction and maintenance of external sustainability.

In 2019, a slight deceleration of economic growth is expected, mainly due to a high base from 2018. Economic growth will be mostly driven by higher private consumption and investment. Concrete results will depend on global economic trends, as well as the success in resolving structural issues and enhancing the business and institutional environment.

Macroeconomic environment

Economic activity

When it comes to economic activity, Serbia recorded better-than-expected growth in 2018. After modest growth in 2017, the average GDP growth rate in the first three quarters of 2018 was amongst the highest in Central and Eastern Europe (CEE), partly owing to one-off factors, taking into account that the better performance of the agricultural and construction sectors was recorded due to the low base effect from 2017.

After a strong growth of 4.9% in the first half of the year, economic activity expectedly slackened in the third quarter, registering a 3.8% growth y-o-y. The National Bank of Serbia (NBS) and the IMF revised their GDP growth projections upwards, from original 3.5% to 4.2% in 2018. Considering the demand side, private consumption and investment contributed positively to GDP growth, while the net-exports' contribution was negative, due to faster growth of imports compared to exports. On the supply side, the main drivers of GDP growth included significantly more intensive activity in construction and most service sectors, as well outstanding performance of agricultural production in 2018.

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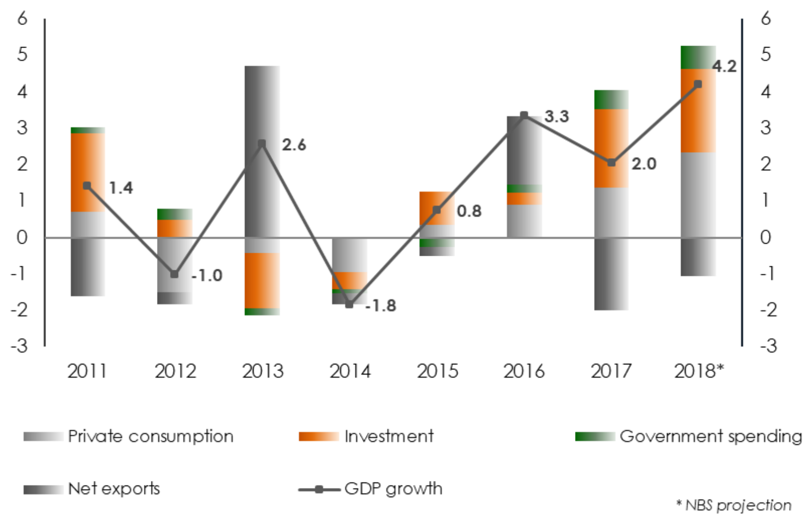
Figure 1 – Contribution to the annual GDP growth rate (in %)



Source: NBS

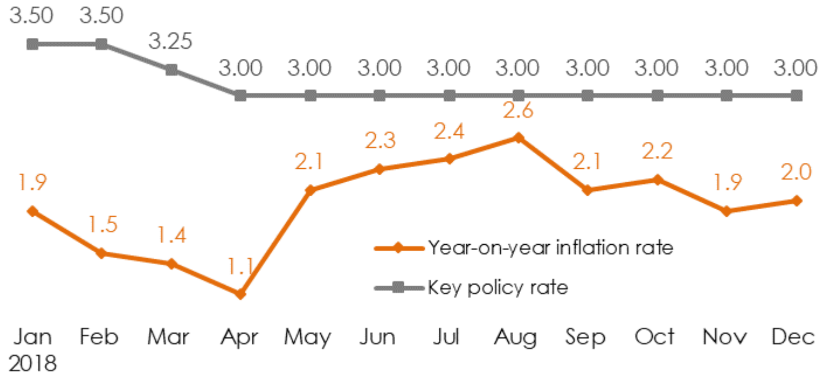
For 2019, the NBS projects a GDP growth of 3.5%, taking into account the high base from 2018. Growth is expected to be principally driven by the further strengthening of domestic demand. The anticipated increase in private sector wages and employment will continue to affect private consumption positively. The announced continuation of intensive investment in infrastructure and further recovery of the real-estate market should, together with a stable inflow of foreign direct investment (FDI), lead to investment growth in 2019 as well.

Inflation

During 2018, inflation was relatively stable, averaging at about 2.0% with fluctuations around this level recorded in certain months (in March and April, due to the high base effect, inflation even fell below the lower limit of the target corridor). For most of 2018, y-o-y inflation fluctuated below the mid-point of the NBS inflation target (3.0% ± 1.5%). Consumer price increase was predominantly driven by higher prices of unprocessed food, petroleum products, and tobacco products. Core inflation (inflation excluding volatile categories such as energy, food, alcohol and cigarettes) recorded a y-o-y growth between 0.8% (the lowest level recorded in Serbia since the introduction of the Consumer Price Index as the measurement of inflation) and 1.2%, indicating the presence of low inflationary pressures.

In December 2018, y-o-y inflation equalled 2.0%, which is also its average level for the entire year.

Figure 2 – Year-on-year inflation dynamics and key policy rate trends (in %)



Source: NBS

Inflation is expected to fluctuate within the target corridor (3.0%±1.5 p.p.) in the next two years. Based on the NBS projection, inflation will fluctuate below 3.0%, the mid-point of the target band, until the end of 2019, temporarily moving closer to it in the first months of the following year due to the low base in early 2018. In the medium run, inflation is expected to be mainly influenced by stronger aggregate demand, which will also be greatly contributed to by looser fiscal policy. Deflationary pressures led by dinar appreciation will gradually weaken, with envisaged higher growth of regulated prices in 2019. However, the high base effect of prices of fruit and vegetables as well as petroleum products will act in the opposite direction in 2019. In the short run, low food production costs, owing to the successful agricultural season, will also have a disinflationary effect.

Monetary policy

In December 2018, the NBS marked the tenth anniversary of implementing inflation targeting strategy as the official monetary policy strategy. From 1 January 2017 to 31 December 2018, target inflation was set at 3.0% with a tolerance bound of ±1.5 percentage points, while the Memorandum on Inflation Targeting until 2021, adopted by the NBS in late 2018, keeps the same target inflation (with the tolerance band).

Monetary policy in 2018 was characterised by further cautious easing of monetary conditions. The slowdown of core inflation in early 2018, anchored inflation expectations, as well as appreciation pressures on the dinar since mid-2018, allowed the National Bank of Serbia to relax its monetary policy additionally. The key policy rate was reduced by 25 base points on two occasions and since April 2018 it has stood at 3.0%, historically the lowest level.

In the monetary easing cycle that began in May 2013, the central bank has reduced the key policy rate by 875 base points. Against the backdrop of low inflation, monetary easing helped reduce interest rates on dinar loans, which in turn encouraged bank credit activity. According to the NBS data, interest rates on dinar loans to corporate clients and households stood at 5.1% and 10.1% respectively in October 2018.

The NBS continued to implement the floating exchange rate regime in accordance with the Monetary Policy Programme for 2018, intervening in the FX market in order to reduce excessive exchange rate volatility and maintain price and financial stability.

Required reserve rate has remained unchanged since 2016 when it was reduced for the last time in order to foster credit activity (to 20% and 13% on liabilities with maturities up to and above 2 years, respectively).

Developments on international commodity and financial markets, together with domestic macroeconomic developments, will have a major impact on future monetary policy decisions, so the NBS is expected to continue to monitor carefully all trends in order to assess correctly the strength of impact of all relevant inflation factors. The main source of uncertainty in international markets are trade tensions, volatility of global primary commodity prices (notably oil prices), and monetary policy of leading central banks. If inflation continues to follow the expected trajectory and the exchange rate remains relatively stable, the upcoming correction of the key policy rate is likely to be influenced by the developments in the international environment and, in particular, the ECB’s monetary policy.

Dinar exchange rate

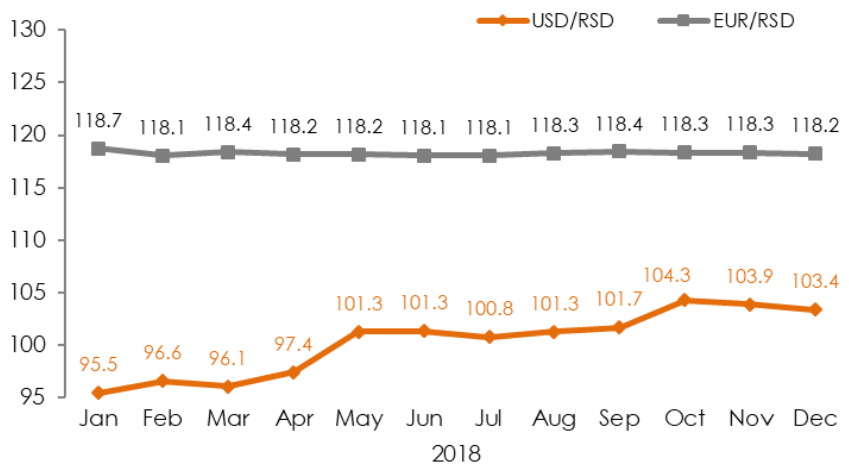
In 2018, the dinar nominally appreciated against the euro by 0.2% and depreciated against the US dollar by 4.1%, while the NBS intervened in the foreign exchange market by buying EUR 1,835 million and selling EUR 255 million in order to avoid excessive daily exchange rate volatility.

Throughout a major part of the year appreciation pressures on the local currency prevailed, as a result of macroeconomic stabilisation and improved country risk perception which contributed to a greater non-residents' interest in government securities as well as strong foreign direct investment inflow. In addition, further export growth as well as increased FX indexed lending has a positive impact on the demand for the dinars.

Occasional milder depreciation pressures during the year were mostly a result of seasonally induced higher demand for foreign currency at the start of the year and dividend payments in the financial sector during the second half of the year. The NBS ended 2018 as a net-buyer of the euro in the foreign exchange market, additionally boosting the country’s foreign reserves.

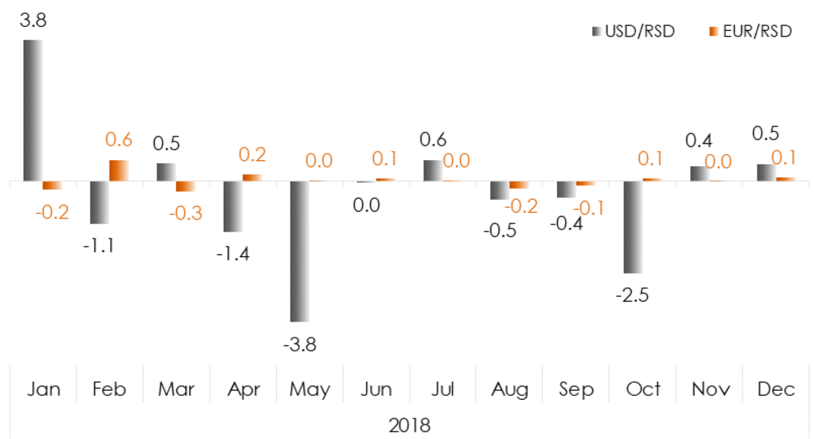
It is expected that the dinar will remain relatively stable in 2019, with the gradual disappearance of the appreciation pressures. Given that the continuation of restrictive monetary policy in the United States and the halting of ECB's program of quantitative easing are expected, this could negatively affect the flows of capital towards countries such as Serbia, and consequently depreciation pressures are not excluded from the next year predictions.

Figure 1 - Dinar exchange rate trend



Source: NBS

Figure 2 - Monthly exchange rate changes (in %)



Source: NBS

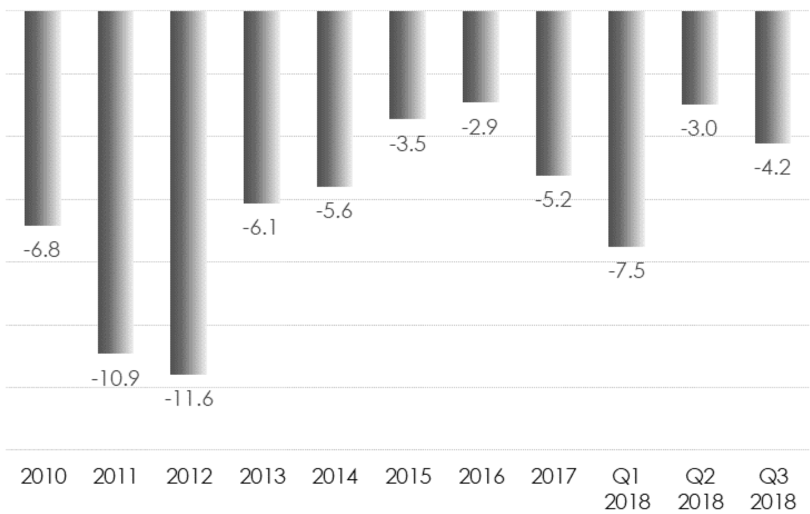
Current account deficit and external debt

In spite of the fact that goods and services exports recorded solid growth throughout 2018, the country's foreign trade balance deteriorated due to the unfavourable trend of imports growing faster than exports that began already in the second half of 2017. Significantly higher goods trade deficit was the key reason behind the current account deficit deterioration that was only partly compensated by higher services account surplus, lower primary income account deficit and higher remittances.

In addition, dinar appreciation since February 2018 did not have a positive impact on the external trade. On the other side, continued stable foreign direct investment inflow was more than sufficient to cover the current account deficit, while remittances inflow was also significantly higher than in the same period of 2017.

According to the projection of the National Bank of Serbia, the current account deficit will be about 5.2% of GDP at the end of 2018, the same level as in previous year. For the next year, the NBS expects that the current account deficit will be about 5.0% of GDP. Net FDI inflow will remain more than sufficient to cover the current account deficit, reducing the need for external financing.

Figure 3 - Current account deficit (in % of GDP)



Source: NBS

At the end of the third quarter of 2018, Serbia's external debt amounted to EUR 26.5 billion or 63.2% of GDP, standing below the threshold of severe indebtedness, according to the World Bank criteria (80% of GDP). Sustainability of the current debt level is additionally supported by its favourable maturity structure as long-term liabilities dominate with a 98% share.

Relative to the end of 2017, external debt increased by about EUR 930 million, as a result of higher indebtedness of businesses and banks, but also partly due to the negative influence of currency changes (dollar appreciation).

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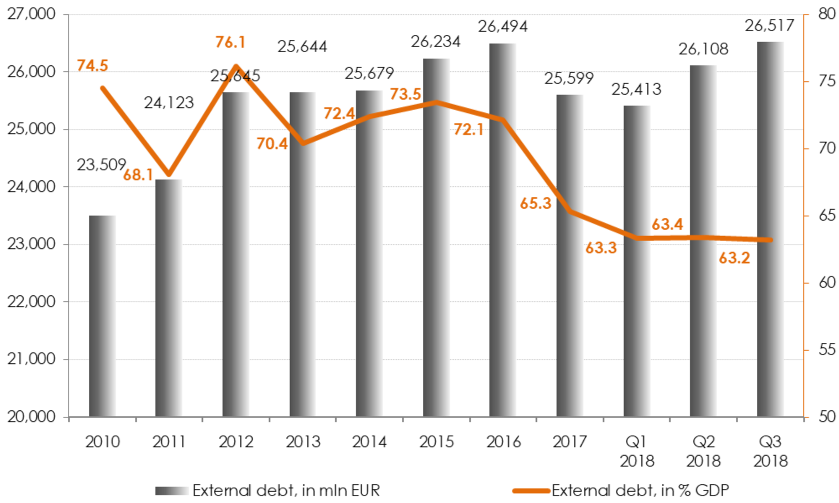
Observed by sector, re-leveraging of the private sector is noticeable, coupled with a slight increase of the public sector debt.

On account of higher indebtedness, the external solvency indicator (external debt-to-goods and services exports ratio) improved modestly from 132.5% in 2017 to 128% at the end of the third quarter of 2018. According to this criterion, Serbia now belongs to the group of less indebted countries.

The external liquidity indicator, i.e. the share of debt service in goods and services exports also improved from 22% in 2017 to about 18% at the end of the third quarter of 2018.

According to the IMF projection published in the report on the completion of the first review under the new arrangement, Serbia's total external debt should continue to decline and is expected to fall to 61.3% of GDP at the end of 2018, dropping below 60% by the end of 2019.

Figure 4 - External debt



Source: NBS

Foreign direct investment

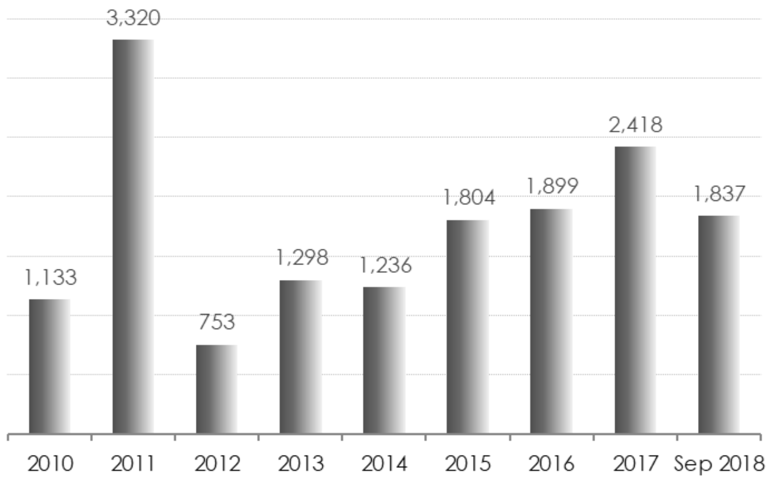
In the period January – September 2018, Serbia recorded a net-inflow of foreign direct investments in the amount of about EUR 1.8 billion, which is 2% more than in the same period of the previous year, while the full-year projection of net FDI inflow was revised up by the NBS and amounts to EUR 2.6 billion or 6.2% of GDP.

FDI structure by sector has improved over the past several years, owing to relatively higher FDI inflow into tradable sectors, with good diversification across the manufacturing industry, positively affecting exports and supporting their further growth.

According to the NBS data, within the manufacturing industry, most of FDI inflows went to the production of base metals, food products, automotive industry, chemical products and rubber and plastic products, bolstering the production and exports of these branches.

The National Bank of Serbia expects stable foreign direct investment inflow to continue in the following year, supported by achieved macroeconomic stability, enhanced business environment, the country's further progress in the EU accession process, as well as improved overall country risk perception by investors.

Figure 5 - Foreign direct investment (in EUR million)



Source: NBS

Foreign trade

Considerably faster growth of imports than of exports during 2018 negatively reflected on the foreign trade balance. Although exports continued to grow at a solid rate, the goods trade deficit increased by about 34% as a result of strong pressures on the import side coming from domestic demand strengthening, higher oil price and stronger dinar and was also determined by investment cycle needs. On the other side, Serbia continues to post the services account surplus, which was about 19% higher in the first nine months of 2018 relative to the same period last year.

Serbia's foreign trade reached around EUR 35.1 billion in the period from January to November 2018, increasing by 11.2% year-on-year. The exports of goods amounted to EUR 15.05 billion (+8.6%), while imports reached EUR 20.03 billion (+13.3%), resulting in a total trade deficit of EUR 4.98 billion (+33.9%).

Electric equipment and apparatus became the most important export products with a 10.6% share, pushing road vehicles on the second place for the first time since Fiat arrived in Serbia.

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Despite drop in exports, Fiat remained the largest Serbian exporter with a total value of exported goods amounting to EUR 700 million in the first nine months of 2018, while Hesteel came second with exports worth EUR 695 million, 42% higher than in the same period of 2017.

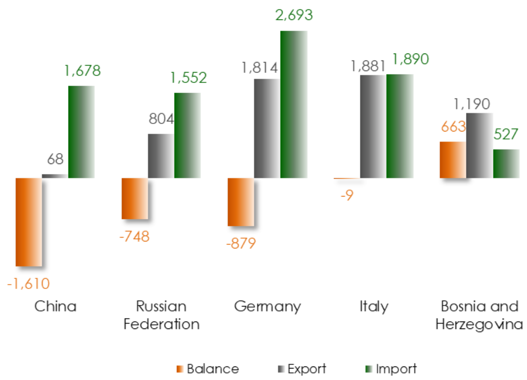
Total value of exports of the 15 largest exporters amounted to around EUR 4.1 billion in the same period, which is 27% of total Serbian exports.

In addition to good export results of Hesteel, reflected in the significant increase in base metal exports, a positive contribution to export growth was also given by chemical products, rubber and plastic products, textile products and furniture, etc. Due to bad agricultural season in 2017 and non-competitive prices, agriculture product exports were reduced in the short term, contributing to a deterioration of the trade deficit.

Around two-thirds of Serbia's foreign trade were directed towards EU countries, while CEFTA countries were the second most important trade partner with whom Serbia posted a high trade surplus with an export-import coverage ratio of 315%. The most important foreign trade partners in exports were Italy (EUR 1.88 billion), Germany (EUR 1.81 billion), and Bosnia and Herzegovina (EUR 1.19 billion), while the largest imports came from Germany (EUR 2.69 billion), Italy (EUR 1.89 billion), and China (EUR 1.68 billion).

Figure 6 - Foreign trade (EUR million)

Figure 7 - Foreign trade with major partners (EUR million)



Source: Statistical Office of the Republic of Serbia

Fiscal policy

Owing to the fiscal consolidation conducted from 2015 to 2017, public finances have been stabilised, with a balanced budget.

Budget execution in the first three quarters of 2018 was above expectations, resulting in a budget surplus of RSD 49.3 billion recorded in the first nine months, while according to the 2018 Budget Law, a deficit of RSD 28.6 billion was originally planned.

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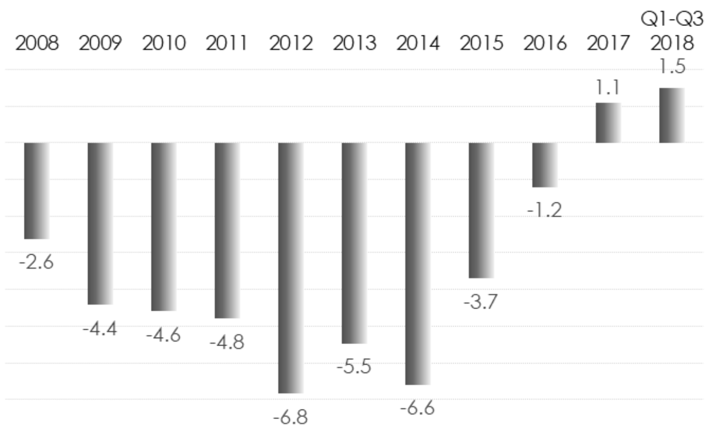
The general government deficit reached RSD 54.3 billion or 1.5% of GDP in the same period. Total revenues recorded a moderate growth of 5.9% y-o-y, mostly on the back of increased tax revenues. Total general government expenditure grew by 8.3% as a result of higher expenditure for wages, and goods and services, as well as a strong rise of capital expenditure on the back of higher investments in infrastructure as well as military equipment.

Considering the favourable fiscal developments, the fiscal account is expected to post a small surplus at the end of 2018. According to Ministry of Finance projection, the surplus will be around 0.6% of GDP vs. a deficit of 0.7% of GDP that was initially planned in the 2018 budget. In 2019, the general government deficit is planned at about 0.5% of GDP, consistent with further public debt reduction as a share of GDP by 2.5 p.p. per year.

Figure 8 - Consolidated budget deficit (in % of GDP)



Source: NBS

Owing to good fiscal performance and lower borrowing needs of the government, coupled with economic growth in 2018, the positive trend of public debt reduction continued. At the end of November 2018, the public debt amounted to EUR 24.1 billion, while the public debt/GDP ratio stood at 56.2%. The level of public debt was below the Maastricht ceiling of 60% of GDP, but at the same time significantly above the legally prescribed limit of 45% of GDP.

Due to its unfavourable currency structure, the public debt of the Republic of Serbia remains very sensitive to changes in exchange rates, since about 75% of public debt is denominated in foreign currency, with about 29% of liabilities in US dollars and 39% in EUR at the end of November 2018. At the beginning of December, Serbia repaid a Eurobond in the amount of about USD 1 billion, reducing the public debt further to around 54% of GDP at the end of the year. This transaction will also positively affect the debt currency structure in view of the lower share of dollar-denominated debt than at the end of November.

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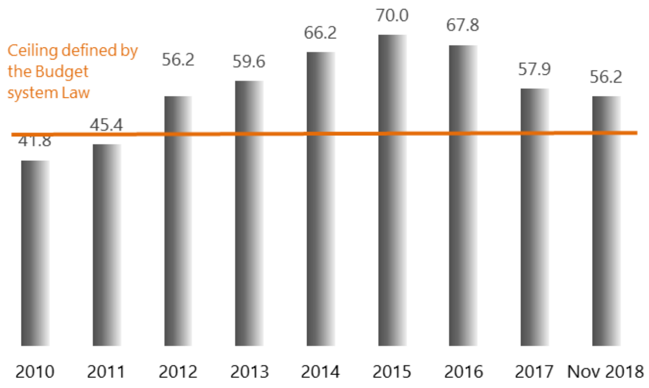
Figure 9 – Public debt (in % of GDP)



Source: Public Debt Administration

In the next medium-term period, fiscal policy will focus on maintaining the fiscal stability, which enables the public debt to remain on a downward path, but also the use of available fiscal space to support growth-enhancing initiatives. The Fiscal Strategy for 2019-2021 envisages a general government deficit at around 0.5% of GDP, which should ensure public debt decrease to below 50% of GDP in 2020.

With regard to expectations for 2019, economic growth should remain solid, driven by further strengthening of private consumption, supported also by moderate fiscal easing, while the expected growth of investments and exports will continue to have a positive impact on growth. On the other side, the GDP growth could underperform in the event of spillovers from regional and global markets, causing increased risk aversion regarding emerging markets. When it comes to domestic factors, it is necessary to accelerate the pace of reforms and intensify activities on the improvement of business climate in the country, including the completion of public administration reform, reduction of the informal economy, and reform of governance in the state-owned sector.

Banking sector

In 2018, the Serbian banking sector was composed of 28 banks, 20 of which were foreign-owned, accounting for three quarters of total banking sector balance sheet assets. The trend of reduction of the number of branches, as well as the number of banking sector employees, continued.

During 2018 several changes that occurred in the market confirmed the expected further consolidation of the Serbian banking sector. In first half of the year, Direktna Banka acquired Piraeus Banka, taking over 100% of its capital. Soon afterwards, the banks started operating under the same name - Direktna Banka, through a wider branch network. Furthermore, Banka Poštanska Štedionica acquired all assets and liabilities of the state-owned Jugobanka a.d. Kosovska Mitrovica, according to the decision of the National Bank of Serbia, which revoked its license.

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Since the beginning of the year, the banking sector's total assets increased by 5.8%, reaching the amount of RSD 3.6 trillion (EUR 30.1 billion) in the third quarter.

Aiming to maintain inflation within the target band, in 2018 National Bank of Serbia lowered the key policy rate twice, to a record low of 3.0%. Monetary policy easing, decreased key policy rate, as well as low interest rates in the international market, supported with strong competition among banks, led to increased credit demand. In November, the loan-to-GDP ratio amounted 41.8%, pointing to market potential for further growth. Intensified credit activity resulted in the nominal growth of total loans by RSD 148 billion compared to the end of last year, to RSD 2.1 trillion (EUR 17.5 billion) in the third quarter of 2018.

Currency structure of loans is almost the same as in previous year. The share of local currency loans increased slightly to 31.2% (+0.1 p.p.), mostly due to higher dinar loans to households which reached 55.6% in September. Euro-indexed and euro-denominated loans still dominate the foreign currency loans. In the corporate segment, these loans recorded an increase compared to the previous year, while in the household segment their share decreased.

In September, total loans were 7.7% higher than at the end of 2017. This growth was driven both by lending to businesses (+4.1%) and to individuals (+12.3%), despite significant write-offs and sale of non-performing loans.

Increased borrowing was recorded in all sectors, except transport, indicating that the recovery of corporate lending was notable in almost all industries. The highest share in new production referred to working capital loans (52.3%), which accounted for the majority of total corporate loans (49.0%). Moreover, a positive signal is the increasing share of investment loans in newly approved loans (24.7% in the third quarter), which had a favourable effect on extending the credit portfolio maturity.

Household lending continued to increase, mainly driven by cash and mortgage loans, which accounted for 40.1% and 38.1% of total household loans respectively at the end of the third quarter. Favourable conditions in the real estate market, as well as the continuous decrease in interest rates on mortgage loans led to an increase in the demand for these loans. The increase in approved mortgage loans is mostly related to new borrowing, although there is also a trend of refinancing existing loans. Namely, mortgage loans account for 16.2% in new production, while cash loans held a dominant share of 59.9% (including refinancing loans).

Owing to the successful implementation of the NPL Resolution Strategy, as well as owing to lending increase, the share of NPLs in total loans continued to decline. From the beginning of 2016 to September 2018, the NPL stock went down by more than 67%, resulting in an improvement of bank portfolio quality. Banks wrote off RSD 172.9 billion and sold RSD 87.2 billion of bad loans. Consequently, the banking sector recorded the lowest level of NPL share in total loans (6.4%) since the start of measurement of this indicator.

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At the end of the third quarter, gross corporate NPLs amounted to RSD 89.9 billion and decreased by RSD 57.4 billion (or 38.9%) since the start of the year, while NPLs in household sector (including entrepreneurs) declined by RSD 4.6 billion (or 8.6%) and amounted to RSD 48.4 billion.

Deposits from clients are still the primary source of bank funding in Serbia, making up 70.2% of total liabilities in the third quarter of 2018. Besides them, another source of funding are deposits received from banks and other financial institutions. At the end of September 2018, total deposits rose by 5.6% due to increase in both local and foreign currency deposits. Macroeconomic stability, low and stable inflation and relative stability of the exchange rate promoted dinar savings deposits, which amounted to 31.5% at the end of September. More than two thirds of customer deposits are denominated in foreign currency, with growth primarily based on household savings deposits.

Regarding the initial maturity structure of deposits as of September 2018, sight deposits were the dominant category with a 62.2% share, short-term deposits participated with 30.3%, while the smallest part (7.3%) referred to long-term deposits. Corporate deposits posted a growth of 1.2%, while deposits of household sector and entrepreneurs increased by 6.0%. In addition, the use of funds from banks, other financial organisations and the National Bank of Serbia increased by 9.4% in the same period.

During 2018, the profitability of the Serbian banking sector recorded noticeable growth, primarily based on lower provisions. Namely, provision releases positively affected the net result in the first half of the year, since provision releases were higher than provision costs. At the end of the third quarter, 25 banks recorded positive results. In view of the growth of bank lending activity, net interest income was higher by RSD 1.1 billion in the third quarter of 2018 than in the same period of the previous year. This effect was mainly caused by relaxed monetary policy, supported with key policy rate reduction, which resulted in lower interest rates in the local currency, further underpinned by the decrease in interest rates on the interbank market. In the same period, net fee and commission income was higher by RSD 1.1 billion, which had a positive effect on net profit. Profit before tax amounted to RSD 53.9 billion at the end of September, which is 0.4 billion more than in September last year. At the end of the third quarter, return on assets (ROA) dropped slightly to 2.1%, as did return on equity (ROE) which declined to 10.7% in comparison with September 2017 (11.0%).

The banking sector in Serbia is well capitalised and highly liquid. Banks operate with capital adequacy indicators well above the regulatory threshold, which confirms that the financial system is stable, while customer deposits are safe. At the end of the third quarter, the capital adequacy ratio of the banking sector was 22.8%, increasing the confidence in the financial market as a whole.

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In 2018, Banca Intesa strengthened its leading position with the dominant market share in total assets (16.1%), loans (15.8%) and customer deposits (16.9%), at the end of the third quarter. Furthermore, the Bank ranks first in payment card and payment operations, with a growing client base of around 1.4 million clients. The Bank operates through a wide network consisting of 154 branches, with the support of the largest network of ATMs and POS terminals in the market.

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

Banca Intesa Beograd aims to strengthen its leading position in the Serbian banking sector, by providing solid and sustainable value creation and distribution, while remaining committed to actively supporting Serbia's economic recovery.

In the period 2018-2021, the Bank's strategic objectives should result in a stronger market position driven by digital transformation, revenue growth through capturing new business opportunities, while simultaneously being committed to credit portfolio quality and maintaining cost discipline through rationalisation and efficiency enhancement.

Accomplishment of the Bank's objectives is summarised in the following five initiatives:

I Driving digital transformation while reviewing the role of the physical network

Exploitation of the full potential of digitalisation is foreseen as one of the key drivers of value creation and revenue growth in the following years. By embracing digitalisation, the Bank intends to enhance customer services providing convenience to customers along with time savings. The Bank will work on the further development of online products, services and experiences and will enhance digital relationships with clients by upgrading mobile and online applications and introducing new platforms for corporate clients. At the same time, the Bank will work on physical network optimisation and digital process improvement.

II Increasing revenues in a very competitive environment while improving fee based contribution

In a highly competitive environment, the Bank will focus on expanding lending activity and building a sound portfolio, while at the same time striving towards revenue growth leveraging new business opportunities. Several activities are planned to support this initiative such as active customers' boost and proactive sales approach. Moreover, the Bank will enhance product cross selling by leveraging ISP product factories and business cooperation with Intesa Sanpaolo Group in order to further improve the promotion of hedging and structured finance products and joint approach to debt capital markets. Leveraging COSME and InnovFin guarantee schemes with the EIF, the Bank will continue to respond successfully to the strong market demand for products with risk sharing features.

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In the upcoming years, the Bank will build new sources of fee-driven income by expanding into the wealth management market leveraging the newly established asset management company – Intesa Invest, as well as expanding the range of insurance products and utilising the growing market potential for life insurance product sales.

III Improving cost discipline

Based on its strong commitment to improve efficiency and simplify the operational model, the Bank will continue the process of cost optimisation through organisational and process review. Namely, the Bank will aim to maximise the efficiency of the business network through network organisation analysis and automation of business processes, application standardisation and rationalisation. Regarding the process review, this ICT project will enable the automation and digitalisation of business operations and processes in order to increase productivity, save time and guarantee higher service quality and at the same time reduce non-value-added activities.

IV Improving credit quality

The Bank will continue on the path of improving credit quality through proactive credit portfolio management and timely NPL reduction initiatives. The Bank will work on credit risk management improvement through harmonisation with Group methodologies, as well as on internal credit rating models for the purpose of converging to the standards of advanced approaches to credit risk measurement. Furthermore, the Bank will pursue the implementation of the ECA tool in order to harmonise with the Group practice and enhance efficiency. In addition, the Bank will improve credit management. Processes for identifying target industries will be improved aiming to align credit quality and commercial effort, particularly in respect to Small Business and SME segments, taking into account lending potential and positive business outlook in this segment. Also, further automation of the redesigned, revised and enhanced credit and underwriting process for SB and SME clients will be conducted, aiming at wider usage of internal ratings refined by credit criteria, by differentiating between types of credit processes and expanding the scope of clients to be processed. Proactive credit portfolio management and NPL management will be further strengthened, while a further reduction of non-performing exposures will come as a result of regular portfolio clean-ups taking into account legal and tax constraints, global review of all clients and further promotion of restructuring plans with more proactive approach towards clients

V Strengthening the Group operating model in the key areas

The Bank will focus on strengthening its relationship with the Parent Group through several initiatives. In the following years, one of the main goals related to integration with the Group will be implementation of strategic projects that will provide an adequate infrastructure for growing business needs and digitalisation era.

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This project will enhance steering and monitoring in business, control and support areas, and also further develop standardisation and economies of scale in IT Operations. Recognised as the most important asset of the Bank and one of the key enablers for Business Plan achievement, further staff development will be supported by several Group initiatives. The Bank will develop enablers to support performance through the new performance management assessment with the improved performance appraisal process and new incentive system and strive to assert the distinctiveness in employees.

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6. Retail Banking

Individuals

- *Significant growth rates of all commercial and financial indicators along with the growth of market share and active client base*
- *Introduction of new products and services as a confirmation of market leadership in innovations*
- *Continuous development of digital channels while maintaining the quality of service at all points of interaction with clients*

The strategic orientation of Banca Intesa towards a continual development of service quality and business transparency, while striving to improve customer satisfaction, is reflected in the growth of primary client base at an annual rate of 2.3%. Consequently, during 2018, the Bank confirmed and further strengthened its leading market position, reflected in market shares in all key products offered to individuals.

The previous year was marked by a significant increase in commercial and financial indicators, with the most dynamic growth achieved in the area of commercial lending to individuals.

Judging by the achieved growth rates in all business segments, Banca Intesa managed to overcome all challenges imposed by the dynamic market in the past year as well. Through a number of innovations and improvements focusing on customer satisfaction and transparent communication of price and non-price elements of products and services, the Bank posted a record volume of cash loans to individuals, in the amount of EUR 370 million (RSD 43.7 billion), which is an increase of 17.3% compared with 2017. Such business results contributed to a further growth of the Bank's market share in cash loans from 13.3% at the end of 2017 to 14.0% in 2018, while, at the same time, the number of clients to whom cash loans were approved increased by 5.5% compared to the previous year.

Regarding mortgage loans to individuals, the Bank posted an 18.9% increase in loans in comparison to 2017 and reached EUR 124 million (RSD 14.6 billion). In 2018, the trend of market share increase continued, from 16.9% at the end of 2017 to 17.9%. In addition, the number of clients who were granted mortgage loans increased by 10.5% compared to the previous year.

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The fact that clients appreciate the high level of service and business policy focused on clients and their actual needs, as well as the principle of business transparency is best illustrated by years of growth of active retail banking activities.

Figure 12 - Loans to individuals (in RSD million)

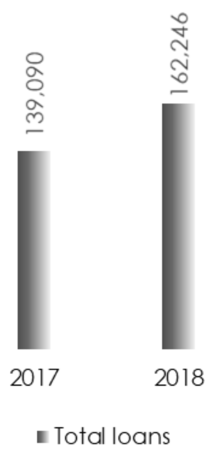
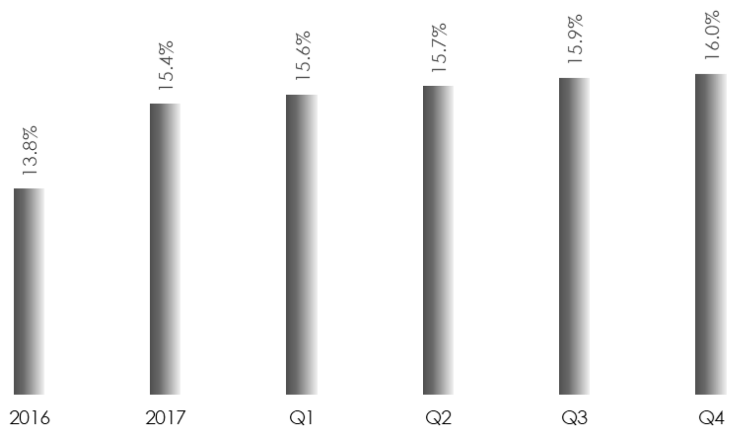


Figure 13 – Market share in loans to individuals



As regards liabilities to clients, in the past years the Bank posted an above-market-average growth of deposits of individuals. Compared to the previous year, retail deposits increased by RSD 23.5 billion in 2018, growing by as much as 10.3%. More dynamic growth of retail deposits than the market average resulted in a market share increase in this business segment from 18.9% in December 2017 to 19.2% in December 2018.

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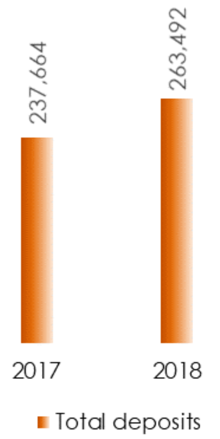
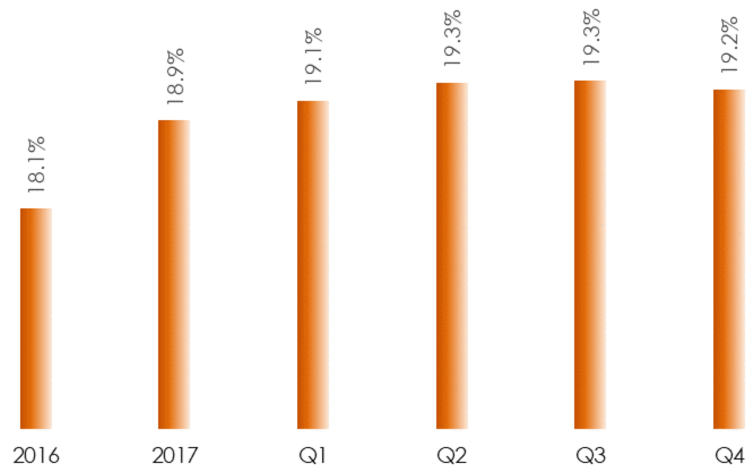
Graph 14 – Deposits of individuals (in RSD million)



Graph 15 – Market share in individuals' deposits



In the previous year, the Bank expanded the scope of alternative forms of investments for individuals and legal entities by establishing Intesa Invest, investment fund management company. Against the backdrop of low interest rates, new investment opportunities have been created for clients by launching two investment funds. Apart from the possibility of generating an adequate return, constant availability of funds, reduced investment risk and professional asset management, the Bank provides unique expertise in the market to its clients, resulting in EUR 11.3 million being raised in the first 6 month.

Following the global trends and aspiring to continuous improvement of the quality of services, in 2018 the Bank launched a comprehensive, multi-year process of educating clients in the field of digital banking, with an ultimate goal to improve customer satisfaction in their dealings with the Bank.

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Payment card business

During 2018, Banca Intesa maintained its leading position in payment card business with a 21% market share in the number of credit cards issued, a 27% market share in the number of POS terminals, a 55% market share in the number of internet POS terminals, as well as a 25% share in the total number of payment transactions in the country and abroad.

The number of transactions performed with Banca Intesa payment cards was on the rise in 2018 as well. The transactions in the country increased by 24% compared with the previous year, while transactions abroad rose by 31%.

In terms of the volume of operations on POS terminals, the number of transactions rose by 3%, while the sales volume increased by 7.8% 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. As a result, almost the entire network supports the acceptance of contactless payment cards.

Moreover, the Bank continued expanding the network of merchants where cardholders can pay in instalments, with an increased share of instalment transactions in total sales. The number of transactions rose by 9.5% compared to the previous year, while the total sales volume increased by 12.4%.

In 2018, activities aimed at increasing the usage of credit cards on the internet and expanding the network of e-commerce merchants continued. This resulted in the growth of sales in the network of the Bank's e-commerce merchants of 44%, compared to the previous year.

In addition, many of activities continued to focus on the joint campaigns of the Bank and the merchants who provided significant discounts and benefits to Banca Intesa payment cardholders. Such activities resulted in a significant increase of credit card sales with selected partners by more than 30%, compared to 2017. Total sales via the Bank’s credit cards at points of sale in the country increased by 23.8% compared to the previous year.

In 2018, Banca Intesa expanded the offer of payment cards adding two debit cards intended for individuals, Visa Infinite and Visa Platinum, as well as Visa Business Platinum, a debit card intended for business clients.

Banca Intesa was the first in the Serbian market to offer these premium card products, which provide clients with a range of specialised benefits, privileged treatment and personalised top-level services, all in accordance with the needs and expectations of clients and their lifestyle.

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Direct channels and e-services

During 2018, the Bank introduced a significant number of innovations and improvements on digital channels, significantly increased the base of digital service users, confirming its leading position in creating innovations in the domestic market. The growth of digital platform users in both the retail and corporate segment, indicates the Bank's success in creating a digital experience based on which customers perceive the use of digital channels and services as the fastest and easiest way to carry out daily banking transactions.

Banca Intesa was the first in the market to offer online disbursement of cash loans and overdrafts (end-to-end process), without additional documentation or visit the branch. The entire process, from application submission to disbursement, can be completed in 15 minutes. The introduction of the end-to-end process, with a focus on the acquisition of new and education of existing clients, led to a significant increase in the share of online applications in the total number of submitted applications received by the Bank, so in December 48.1% of overdraft applications were submitted via online channels, as well as 11.8% of cash loan applications.

In addition, the Bank introduced the possibility of online submission of credit card applications, enabling our clients to come to the branch only once – to take over and activate the card.

The integration of the online and mobile application with the CRISP application and the introduction of a product catalogue on these channels enabled a proactive sale approach through personalised campaigns and the collection of leads, based on interest expressed by the client.

In order to increase customer satisfaction, the Bank developed additional online functionalities for individuals, improving the level of self-management of products and services directly on the channels, without visiting the branch. Furthermore, the Bank redesigned the online application and implemented a new support channel through chats, video and audio conversations in a virtual branch.

The total number of active users of the Intesa online channel is nearly 115 thousands. In December 2018, the total volume of transactions executed on the online application amounted to just over RSD 5 billion, while the number of transactions in the same month reached 444 thousands. The number and volume of online transactions indicates a steady growth trend in terms of total volume and types of transactions, i.e. payments, transfer of funds and exchange transactions.

At the same time, the total number of Intesa Mobi active users reached 180 thousands. In December 2018, the amount of online transactions was about RSD 9 billion, while the number of transactions reached 710 thousands. Compared to the previous year, the number of transactions increased by 38%.

Business network

Under the auspices of the Parent Group, in 2018 for the first time, a joint initiative was launched in the field of development of a business network that follows modern technological trends and brings them to the local market, all under the influence of accelerated digitalisation of operations. With the aim of improving the user experience, our Bank's business network is getting a new look and role, and clients have a new and improved service model in line with the Group's strategic plan. During 2018, revamping of branches with elements of a new design was continued, such as the welcome desk, a living room with a library, digital screens and tablets, self-service zones with new ATM devices and an ATS device for depositing daily cash of legal entities was introduced. Significant efforts were invested in optimising the business network in terms of its territorial coverage.

At the end of 2018, the Bank's business network consisted of 154 branches, 7 mortgage loan sales offices and 1 Banca Intesa point of sale within the FCA SERBIA d.o.o. Kragujevac plant. During 2018, the key developmental and organisational changes included the initiative of consolidating business units, merging portfolios of smaller branches, establishing a mortgage centre in the Kragujevac Regional Centre, in light of the great potential recognised in this part of the country, and forming a virtual branch within the Bank’s Contact Centre, with the aim of providing support to clients, users of e-banking services. Additionally, following the needs of the Bank's clients, registered agricultural farms, the Intesa Farmer Centre was established in order to enable efficient management of the sales process and to improve cooperation with this group of clients.

In 2018, the possibility of depositing daily cash via ATS devices (Cash IN) was developed and implemented, in line with trend of digitalisation of transactions. ATS devices were installed in 26 branches during the year and about 3,000 contracts with customers were concluded, whereby as much as 30% of daily cash deposits migrated from counters to ATS devices in 6 months.

During 2018, significant efforts were invested in reducing the waiting time in the busiest locations, especially in the Regional Centres in Belgrade and Novi Sad. In this regard, new reporting systems have been developed, general business guidelines relating to transactions were adopted and the use of the QMS system promoted with the application of the dynamic business concept. The average waiting time in the business network has been reduced to below 8 minutes. Branches that were under direct monitoring achieved 20% better result than the network average.

In 2018, the Bank's Contact Centre faced a significant increase in the number of incoming calls and email queries. The new channels of communication such as chats and video chats as well as social networking, were introduced.

Small businesses and registered agricultural farms

- *Modern process improvements in order to meet the needs of clients*
- *Continued cooperation with renowned financial institutions*
- *Increased growth in all segments of business with registered agricultural farms*

In the small business segment, which includes legal entities, entrepreneurs and registered agricultural farms, 2018 was the year when the Bank was particularly focused on customer experience, with the goal of justifying the position of the market leader with the quality of products and the high service level.

With commitment to a high level of professionalism and quality of products and services, the Bank confirmed its leading position in terms of the number of clients. Its market share in the segment of legal entities and entrepreneurs increased by almost 2 percentage points, reaching 24%. In the segment of agriculture, the market share increased as well, to over 14%.

In an effort to be a reliable business partner to its customers through business challenges in 2018, the Bank supported economic operators with placements worth EUR 225 million in small businesses, up by 8% compared with the previous year, and EUR 57 million in the agriculture segment, up by 18%. Such a trend of new production also affected growth in the number of financed clients. While the market faced stagnation and even a slight decline in terms of the number of customers that were granted loans, the segment of small business and agriculture grew by 8% in 2018. Consequently, these results led to an increase in the loan portfolio volume by 20% in the small business segment and 6% in the agro segment.

Small businesses

In 2018, the Bank introduced several process improvements with the primary purpose to meet the client needs that differ depending on their current development stage, but also the level and the length of cooperation with the Bank.

Bearing in mind that modern technological solutions are changing the traditional business models, special attention was focused on service digitalisation by introducing the ATS system, as well as the new digital platform for this business segment – BizMobi mobile banking application.

As the first bank in the Serbian banking market, Banca Intesa had the opportunity to offer its clients premium business cards. The new exclusive Visa Platinum Business payment card integrates carefully designed services, such as travel health insurance, free use of airport business lounges, roadside assistance etc., which are intended to satisfy customers' needs and expectations in terms of quality and service, but also to facilitate business activities, save time and enable more efficient money handling.

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With the aim of providing prestigious investment options to businesses, during 2018 Bank continued cooperation with reputable financial institutions. As a result of cooperation with the European Investment Fund (EIF), in December 2016 Banca Intesa introduced COSME loans as the first bank in our market. This type of loan for financing working capital is characterised with relaxed collateral requirements, favourable interest rate and extended maturity. Owing to these characteristics, Banca Intesa placed loans in amount of over EUR 126 million under the COSME line. Also in cooperation with the EIF, for the second consecutive year Banca Intesa offered INNOVFIN loans aimed at supporting innovative business projects, to be used for financing working capital and investments, without required mortgage or pledge, with a simplified approval procedure and favourable interest rate. Through this type of loan, the Bank supported over 70 innovative business models with EUR 7 million of new loans. Determined to provide active support to the growth and development of women's entrepreneurship, for the fourth consecutive year, in cooperation with the European Bank for Reconstruction and Development (EBRD), the Bank provided a special credit line for women in business, accompanied by a number of additional benefits in payment operations, leasing and e-banking. The Bank provided support to women in business through more than 1,300 loans in the total amount of EUR 12.7 million.

Agriculture

During 2018 growth was recorded in all segments of operations with registered farms (AGRO). Strong results were achieved as a result of favourable funding terms through the KfW Rural Credit Line, further expansion of the innovative loan model Agroprotect, 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 20% in total amount and more than 30% in the total number of approved loans. Moreover, the cooperation with the Guarantee Fund of AP Vojvodina continued with loans being granted to farmers based on credit lines contracted with this institution. As a result of all of the above mentioned activities, the number of clients increased by around 7% in comparison with 2017, while the number of loans disbursed in 2018 grew for about 26%.

During 2018, numerous improvements were implemented in the applications and the system, improving the quality and speed of loan application analysis, which led to faster loan disbursement and faster response to customer requests. With these improvements, the Bank has succeeded in raising the level of customer satisfaction, owing to faster processing of their requests and higher quality of services provided to farmers.

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The last quarter of 2018 was also marked with the opening of the Intesa Farmer Centre – a specialised branch office for larger clients within the agricultural segment. The Intesa Farmer Centre shifts the business focus in this segment, striving to provide better service and thus raise the Bank's profile in financing larger farmers, attesting to its commitment to the one of the highest quality segments of the domestic economy.

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7. Corporate Banking

- Leading market position retained
- Global experience applied in the local market
- Focus on customer opinion aiming to improve the quality of services

The trends of relevant macroeconomic indicators in 2018 show that, in comparison with the previous year, the stability of the economic environment was preserved, at the same time ensuring significant economic activity growth. The growth of economic activity contributed to the budget surplus and stable inflation in line with expectations. There was a significant increase in foreign trade and government investments, while the exchange rate of the RSD against the main currencies was stable. All of the above contributed to improving the overall business environment, increasing profitability and generating a stable business climate. In the previous year, Serbia maintained the leading position in the region in terms of attracting foreign direct investments, which additionally contributed to the country's positive image, export potential and business activity growth.

In this stable business environment, the National Bank of Serbia continued to pursue an expansionary monetary policy in line with low inflationary pressures, monetary policy of the European Central Bank, and the need to contribute with its monetary policy to the growth of investment and economic activities in the country. The Government of the Republic of Serbia and the National Bank of Serbia continued to adopt measures and activities in order to increase dinarisation and reduce foreign exchange risk by encouraging banks to use more dinar funding and the growth of dinar loans in total loans, resulting in a further reduction of interest rate gap between dinar and foreign currency loans.

Extremely competitive conditions in the financial market, where a large number of commercial banks operate, had a major impact on the affordability of banking products, ensuring easier and more affordable access to additional financing for businesses, both from the banks' own sources and from various credit lines provided by domestic commercial banks in cooperation with foreign creditors.

In line with positive market trends, the Corporate and SME Division's performance was stable in 2018 and it recorded a 13.9% loan portfolio growth, compared to the previous year, with a market share in total corporate loans of 15.9% at the end of the year. The annual increase in the volume of loans, as well as the new production of credit products, was above the banking sector average, which contributed to the Bank's leading position in the corporate segment. With regard to corporate deposits, the Bank traditionally has the dominant leading position with a deposit market share of 14.1% at the end of 2018. In addition, in documentary business operations related to issued bank guarantees and letters of credit, an outstanding volume growth of 32.9% was recorded comparing to the same period of the previous year.

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Figure 16 – Corporate loans (in RSD million)

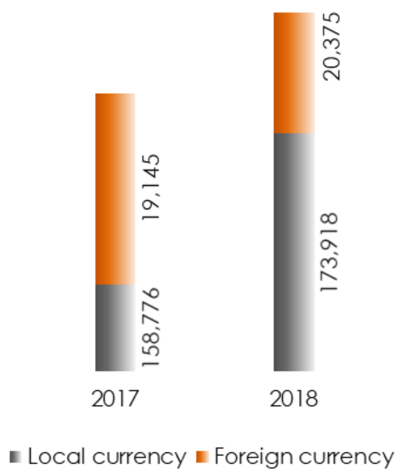

Figure 17 – Market share of the Bank in corporate loans

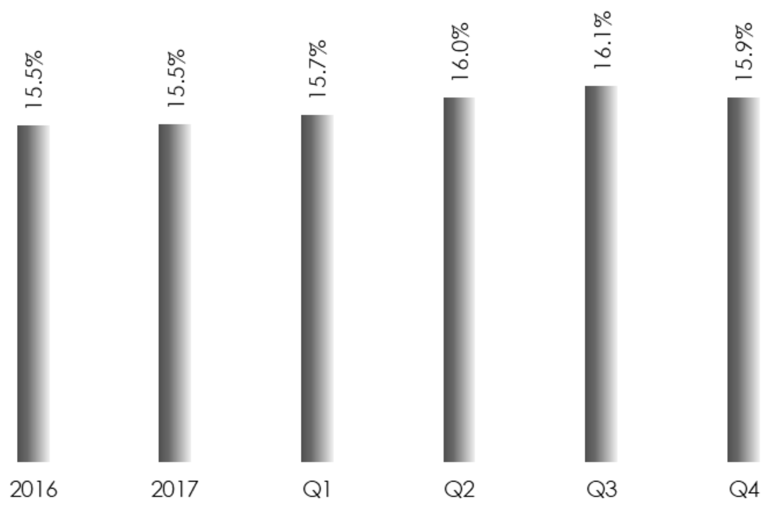

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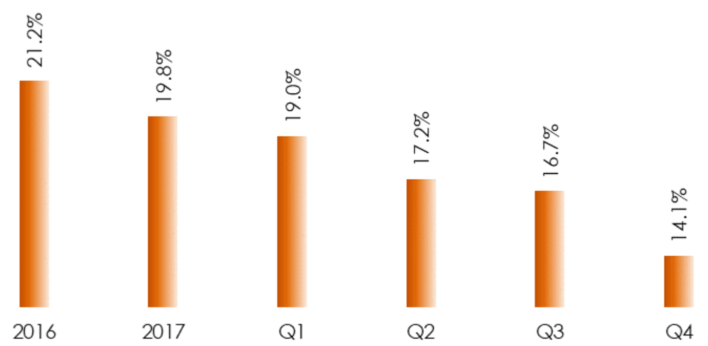
Figure 18 – Corporate deposits (in RSD million)

Figure 19 – Market share of the Bank in corporate deposits



Corporate and SME Division client base is still the largest in the market, which was confirmed in several external banking sector benchmark surveys, having more than 7,000 active clients, which represents more than three quarters of the total client base available in the market, of which the Bank has financed one half.

One of the key strategic pillars of the Bank is dedicated to the improvement of service quality and relationships with corporate clients, by introducing new ways of ensuring that clients' feedback is always heard and impacts further decision making. Owing to its strong client base and very good relationship with its clients, in order to collect objective feedback related to products and services, as well as sales network commitment and competences, the Bank launched the *Instant Voice of Customer* project. This initiative, for now, involves a customer satisfaction survey conducted among small and medium enterprises, with the aim of using their answers and comments to optimise additionally the Bank's offer, business process and the quality of sales network in order to fulfil clients' expectations and satisfy their business needs.

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In line with expectations and plans, the demand of small and medium-sized enterprises (SME) for additional financing continued to grow, because of which the largest growth and result within the Corporate Division was recorded in the SME segment. In this segment, in comparison with the end of the previous year, a loan volume growth of 14% was recorded, while the growth of off-balance placements reached as much as 31.3%. Significant growth in the SME segment was, inter alia, a result of recognising the clients' needs for a more efficient and simpler loan process through the improvement of business processes, together with attractive credit lines provided in cooperation with foreign creditors (EBRD, EIB ...).

In the large corporate domestic and institutional clients segment the stability was maintained, recording growth of 9.3% in loans and stability in the off-balance sheet transactions. The active client base increased by 7%, while the number of financed clients increased by 9%.

In comparison with the previous year, the multinational segment achieved a significant growth of credit activity and profitability, both through the acquisition of new clients and increased credit activity of the existing clients. A growth of 17.4% was recorded in loans and 93.3% in off-balance sheet transactions, while the active client base increased by 6% and the number of financed clients increased by 16%.

In the previous period, a downward trend related to the share of non-performing loans was evident, with future expectations that this trend will continue in the same direction and that the Bank will build its future growth based on the prudent risk policy.

Transaction banking

The Bank's clients are provided with comprehensive expertise of the local team and access to global transaction banking through the ISP Group. The Bank continues to strengthen relationships with prominent corporate clients, providing them with higher-value services and, at the same time, promoting different transaction banking services.

The Bank continues to upgrade the *Payment Factory* service, which led to an increase in the number of leading multinational corporations that have decided to do business with Banca Intesa, relying on new services, extensive global network and wealth of experience. This service, which enables the centralisation of payments, collection and reporting, is still unique in the domestic market.

The Bank continued to be committed to meeting specific needs of its diverse client base in export/import business with the aim of ensuring smooth performance of relevant trade and financing operations. Compared to the previous year, the volume increase of about 32.9% in documentary business indicates a successful realisation of goals in this business segment.

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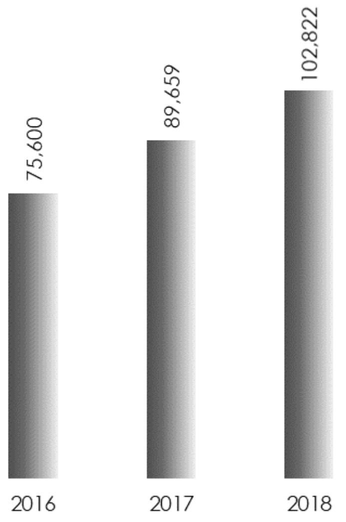
Figure 20 – Guarantees and other commitments (in RSD million)



Factoring

As an important model for providing short-term financing to clients, taking into consideration their needs, in 2018 the factoring volume reached EUR 124 million. Compared to the previous year, it was a growth of 41%, which resulted in a market share increase, confirming commitment to a holistic approach in providing services to customers.

In addition to planned and realised sales activities, activities related to support system and technical improvements continued.

Structured finance

Relying on the strength of the local team and the experience of the ISP Group, Banca Intesa is a reliable partner that provides support to clients in project finance, primarily in the financing of real estate and renewable energy sources, and other forms of structural financing in accordance with corresponding risk characteristics.

The Bank intends to further increase its profitability and market presence through new projects arising from the market potential and upgrading relations with investors, contractors, as well as international real estate advisors present in the market.

In addition, Banca Intesa operates following the Equator principles, which ensure adequate risk management in financing transactions related to renewable energy sources.

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EU Desk

In 2018, with the EU Desk support, Banca Intesa continued to develop and implement products directly or indirectly related to the IPA funds, as well as other European Union Programmes currently available to legal entities in the Republic of Serbia.

Banca Intesa, as a financial intermediary, participates in several concrete programmes of the European Union, through which the Bank's clients are provided access to financing under more favourable conditions.

Regarding the implementation of the EU programmes, as the leader in the domestic market, Banca Intesa took part in another one of the aforementioned programs - the WB EDIF Guarantee Scheme, managed by the European Investment Fund (EIF), adding to its range of products intended for the SME segment. In addition, in October 2018 Bank signed a new credit line agreement with the European Bank for Reconstruction and Development (EBRD) within WeBSEFF II programme intended for financing renewable energy projects.

Additionally, access to relevant information is also provided in terms of possibilities for preferential financing of a selected group of clients, as well as procedural assistance where necessary.

8. Asset Management and Investment Banking

- The leading bank in terms of offering financial instruments for managing local and foreign currency liquidity
- The most favourable exchange rate in the market, available to clients through e-banking
- Education of clients in the field of modern banking services, aimed to timely foreign exchange risk management

Further key policy rate reduction during 2018 and 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. In the previous year, the Ministry of Finance sold RSD 226 billion and EUR 0.565 billion in primary auctions, which represents an increase in debt in local currency securities by 9.33% and a decrease of 52.78% in EUR denominated securities in comparison with 2017. In 2018, Ministry of Finance repaid a Eurobond of the Republic of Serbia in the total nominal amount of USD 1 billion. In the last quarter of 2018, for the first time, the Public Debt Administration announced buy back auctions and redeemed early RSD 20 billion of 3Y benchmark bonds, which mature in February 2019. Among the securities issued in 2018, the highest individual issuance volumes were reached on 5Y and 10Y local currency bonds, which were sold in primary auctions in the total amount of RSD 202 billion.

As regards activities in the secondary market, investors' interest was mainly focused on dinar bonds. Total turnover in both currencies (RSD and EUR) in the secondary market exceeded the amount of bonds sold in the primary auctions.

During 2018, Banca Intesa continually participated in primary and secondary auctions of government securities of the Republic of Serbia for its own account and on behalf of its customers, actively supporting the development of this key segment of the bond market and government fiscal policy. Amidst interest rate decrease in the entire banking sector, an increased interest of domestic and institutional clients has been observed in investing in securities as an alternative to bank deposits. In this regard, Banca Intesa applied a proactive approach in informing clients about the possibilities of investing in government securities and introduced its brokerage services to all interested institutional and individual investors.

During 2018, the Bank's portfolio remained diversified, so, apart from debt securities issued in domestic market in the Republic of Serbia, it includes euro-denominated bonds of the Republic of Italy and dollar-denominated Eurobonds of the Republic of Serbia.

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After reaching its historically lowest level early this year, Serbia`s risk premium remains among the lowest in the region. While rising protectionism, geopolitical tensions and global financial market volatility pushed up the risk premia of emerging economies as a group in the previous months, domestic factors, such as multi-year narrowing in internal and external imbalances, and a favourable growth outlook, ensured that Serbia`s risk premium remains relatively low.

In December 2018, rating agencies improved Serbia's outlook from “stable” to “positive”, affirmed and kept the rating at BB, on the back of strong economic growth and monetary policy results in maintaining price and financial stability.

In 2018 Banca Intesa was again the leading bank regarding the offer of financial instruments for dinar and foreign currency liquidity management. Currency swap contracts and dinar-denominated bonds of the Republic of Serbia are available to customers, primarily intended for investors who prefer to completely or partially hedge the foreign exchange risk.

Banca Intesa retained its leading position in foreign exchange trading operations, with a market share of 14.50% in 2018. The Bank provided the EUR-NET Exchange Rate to its clients, which applies in transactions through the Intesa Mobi application and Intesa On-line e-banking service and represents the most favourable exchange rate since it follows trends in the interbank foreign exchange market in real time. During 2018, the volume of EUR-NET transactions posted a significant increase of 12.43%

Table 1 – Foreign exchange trading (in EUR million)

	2012	2013	2014	2015	2016	2017	2018
Corporate	3,066	3,058	2,772	2,915	3,340	3,567	**4,012**
Retail	299	242	229	226	321	379	**431**
Other banks	2,789	1,510	899	1,313	914	1,012	**693**
NBS	117	73	157	94	99	111	**90**
Total	6,271	4,883	4,057	4,548	4,674	5,069	**5,226**

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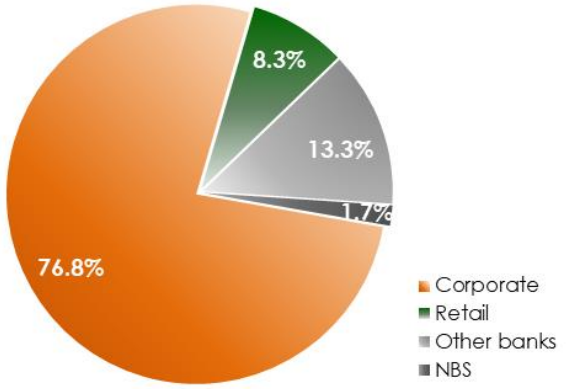
Figure 21 – Customer shares in foreign exchange trading



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.

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9. Corporate Social Responsibility

- Implementation of the highest corporate social responsibility standards continued
- Contribution to the local community development through numerous initiatives and support activities
- Continuous education for employees through a range of specific programmes

Growing community needs require companies to make their resources available to the wider community more than ever, directing them towards support to the resolution of important economic, as well as social and environmental issues. For these reasons, Banca Intesa reaffirmed its strategic commitment to constantly improving its corporate social responsibility (CSR) practices in 2018 as well.

The Bank provided support to the community through a great number of corporate philanthropy projects, strengthening its corporate volunteering culture, increasing the level of financial inclusion and developing financial literacy of various social groups, but also through direct financial support to projects in the field of culture and preservation of cultural heritage, as well as to social and humanitarian initiatives. Moreover, the Bank responded to the needs of its customers in 2018 as well, by providing products of social and environmental importance, ensured their satisfaction, and, at the same time, worked to reduce the negative environmental impact of its business through an advanced system of managing social and environmental risks in the lending process.

Motivated employees are a key precondition for the achievement of strategic goals and good business results, and their satisfaction is one of the key topics in the Intesa Sanpaolo Group and Banca Intesa business plan. Bearing this in mind, Banca Intesa is investing continuous efforts in further strengthening the common corporate culture, fostering open communication, providing equal opportunities for development and advancement, thus creating an important sense of belonging to the Bank and to the whole Group.

In 2018, Banca Intesa continued its comprehensive analysis of the implementation level of the highest CSR standards in different regulatory areas. The integration level assessment lasting several months was conducted according to the ISO 26000 international standard, adopted by Intesa Sanpaolo for the purpose of regular monitoring of the application of the Code of Ethics values and principles in its business practice. This process was conducted with the support of the Bank's top management, and the assessment will enable the Group, and therefore the Bank, to understand even better the areas of practical application of the Code of Ethics values and international standards of responsible governance that need to be promoted further in the forthcoming period.

COMMUNITY

Corporate volunteering

Since 2013, when it launched the Intesa from the Heart corporate volunteering programme, the Bank has aimed to contribute to the community by making available the time, talent and knowledge of its employees.

As a part of this programme, in 2018 Banca Intesa organised the Volunteer Day, the largest annual gathering of volunteer employees. About 150 Bank employees visited Veternik, Home for Persons with Intellectual Disabilities and rehabilitated their living space and sports playgrounds, and organised creative and sports workshops. One of the novelties was that, for the first time, a large number of wards took part in the activities along with the bank volunteers.

During June 2018, the Bank employees participated in Our Belgrade, the largest national volunteer initiative, for the eighth consecutive time, implementing an environmental project of cleaning the river banks and the river bank area of the Great War Island. By participating in the volunteer campaign, Banca Intesa joined the ISP Group in marking the World Environment Day, organised across the world under the slogan Beat the Plastic Pollution.

In addition, in 2018 as well, the Bank encouraged its employees to support social initiatives through the individual volunteering programme. The Bank Officer initiative was organised in cooperation with the United Nations Global Compact and the National Bank of Serbia, while marking of the European Money Week was organised in cooperation with the Association of Serbian Banks.

Corporate philanthropy

The end of the year was marked by the largest humanitarian initiative of Bank employees titled Wrap a Gift, Make a Child Smile. By buying tickets for the big New Year's party, for Bank employees from all over Serbia donated funds that were used for the implementation of child support programmes, as in the previous nine years. The main idea of the Bank's updated concept launched in 2016 is to gather as many employees as possible through attractive musical performances and an adequate concept of New Year's celebrations and motivate them to pool funds for aiding vulnerable groups of children throughout Serbia by buying "tickets". Nearly 1500 employees came together at the humanitarian party in December, and raised more than RSD 1,400,000 for support to NURDOR, the National Association of Parents of Children with Cancer, which will use the funds for the project of new parent house in Belgrade. This year's initiative was innovated with the possibility that the employees themselves make suggestions and choose the organisation that the Bank will support.

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For the applied model of inclusion and sensitisation of employees regarding the issues of vulnerable social groups, as well as the projects, initiatives and volunteer campaigns implemented during the previous year, Banca Intesa received a corporate philanthropy award – the VIRTUS 2018. This award is granted to economic operators that support non-profit campaigns or organisations working towards common good and interest in the most efficient, long-term and effective manner.

Constantly monitoring the needs of the community, in 2018 Banca Intesa allocated over RSD 9.3 million to philanthropic purposes and channelled them to the projects in the field of culture and preservation of cultural heritage, as well as numerous social and humanitarian initiatives.

Among the most important initiatives stand out the support to the Museum of Modern Art, reconstruction of the church Sveti Nikolaj in Vrlika, on the occasion of four centuries of its existence, support to the project of building a kindergarten, assistance to recovery efforts after the fire that damaged the Kragujevac Grammar School at the beginning of the year, as well as the support through humanitarian fundraising campaigns for medical treatment with partner organisations such as BELHospice.

The involvement in initiatives of importance for education improvement was organised through support to the programmes of the Foundation for Young Talents of the City of Belgrade, support to building the extension to the Faculty of Political Sciences building and support to the Mathematical Grammar School for student's participation in competitions.

In addition, the Bank continued to assist the creation of a stable and independent financial mechanism of support to the Paralympic Committee of Serbia, through which it supported the Paralympic Committee with RSD 3.8 million in 2018.

MARKET

Financial inclusion and education

Financial inclusion was an important element of Banca Intesa CSR strategy in 2018 as well. For example, during the process of designing and marketing its products and services, Banca Intesa also took into account specific needs of different social groups in order to increase the availability of financial products to sensitive categories – the youth, senior citizens, women and vulnerable groups. During the year, the Bank also sought to make its financial services equally accessible in the economically underdeveloped parts of our country as well. When refurbishing and opening new branches, Banca Intesa paid special attention to the accessibility of facilities and their adaptation to enable access to persons with disabilities, striving to continuously increase the number of adapted branches.

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The Bank also remained committed to spreading knowledge about economic and financial issues, as well as promoting a culture of informed choice for its customers as well as for the wider community.

In 2018, the Bank continued to implement the Women in Business project and disburse loans from the EBRD credit line and supported female entrepreneurship development programme, which stood out among other inclusive products. During 2018, 372 new loans were approved, totalling close to EUR 3.3 million.

In the financial education area, the year was marked by a women empowerment support project. Marking the World Savings Week, in 2018 our Bank, under the auspices of its parent Intesa Sanpaolo Group and the Turin Savings Museum, continued the programme of financial education and raising awareness of the importance of financial literacy through a series of educational seminars named The Risk? It's a Women's Job, intended for women entrepreneurs. The seminars were held during the Savings Week, from 31 October to 5 November 2018, in all four regional centres of the Bank, Belgrade, Novi Sad, Niš and Kragujevac. The project's strategic goal was to further educate and socially and economically empower, through a series of direct meetings and interactive workshops, as many women entrepreneurs, company owners, managers of social enterprises and start-up companies as possible across Serbia. The lectures brought together more than 200 women, company owners or managers.

The Risk? It's a Women's Job project is a part of the Intesa Sanpaolo Group's broader initiative titled The Art of Saving, carried out for the second consecutive year across Italy and in the markets of ISBD member banks.

ENVIRONMENT

Environmental protection is one of the pillars of sustainability to which Banca Intesa has been committed for years. With the same intensity as in the previous years, 2018 was also marked by efforts to reduce resource consumption in the ordinary course of business. With regard to the application of the responsible financing principle, and taking into account the Bank's direct and indirect impacts on its environment with financial support to society and individuals, as well as the potential risks that can arise by disturbing the social or environmental balance, Banca Intesa continued applying a modern system for managing socio-environmental risks in its customer lending process in 2018 as well. In addition, during 2018, the Bank also confirmed its commitment to environmental protection by participating in the events that promote the necessity of applying the circular and green economy model for the sustainable survival of society.

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WORK ENVIRONMENT

Appreciating the significance and importance of privacy, as well as increasing regulatory requirements in the area of information confidentiality and protection, the Bank recognised the need to strengthen its employees' level of knowledge and awareness of professional standards in business conduct, with a particular focus on positions dealing directly with customers. In June 2018, an initiative titled HR Tour was launched in the form of educational workshops tailored to the business network employees who have most frequent contacts with customers. The workshops' objective was to reaffirm and reinforce general knowledge on the corporate values and principles of the Code of Ethics of Banca Intesa and the whole ISP Group, as well as on key elements of the Bank's Code of Conduct.

The CSR function, in synergy with the colleagues of the Human Resources and Organisation Department, the Customer Satisfaction Office and the Fraud Prevention Office, presented the key aspects of the Code of Ethics and the Code of Conduct to the employees in the business network. In a simple and interactive manner, the workshops emphasised the importance of integrating ethics into daily business activities, with a particular focus on data confidentiality and protection, conflict of interest, fraud prevention and the process of resolving customer complaints. At the same time, the HR Tour project was also recognised as an innovative tool for fostering cooperation within the Bank and an opportunity for promoting common corporate values and culture.

All activities related to the development and education of employees in 2018, resulted from the development needs of employees, so that professionalism, striving for excellence and developing an innovative way of thinking with a constant focus on clients would continue to be our strategic orientation.

More than 12 training days per employee were provided on average, together with the mentorships organised for each of our new employees. There were over 5,000 training days in the classroom, as well as more than 20,000 days of mentorship. Each employee attended 2.5 programmes on the e-learning platform on average, while education via the e-learning system was conducted through 12 different e-learning programmes.

Employee development programmes were continued, of which the most important are the continuous education programme for colleagues at the Head Office targeting the development of managerial skills, communications and team work, as well as the programme of connecting and developing of employees who deal with business intelligence within the Bank. A series of specific programmes for different categories of employees initiated in the previous years continued in 2018, including the innovative SBA Academy for training employees who work or will work with small businesses, which was recognised as the best HR practice within the Intesa Sanpaolo International Subsidiary Bank Division (ISBD).

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In 2018, SBA Professional, a special module intended for experienced colleagues dealing with small businesses, was also added to this programme.

Moreover, in 2018 the implementation of two talent programmes continued – the International Talent Programme within the Intesa Sanpaolo Group, in which selected employees of Banca Intesa gain international experience and additional knowledge in the course of trainings conducted by the most eminent international experts, over three to five years, as well as the Bank's leadership programme for recognised managers, under the name Treasure Leadership Talent Programme (TLT). This programme is characterised by a specific approach to talent development, based on their personal profiles and career goals.

In addition, students in their final year of undergraduate studies were provided an opportunity to acquire first corporate experiences, as part of the second generation of the Junior Programme based on mentoring, specific assignments, rotations and trainings for young colleagues. Last year's first generation was very successful and 90 percent of young participants of this programme have been hired by the Bank.

In 2018 the Bank continued to encourage international career development of its employees, 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 health insurance programme that includes medical treatment abroad in cases of severe illness for all permanent employees in the Group.

Projects for children of employees

In 2018, for the fourteenth consecutive year, Banca Intesa provided an opportunity to about 50 children of its employees to spend two weeks in Italy. In cooperation with the Intercultura Foundation for Intercultural Dialogue and International Youth Exchanges, Banca Intesa again supported the programme of one-year study abroad in 2018 as well. Sports competitions are part of regular activities conducted by the Bank and the Intesa Sanpaolo Group with the aim of enabling the children of employees to meet each other and strengthening the team spirit. For this purpose, more than 160 children of employees participated in a five-day Italian football camp, International ISBD Children's Olympics, Miloš Teodosić Basketball Camp and other sports events during 2018.

Qualification, age and gender structure

The foundation of the Bank's business success in 2018 as well, was the cohesion of energy of new and young colleagues, on the one hand, and work experience of the older colleagues, on the other.

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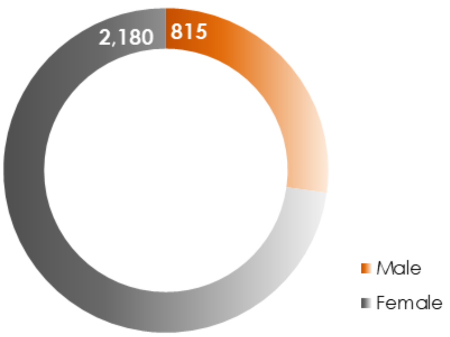
Table 2 – Employee qualifications

Qualification level	up to 30 years	30-40 years	40-50 years	50-60 years	preko 60 years	TOTAL
I				1		1
II				1		1
III		4	13	3		20
IV	69	174	238	198	5	684
V		1	3	2		6
VI	49	315	187	73	5	629
VII/1	239	789	469	128	6	1,631
VII/2		9	9	1	1	20
VIII		1	1	1		3
Total	**357**	**1,293**	**920**	**408**	**17**	**2,995**

Figure 22 – Gender structure



RESEARCH AND DEVELOPMENT ACTIVITIES

Customer satisfaction management

From the customer satisfaction perspective, 2018 represented a continuation of Banca Intesa's strategic approach to be fully committed through the Listening 100% programme to conducting surveys in order to improve customer experience and satisfaction.

In accordance with such orientation, during 2018 Banca Intesa continued with customer satisfaction and loyalty surveys in line with a scientifically tested and recognised approach based on the European Customer Satisfaction Index (ECSI) model. The obtained results confirmed high customer satisfaction and loyalty indices, as well as all relevant indicators, the Net Promoter Score above all.

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Aiming to improve service quality in the Bank's business network, Mystery Shopper research and activities continued. This research is very important, inter alia, because it enables each branch to be analysed as a separate entity and, based on the results obtained, conduct service quality improvements activities, directly influencing the experience and satisfaction of customers who visit those branches most frequently.

Owing to the successful implementation of the Instant Feedback approach in customer experience and satisfaction analysis, which started in 2016 within the small business segment, Banca Intesa applied the same approach for the Magnifica segment, as well as the SME segment. A specificity of this approach to studying customer experience lies in the manner it is conducted, primarily its speed. Namely, the customer is contacted immediately after interaction with the Bank employees, so feedback is collected while the experience is still "fresh". This, in return, enables the Bank to react quickly to eliminate potential causes of dissatisfaction and improve the satisfaction of each customer interviewed. In the following period, this survey approach will be applied, through a comprehensive platform, to other customer segments as well, in order to cover all relevant points of contact between the clients and the Bank.

In line with fast technological developments and customers' expectations, during 2018 the focus was, inter alia, on improvements in digital communications channels, more precisely, on designing the process of using the Bank's products and services without the need to visit a branch. By designing the above mentioned end-to-end process in applying for and approving credit products through the online banking platform, as well as developing and implementing the BizMobi app, the Bank enabled its customers, legal entities, to manage more effectively their money and time. The needs and expectations of customers who prefer visiting a branch were not disregarded either, so during 2018 the comprehensive process of improving business network service quality was continued.

Customer satisfaction survey results in 2018 confirmed that Banca Intesa had successfully built a strong connection with its customers and that they had become and remained active participants in its development, drivers that, among other things, strongly influence the improvement of products and services offered by the Bank to its customers.

Product and service development

In 2018, the Bank continued to invest in digital infrastructure by building flexible and digitally-prepared business models in order to promote efficiency, risk management and sustainable growth. In this way, the Bank further developed and improved its services and products aiming to provide various benefits to its customers.

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In order to attract new customers and conquer new market niches, the Bank has improved digital relationships with clients via internet and mobile banking. A special application for mobile banking was designed for the business segment - BizMobi. This application allows clients to view the account and card balances, as well as conduct daily transactions on the mobile phone.

The service was activated by over 2,800 clients, mainly from the small business segment. The number of transactions conducted through the BizMobi application grew by 9% a week. Only in December 2018, over 16,000 transactions were executed through the BizMobi application, amounting to about RSD 800 million.

When it comes to support to legal entities, the number of merchants on the Nestpay e-commerce platform reached 470. E-commerce transactions accounted for 3.7% of the total number of transactions, and 5.4% in the total volume of e-commerce and POS transactions at the end of the year.

As a part of strategy to stimulate sales outside of branch offices and provide banking services at the place a need arises, the Bank developed an application for selling credit products at the point of sale of the Bank's business partners. In addition, the Bank is developing an application for large merchants that will enable payments via the mobile application, using Near Field Communication (NFC) technology or by scanning QR code at POS terminals. The solution is part of a broader initiative that will enable cooperation with partners from different business areas, such as merchants or technology companies, through the concept of open banking.

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10. Risk Management System

- *A significant reduction in the share of non-performing loans due to a timely and proactive credit risk management. NPL volume and ratio were significantly reduced compared to the previous year. NPL management even exceeded the ambitious expectations defined in the Credit Strategy, Budget and NPL plan. NPL reduction is a consequence of a consistent implementation of efficient work-out strategy, improved credit approval and underwriting process, use of credit rating and early warning systems as well as proactive management of deteriorated credit positions.*
- *Improved credit portfolio quality was also confirmed by better rating distribution and higher coverage of portfolio by loan loss provisions and collateral.*
- *Successful implementation of IFRS 9 standard further improved credit provisioning methodology and prudent bank assets valuation.*

Banca Intesa Beograd continuously identifies, assesses, monitors and controls risks in compliance with the Law on Banks and updated bylaws of the National Bank of Serbia, risk management regulations developed by the European Banking Authority and other international regulators, and ISP Group guidelines, providing an integrated, 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, Executive Board, Audit Committee, Problem Asset Committee (PAC), 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.

During 2018, the Bank introduced changes in the risk management organisation. Chief Risk Officer position was introduced in the Executive Board, with the responsibility for all risk management functions and organizational units in the Bank. CRO area covers credit management (credit analysis, early workout, delinquency management and credit administration), risk management and internal validation. In addition, the Bank has formed two new committees which will have significant roles in risk management coordination, Operational Risk Committee and Integrated Control Coordination Committee. The former committee will be managing all issues related to operational risk, while the latter shall be responsible for coordination of all internal control functions and activities.

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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 2018. 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 risks. 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 were introduced as additional RAF measures. 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.

Through the IFRS 9 project, the Bank developed and implemented a new methodology and models for stage assignment and expected credit loss calculation (asset impairment). In accordance with the methodological approach proposed by the Parent Bank, the Bank has implemented the business model and SPPI tests of all balance sheet positions in order to properly classify assets and liabilities. The IT solution for classification and provisioning has been upgraded accordingly.

The AIRB Implementation project, whose aim is to develop and implement an advanced internal credit measurement system, is being conducted under the supervision of the Parent Bank. During the development, the models are subjected to the approval process comprised of several steps (formalised through pre-defined milestones), controlled by the ISP Foreign Banks Credit Risk Management Department (FBCRM). The Bank has already covered most of its credit portfolio by the internal credit rating system (corporates, small businesses, individuals, banks). Currently focus is on the development of LGD and EAD models, whose implementation will enable the Bank to have the full insight and apply for the approval by the supervisor to use models for regulatory purposes as well.

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.

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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.

During the year, the Bank performed 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 2018 the main activities and results in credit risk management area were the following:

- Implementation of IFRS 9 standard for asset classification and measurement. Through the IFRS 9 project, the Bank developed and implemented a new methodology and models for stage assignment and 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, and put in production an upgraded IT solution for IFRS 9 application purposes;
- Significant decrease in non-performing loans. The NPL volume and ratio were significantly reduced and outperformed the levels expected and defined in the Credit Strategy, Budget and NPL plan. Non-performing loans were reduced from EUR 200 million to EUR 163 million, or by 18.5%. The NPL ratio was reduced from 7.45% to 5.4%, or by 2.1 percentage points. NPL reduction was a result of consistent implementation of effective workout strategies (portfolio sale, transfer to off-balance, collection, return of NPLs to performing loans), 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 second-level credit controls performed by the Credit Quality Monitoring and Control Office, Credit Portfolio Analysis and Administration Department and Rating Desk.
- Significant improvements of the Internal Capital Adequacy Assessment related to the application of the Supervisor's requests defined in the National Bank of Serbia's On-site Diagnostic Study from 2017. The Bank improved different aspects of the process aiming to examine all risks to which it is exposed, their significance and materiality, as well as methods used for internal capital assessment. Some of the main improvements include internal assessment of credit risk shifted from the standardised approach to the internal rating-based approach. The ICAAP Report in 2018 additionally covers the evaluation of capital charge for the country risk and counterparty risk exposure, and estimation of interest rate risk for the HTCS portfolio as a part of entire interest rate risk exposure of the banking book. The consolidated ICAAP report was prepared for the first time.

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- Completion of the first supervisory on-site diagnostic examination of the credit rating models in the corporate segment. The National Bank of Serbia performed a diagnostic examination in the corporate segment The goal of the diagnostic examination was to evaluate the Bank's readiness for the Corporate FIRB application according to upcoming EU validation rules. The Supervisor issued recommendations addressing certain non-compliances with the EU model validation standards so that the Bank could address them before the formal application and validation process. The Bank adopted the Action Plan to respond to the Supervisor's recommendations specifying activities to be taken, deadlines and organisational units responsible for the actions.
- Supervisory Review Evaluation Process (SREP) confirmed the adequate level of risk-weighted assets and capital, as well as the internal capital adequacy methodologies and estimations, and the adequate structure and level of capital and liquidity. Overall estimation of risk is Medium to Low.
- Improvement of the Recovery Plan according to the Supervisor's recommendations. The Recovery Plan is fully integrated in the ISP Group Recovery Plan.
- Introduction of new indicators/limits in the Recovery Plan and Risk Appetite Framework. New indicators cover three risk aspects: earnings stability, asset quality, macroeconomic and market risks.
- Significant progress in the RADAR project aiming to align internal risk data aggregation and reporting systems with the BCBS standard 239 (Principles for Effective Aggregation and Risk Reporting)
- Adoption of new regulation on concentration risk, and amended regulation on capital adequacy and asset classification. The main changes include: abolishment of required loan loss reserve, reduced maximum maturity for cash loans from 10 to 8 years and introduction of maximum debt service to income ratio of 60%.

During 2018, 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.

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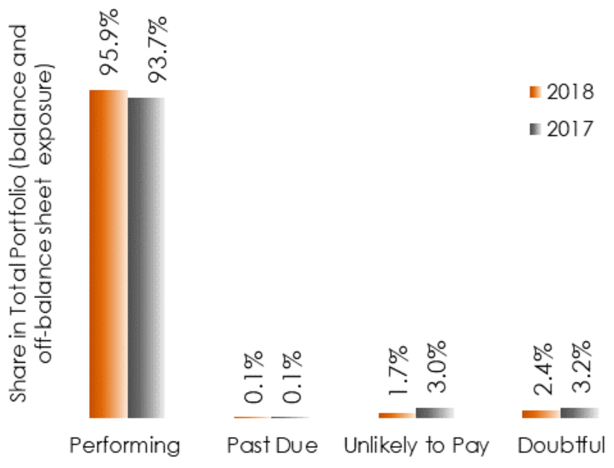
Figure 23 – Credit portfolio quality by class (balance and off-balance sheet exposure)



Apart from the significant NPL reduction, the Bank also posted a large increase in new production. Credit portfolio growth was not achieved at the expense of higher credit risk; instead, the portfolio quality measured by rating distribution was improved owing to a consistent application of the Credit Strategy and Credit Policy. Low-risk clients account for 45%, medium-risk clients account for 48%, while high-risk clients account for 7% of all internally rated clients.

Figure 24 – Credit portfolio quality based on internal rating zones

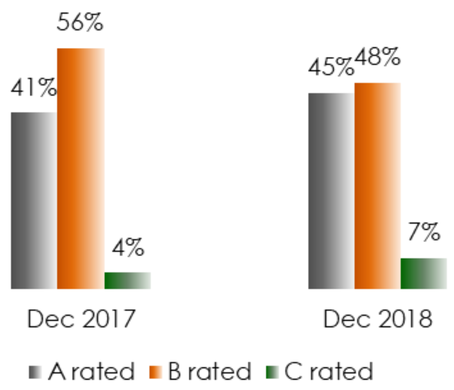


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Figure 25 – Portfolio distribution by segment

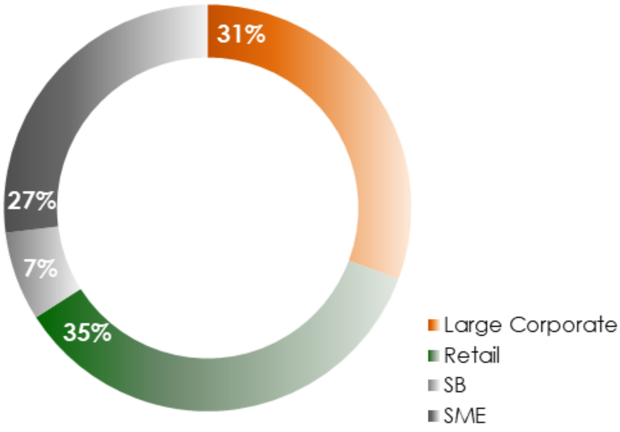
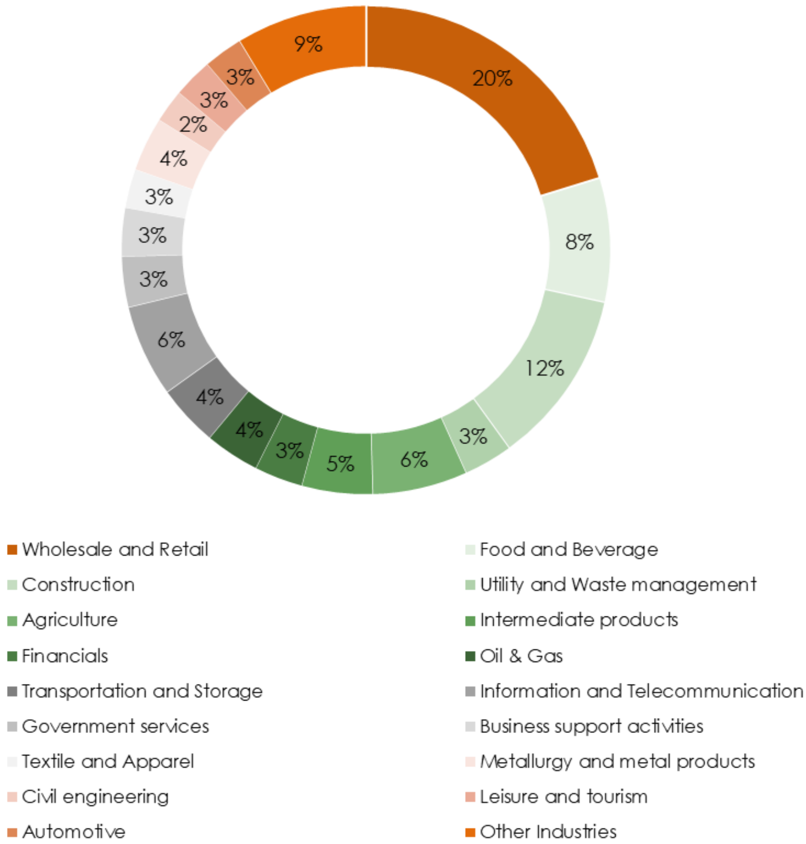


Figure 26 – Portfolio distribution by industry



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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 (20%), Construction (12%) and Food and Beverage (8%).

Throughout 2018, the Bank performance was in line with the RAF risk appetite and tolerance limits defined by the Board of Directors, as well as within the regulatory limits defined by the National Bank of Serbia. Limit utilisation is monitored and reported on a regular basis to the business units, the Parent Group, and relevant corporate governance bodies.

In 2018, Banca Intesa continued developing its internal credit rating models for the purpose of converging to the standards of advanced credit risk measurement standards. 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 in the credit process of individuals' credit applications. Both models were validated and back-tested during 2018. Moreover, the Internal Validation Office performed back-testing of the SB-SE and SB-DE models that are used for managerial purposes. In addition, in 2018 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.

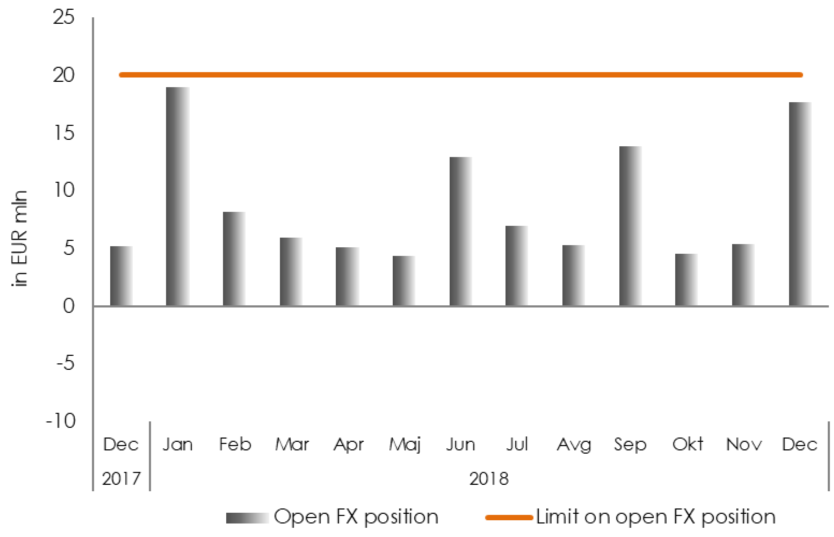
Market risks

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 2018, 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 open FX position not to be closed immediately but in the course of a few days.

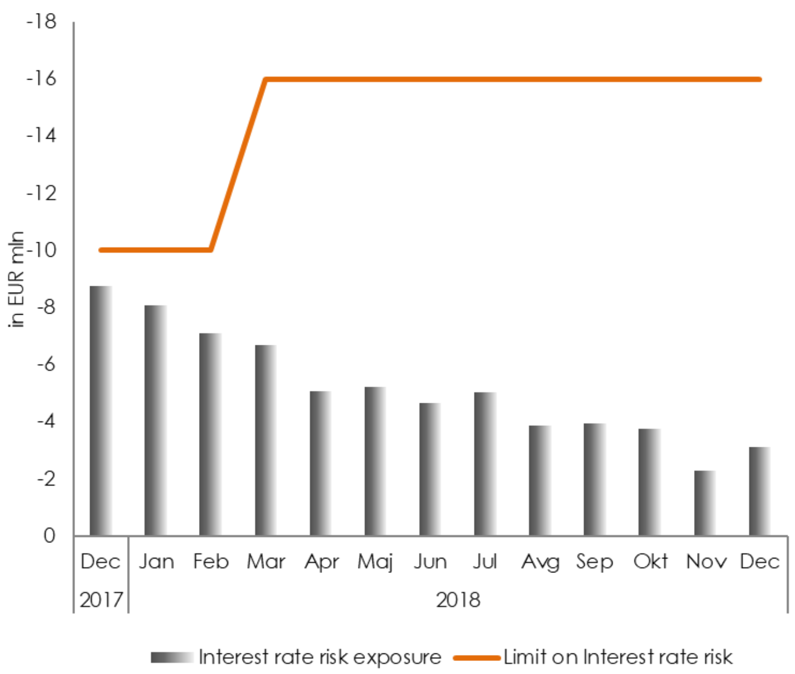
Figure 27 – Trend of foreign exchange risk exposure



Regarding interest rate risk, the Trading Book was constantly within the defined limits for all risk measures: position, Value at Risk, duration.

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.

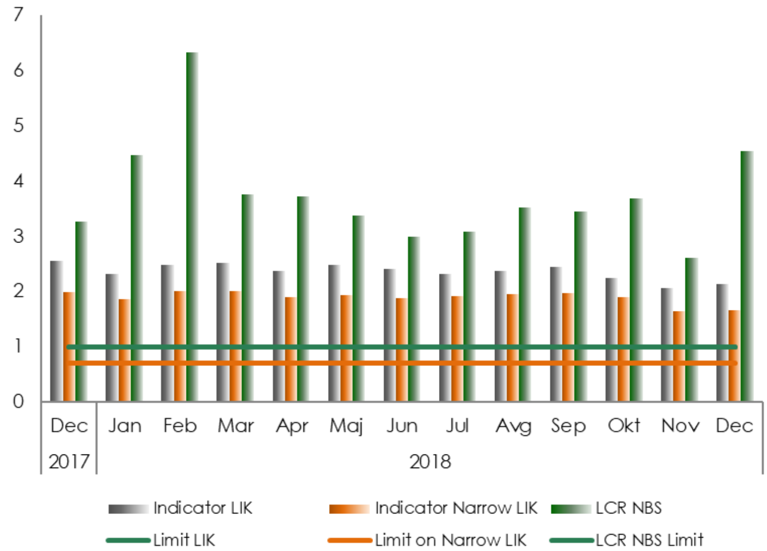
Figure 28 – Trend of interest rate risk exposure



Liquidity risk

In the course of 2018, the liquidity level of Banca Intesa was above the minimum requirement 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.

Figure 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.

Operational risks in 2018 were higher than 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 latest assessment of exposure to operational risk, it was estimated that the expected and unexpected losses are almost the same as in the previous year, and in line with the Bank's size, complexity and business model.

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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 2018.

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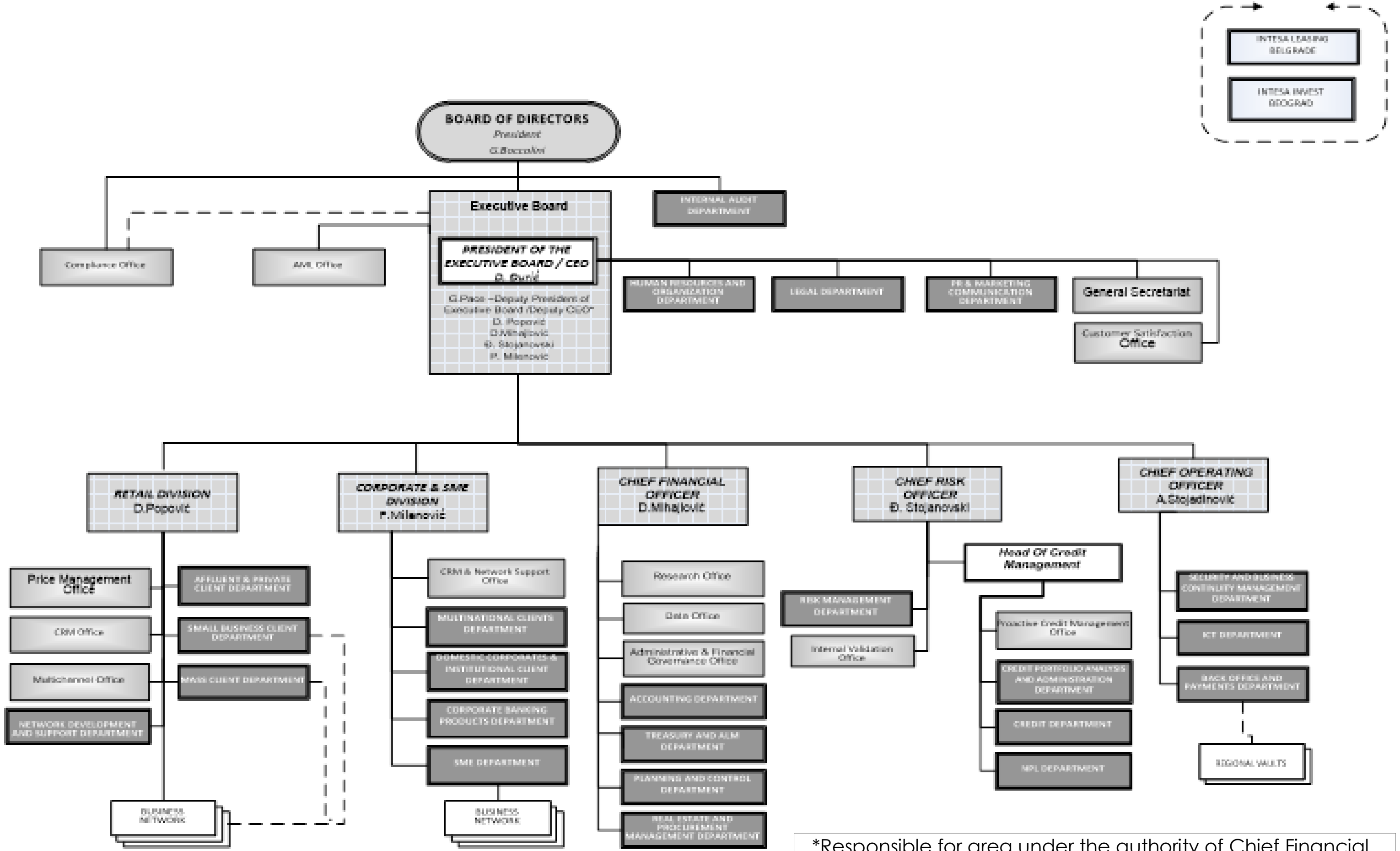
12. Organisational Chart



*Responsible for area under the authority of Chief Financial Officer, Chief Risk Officer, and Chief Operating Officer as well as for Project Management in terms of strategic projects.

*In its operation so far, the Bank has not established or operated through a subsidiary.

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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
Arandjelovac	**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
Bajina Bašta	**Bajina Bašta, Kneza Milana Obrenovića 22**	Kragujevac	Kneza Milana Obrenovića 22
Batajnica	**Zemun, Batajnica, Majke Jugovića 1**	Beograd	Majke Jugovića 1
Bečej	**Bečej, Novosadska 2**	Novi Sad	Novosadska 2
Beočin	**Beočin, Trg Cara Lazara 8**	Novi Sad	Trg Cara Lazara 8
Beograd	**Čukarica, Požeška 128**	Beograd	Požeška 128
Beograd	**Čukarica, Požeška 45**	Beograd	Požeška 45
Beograd	**Čukarica, Trgovačka 15**	Beograd	Trgovačka 15
Beograd	**Novi Beograd, Bulevar maršala Tolbuhina 34**	Beograd	Bulevar maršala Tolbuhina 34
Beograd	**Novi Beograd, Jurija Gagarina 14**	Beograd	Jurija Gagarina 14
Beograd	**Novi Beograd, Jurija Gagarina 36b**	Beograd	Jurija Gagarina 36b
Beograd	**Novi Beograd, Milentija Popovića 7b**	Beograd	Milentija Popovića 7b
Beograd	**Novi Beograd, Milentija Popovića 7v**	Beograd	Milentija Popovića 7v
Beograd	**Novi Beograd, Milutina Milankovića 134g**	Beograd	Milutina Milankovića 134g
Beograd	**Novi Beograd, Nedeljka Gvozdenovića 24a**	Beograd	Nedeljka Gvozdenovića 24a
Beograd	**Novi Beograd, Omladinskih brigada 90**	Beograd	Omladinskih brigada 90
Beograd	**Novi Beograd, Otona Župančića 1**	Beograd	Otona Župančića 1
Beograd	**Novi Beograd, Partizanske avijacije 14**	Beograd	Partizanske avijacije 14
Beograd	**Palilula, 27. marta 23**	Beograd	27. marta 23
Beograd	**Palilula, Borča, Ivana Milutinovića 73**	Beograd	Ivana Milutinovića 73
Beograd	**Palilula, Marjane Gregoran 60**	Beograd	Marjane Gregoran 60
Beograd	**Rakovica, Miška Kranjca br. 12**	Beograd	Miška Kranjca br. 12
Beograd	**Rakovica, Vidikovački venac 80b**	Beograd	Vidikovački venac 80b
Beograd	**Rakovica, Vukasovićeva 50a**	Beograd	Vukasovićeva 50a
Beograd	**Savski Venac, Nemanjina 4**	Beograd	Nemanjina 4
Beograd	**Savski Venac, Vase Pelagića 48b**	Beograd	Vase Pelagića 48b
Beograd	**Stari Grad, Cara Dušana 50**	Beograd	Cara Dušana 50
Beograd	**Stari Grad, Džordža Vašingtona 8**	Beograd	Džordža Vašingtona 8
Beograd	**Stari Grad, Knez Mihailova 30**	Beograd	Knez Mihailova 30
Beograd	**Stari Grad, Kolarčeva 5**	Beograd	Kolarčeva 5
Beograd	**Stari Grad, Studentski trg 7**	Beograd	Studentski trg 7
Beograd	**Surčin, Vojvođanska 85**	Beograd	Vojvođanska 85
Beograd	**Voždovac, Banjica, Crnotravska 7-9**	Beograd	Crnotravska 7-9
Beograd	**Voždovac, Braće Jerković 137b**	Beograd	Braće Jerković 137b
Beograd	**Voždovac, Kumodraška 174**	Beograd	Kumodraška 174
Beograd	**Voždovac, Ustanička 69**	Beograd	Ustanička 69
Beograd	**Voždovac, Vojvode Stepe 77**	Beograd	Vojvode Stepe 77
Beograd	**Vračar, Bore Stankovića 9**	Beograd	Sarajevska 31
Beograd	**Vračar, Bulevar oslobođenja 3**	Beograd	Bulevar oslobođenja 3
Beograd	**Vračar, Južni Bulevar 84**	Beograd	Južni Bulevar 84
Beograd	**Vračar, Kneza Miloša 23**	Beograd	Kneza Miloša 23
Beograd	**Vračar, Kursulina 41**	Beograd	Kursulina 41

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Location	Name of the branch	Regional centre	Address
Beograd	**Zvezdara, Bulevar Kralja Aleksandra 330**	Beograd	Bulevar Kralja Aleksandra 330
Beograd	**Zvezdara, Bulevar Kralja Aleksandra 79**	Beograd	Bulevar Kralja Aleksandra 79
Beograd	**Zvezdara, Mirijevski venac 23**	Beograd	Mirijevski venac 23
Bogatić	**Bogatić, Vojvode Stepe 35**	Kragujevac	Vojvode Stepe 35
Bor	**Bor, Đorđa Vajferta 3**	Niš	Đorđa Vajferta 3
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
Despotovac	**Despotovac, Despota Stefana Lazarevića 50**	Niš	Despota Stefana Lazarevića 50
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, Kneza Lazara 5-6**	Niš	Kneza Lazara 5-6
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, Kralja Aleksandra I Karađorđevića 120**	Kragujevac	Kralja Aleksandra I Karađorđevića 120
Kragujevac	**Kragujevac, Kralja Petra I 19**	Kragujevac	Kralja Petra I 19
Kragujevac	**Kragujevac, Save Kovačevića 12 b**	Kragujevac	Save Kovačevića 12 b
Kraljevo	**Kraljevo, Trg Jovana Sarića 8**	Kragujevac	Trg Jovana Sarića 8
Kruševac	**Kruševac, Vece Korčagina 18**	Kragujevac	Vece Korčagina 18
Kruševac	**Kruševac, Vidovdanska 4**	Kragujevac	Vidovdanska 4
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
Niš	**Niš, Bulevar Nemanjića 28-32**	Niš	Bulevar Nemanjića 28-32
Niš	**Niš, Milojka Lešjanina 1**	Niš	Niš, Milojka Lešjanina 1
Niš	**Niš, Obrenovićeva 82 (Fontana)**	Niš	Obrenovićeva 82 (Fontana)
Niš	**Niš, Sinđelićev trg 18**	Niš	Sinđelićev trg 18
Niš	**Niš, Vizantijski bulevar 78**	Niš	Vizantijski bulevar 78
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 Cara Lazara 79a**	Novi Sad	Bulevar cara Lazara 79a
Novi Sad	**Novi Sad, Bulevar Jovana Dučića 1**	Novi Sad	Bulevar Jovana Dučića 1
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 Oslobođenja 76a**	Novi Sad	Bulevar Oslobođenja 76a
Novi Sad	**Novi Sad, Bulevar Oslobođenja 8**	Novi Sad	Buleva Oslobođenja 8
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
Obrenovac	**Obrenovac, Miloša Obrenovića 133-135**	Kragujevac	Miloša Obrenovića 133-135
Pančevo	**Pančevo, Karađorđeva 2-4**	Novi Sad	Karađorđeva 2-4
Pančevo	**Pančevo, Štrosmajerova 1**	Novi Sad	Štrosmajerova 1

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Location	Name of the branch	Regional centre	Address
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
Senta	**Senta, Zlatne grede 6**	Novi Sad	Zladne grede 6
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
Srbobran	**Srbobran, Zmaj Jovina 18**	Novi Sad	Zmaj Jovina 18
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
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
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**	Beograd	Glavna 30
Zemun	**Zemun, Gornjogradska 38**	Beograd	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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