KOMERCIJALNA BANKA AD

PUBLIC COMPANY'S ANNUAL CONSOLIDATED REPORT FOR 2018

CONTENTS

Completed by bank		
Registration number: 07737068	Activity code: 6 4 1 9	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

BALANCE SHEET - CONSOLIDATED
as at 31.12.2018

(in RSD thousand)

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount	
					Closing balance	Opening balance
1	2	3	4	5	6	7
00 (except 002), 010, 025, 05 (except 050, 052 and part of 059), 060, 07, 085, 196, 296 and parts of account 009, 019, 029, 069, 089, 199 and 299	**ASSETS** Cash and assets held with the central bank	0001	3; 22	73.992.039	56.076.748	
	Pledged financial assets	0002		-	-	
125, 225	Receivables under derivatives	0003	3; 23	4.070	-	
120, 122, 124, 220, 222, 224, 129 and 229	Securities	0004	3; 24	137.514.720	121.522.580	
002, 01 (except 010 and part of 019), 020, 028, 050, 052, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, 493 and 593 as deductibles (SSKR-SS code 1 (without code 17), code 70 and parts of codes 71 and 74) and parts of account 009, 029, 059, 089, 199 and 299	Loans and receivables from banks and other financial organisations	0005	3; 25	21.037.537	30.233.555	
01 (except 010 and part of 019), 020, 028, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, 493 and 593 as deductibles (SSKR – SS code 17 and all other codes, except code 70 and parts of codes 71 and 74) and parts of account 029, 089, 199 and 299	Loans and receivables from clients	0006	3; 26	191.448.642	174.242.139	
123 and 223	Change in fair value of hedged items	0007		-	-	
126 and 226	Receivables under hedging derivatives	0008		-	-	
130, 131, 230, 231,part of 139 and part of 239	Investments in associated companies and joint ventures	0009		-	-	
132, 232, part of 139 and part of 239	Investments into subsidiaries	0010		-	-	
33	Intangible investments	0011	3; 27	627.468	498.387	
34	Property, plant and equipment	0012	3; 28	6.047.384	6.017.200	
35	Investment property	0013	3; 29	2.259.815	2.380.564	
034 and part of 039	Current tax assets	0014	21	1.650	5.622	
37	Deferred tax assets	0015	21	840.967	863.527	
36	Non-current assets held for sale and discontinued operations	0016	30	659.003	787.618	
021, 022, 024, 027, 03 (except 034 and part of 039), 081, 082, 084, 087, 09, 134,192, 194, 195, 234, 292, 294, 295, 30, 38 and parts of account 029, 089, 139, 199, 239 and 299	Other assets	0017	3; 31	7.153.664	7.480.376	
	TOTAL ASSETS (from 0001 to 0017)	0018		**441.586.959**	**400.108.316**	

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount	
					Closing balance	Opening balance
1	2	3	4	5	6	7
411 and 511	**LIABILITIES** LIABILITIES **Liabilities under derivatives**	0401	3; 32	-	7.845	
40, 420, 421, 490, 50, 520, 521, 590, part of 193 and part of 293 as deductibles (SSKR – SS code 1 (without code 17), code 70 and parts of codes 71 and 74)	Deposits and other liabilities to banks, other financial organisations and central bank	0402	3;33	8.228.284	6.137.776	
40, 420, 421, 490, 50, 520, 521, 590, part of 193 and part of 293 as deductibles (SSKR – SS code 17 and all other codes, except code 70 and parts of codes 71 and 74)	Deposits and other financial liabilities to clients	0403	3;34	350.668.156	317.577.748	
417 and 517	Liabilities under hedging derivatives	0404		-	-	
418 and 518	Change in fair value of hedged items	0405		-	-	
410, 412, 415, 423, 496, 510, 512, 515, 523, 596, 127 and 227 as deductibles	Liabilities under securities	0406		-	-	
424, 425, 482, 497, 524, 525, 582, 597, part of 193 and part of 293 as deductibles	Subordinated liabilities	0407		-	-	
450, 451, 452, 453 and 454	Provisions	0408	3; 35	1.808.853	1.551.883	
46	Liabilities under assets held for sale and discontinued operations	0409		-	-	
455	Current tax liabilities	0410	21	11.044	1.751	
47	Deferred tax liabilities	0411	21	14.677	1.647	
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0412	36	9.333.894	7.729.550	
	TOTAL LIABILITIES (from 0401 to 0412)	0414		**370.064.908**	**333.008.200**	**-**
80	CAPITAL Share capital	0415	3; 37	40.034.550	40.034.550	
128	Own shares	0416		-	-	
83	Profit	0417	37.1	9.277.755	8.357.092	
84	Loss	0418	37.1	1.481.701	1.665.678	
81 and 82 – credit balance	Reserves	0419	3; 37.1	23.691.381	20.374.087	
81 and 82 – debit balance	Unrealized losses	0420		-	-	
	Non-controlling participation	0421	3;37	66	65	
	TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) ≥ 0	0422		**71.522.051**	**67.100.116**	**-**
	TOTAL CAPITAL SHORTFALL 0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) < 0	0423		**-**	**-**	**-**
	TOTAL LIABILITIES (0413 + 0421 - 0422)	0424		**441.586.959**	**400.108.316**	**-**

In Belgrade

On 12.03. 2019.

Legal representative of the bank

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Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, 14, Svetog Save		

INCOME STATEMENT - CONSOLIDATED

in the period from January 1st to December 31 st, 2018

(in RSD thousand)

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	3; 8	15.092.523	15.358.399
60	Interest expenses	1	0	0	2	3; 8	1.145.879	1.841.161
	Net interest gains (1001-1002)	1	0	0	3		**13.946.644**	**13.517.238**
	Net interest losses (1002-1001)	1	0	0	4		**-**	**-**
71	Income from fees and commissions	1	0	0	5	3; 9	7.653.028	7.159.507
61	Expenses on fees and commissions	1	0	0	6	3; 9	2.112.581	1.745.906
	Net gains from fees and commissions (1005 - 1006)	1	0	0	7		**5.540.447**	**5.413.601**
	Net losses on fees and commissions (1006 - 1005)	1	0	0	8		**-**	**-**
774-674+776-676+777-677	Net gains from changes in fair value of financial instruments	1	0	0	9	3; 10	48.572	61.620
674-774+676-776+677-777	Net losses from changes in fair value of financial instruments	1	0	1	0		-	**-**
727+728-627-628	Net gains from reclassification of financial instruments	1	0	1	1		-	**-**
627+628-727-728	Net losses on reclassification of financial instruments	1	0	1	2		-	**-**
720-620+721-621	Net gains from derecognition of the financial instruments measured at fair value	1	0	1	3	3; 11	247.084	102.523
620-720+621-721	Net losses on derecognition of the financial instruments measured at fair value	1	0	1	4		-	**-**
775-675+770-670	Net gains from hedging	1	0	1	5		-	-
675-775+670-770	Net losses on hedging	1	0	1	6		-	**-**
78-68	Net exchange rate gains and gains from agreed currency clause	1	0	1	7		-	-
68-78	Net exchange rate losses and losses on agreed currency clause	1	0	1	8	3;12	1.532	77.402
750-650+751-651+756-656+760-660+729-629	Net income from reduction in impairment of financial assets not measured at fair value through income statement	1	0	1	9	3;13	51.681	36.342
650-750+651-751+656-756+660-760+629-729	Net expenses on impairment of financial assets not measured at fair value through income statement	1	0	2	0		-	-
726-626	Net gains from derecognition of the financial instruments measured at amortised cost	1	0	2	1	14	526.547	-
626-726	Net losses on derecognition of the financial instruments measured at amortised cost	1	0	2	2		-	-
723-623	Net gains from derecognition of investments in associated companies and joint ventures	1	0	2	3	15	-	306
623-723	Net losses on derecognition of investments in associated companies and joint ventures	1	0	2	4		-	**-**

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
74, 766	Other operating income	1	0	2	5	3; 16	174.795	201.359
	TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1	0	2	6		**20.534.238**	**19.255.587**
	TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1	0	2	7		**-**	**-**
63, 655 - 755	Salaries, salary compensations and other personal expenses	1	0	2	8	3; 17	5.043.937	5.130.812
642	Depreciation costs	1	0	2	9	3; 18	629.754	625.680
752, 753, 761, 762, 767, 768, 773	Other income	1	0	3	0	19	375.392	778.982
64 (осим 642), 652, 653, 661, 662, 667, 668, 673	Other expenses	1	0	3	1	20	6.854.773	6.961.694
	PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1	0	3	2		**8.381.166**	**7.316.383**
	LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1	0	3	3		**-**	**-**
850	Profit tax	1	0	3	4	3; 21	18.376	9.381
861	Gains from deferred taxes	1	0	3	5	3; 21	702.775	1.366.704
860	Losses on deferred taxes	1	0	3	6	3; 21	685.231	405.710
	PROFIT AFTER TAX (1032-1033-1034+1035-1036) ≥ 0	1	0	3	7		**8.380.334**	**8.267.996**
	LOSSES AFTER TAX (1032-1033-1034+1035-1036) < 0	1	0	3	8		**-**	**-**
769-669	Net profit from discontinued operations	1	0	3	9		-	-
669-769	Net losses on discontinued operations	1	0	4	0		-	-
	RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1	0	4	1		**8.380.334**	**8.267.996**
	RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1	0	4	2		**-**	**-**
	Profit belonging to a parent entity	1	0	4	3		**8.380.332**	**8.267.995**
	Profit belonging to non-controlling owners	1	0	4	4		**2**	**1**
	Losses belonging to a parent entity	1	0	4	5		**-**	**-**
	Losses belonging to non-controlling owners	1	0	4	6		**-**	**-**
	EARNINGS PER SHARE							
	Basic earnings per share (in dinars, without paras)	1	0	4	7	3; 37.2	484	482
	Diluted earnings per share (in dinars, without paras)	1	0	4	8	3; 37.2	484	482

In Belgrade
On 12.03.2019

Legal representative of the bank

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Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

in the period from January 1st to Decembre 31st, 2018

(in RSD thousand)

Group of accounts, account	ITEM	ADP code	Note No	Current year	Previous year
1	2	3	4	5	6
	PROFIT FOR THE PERIOD	2001		8.380.334	8.267.996
	LOSS FOR THE PERIOD	2002		-	-
820	Other comprehensive income for the period **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves based on intangible assets and fixed assets	2003		-	-
820	Decrease in revaluation reserves based on intangible assets and fixed assets	2004		-	-
822	Actuarial gains	2005	35;37	53.844	25.985
822	Actuarial losses	2006	35;37	248	286
821	Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	37	230.026	190.723
821	Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008		-	-
825	Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009		-	-
825	Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010		-	-
825	Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011		-	-
825	Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012		-	-
825	Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013		-	-
825	Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014		-	-
823	**Components of other comprehensive income that may be reclassified to profit or loss:** Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	37	17.976	70.977
823	Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	37	218.660	448.975
824	Gains from cash flow hedges	2017		-	-
824	Losses from cash flow hedges	2018		-	-
826	Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019		-	-
826	Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	37	10.582	268.955
826	Unrealised gains from hedge of net investments in foreign operations	2021		-	-
826	Unrealised losses from hedge of net investments in foreign operations	2022		-	-

Group of accounts, account	ITEM	ADP code				Note No	Current year	Previous year
1	2	3				4	5	6
826	Unrealised gains from other hedging instruments	2	0	2	3		-	-
826	Unrealised losses from other hedging instruments	2	0	2	4		-	-
826	Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2	0	2	5		-	-
826	Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2	0	2	6		-	-
82	Tax gains relating to other comprehensive income for the period	2	0	2	7	37	34.091	68.146
82	Tax losses relating to other comprehensive income for the period	2	0	2	8	37	55.421	115.013
	Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	2	0	2	9		**51.026**	**-**
	Total negative other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) < 0	2	0	3	0		**-**	**477.398**
	TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2	0	3	1		**8.431.360**	**7.790.598**
	TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2	0	3	2		**-**	**-**
	Total positive comprehensive income for the period attributable to the parent entity	2	0	3	3		**8.431.358**	**7.790.597**
	Total positive comprehensive income for the period attributable to non-controlling owners	2	0	3	4		**2**	**1**
	Total negative comprehensive income for the period attributable to the parent entity	2	0	3	5		-	**-**
	Total negative comprehensive income for the period attributable to non-controlling owners	2	0	3	6		-	-

In Belgrade,

Date 12.03.2019

Legal representative of the bank

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Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

CASH FLOW STATEMENT - CONSOLIDATED
in the period from 01.01 to 31.12.2018

(in RSD thousand)

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
A. I.	**CASH FLOW FROM OPERATING ACTIVITIES** **Cash inflow from operating activities (from 3002 to 3005)**	3001	**24.165.499**	**25.477.618**
1.	Interest	3002	15.259.607	16.831.503
2.	Fees	3003	7.658.142	7.130.230
3.	Other operating income	3004	1.239.225	1.506.720
4.	Dividends and profit sharing	3005	8.525	9.165
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	**14.498.061**	**16.078.175**
5.	Interest	3007	1.149.108	2.330.310
6.	Fees	3008	2.082.570	1.732.233
7.	Gross salaries, salary compensations and other personal expenses	3009	4.950.310	5.319.334
8.	Taxes, contributions and other duties charged to income	3010	950.252	952.230
9.	Other operating expenses	3011	5.365.821	5.744.068
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	**9.667.438**	**9.399.443**
IV.	**Net cash outflow from operating activities before an increase or decrease in financial assets and financial liabilities (3006 - 3001)**	3013	**-**	**-**
V.	**Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)**	3014	**38.820.086**	**9.116.184**
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	-
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	918.426	9.116.184
12.	Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	37.901.660	-
14.	Increase in other financial liabilities	3019	-	-
15.	Increase in liabilities under hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3021	**12.279.151**	**19.762.558**
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	12.279.151	9.158.441
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	-	-
18.	Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	-	10.604.117
20.	Decrease in other financial liabilities	3026	-	-
21.	Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	**36.208.373**	-
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	**-**	**1.246.931**
22.	Profit tax paid	3030	5.126	15.211
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	**36.203.247**	**-**
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	**-**	**1.262.142**

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
B. **I.**	**CASH FLOW FROM INVESTING ACTIVITIES** **Cash inflow from investing activities (from 3035 to 3039)**	3034	**42.486.574**	**55.015.287**
1.	Investment in investment securities	3035	42.419.693	54.892.983
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	3.447	3.422
4.	Sale of investment property	3038	63.434	118.882
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	**59.249.571**	**52.116.437**
6.	Investment into investment securities	3041	58.607.653	51.604.856
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	611.512	511.581
9.	Purchase of investment property	3044	27.098	-
10.	Other outflow from investing activities	3045	3.308	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	**-**	**2.898.850**
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	**16.762.997**	**-**
C. **I.**	**CASH FLOW FROM FINANCING ACTIVITIES** **Cash inflow from financing activities (from 3049 to 3054)**	3048	**87.230.198**	**88.053.291**
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	87.230.198	88.053.291
4.	Issuance of securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	**91.165.062**	**99.385.677**
7.	Purchase of own shares	3056	-	
8.	Subordinated liabilities	3057	-	5.923.635
9.	Loans taken	3058	91.165.062	93.462.042
10.	Issuance of securities	3059	-	
11.	Other outflow from financing activities	3060	-	
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	**-**	**-**
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	**3.934.864**	**11.332.386**
D.	**TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)**	3063	**192.702.357**	**177.662.380**
E.	**TOTAL CASH OUTFLOW** **(3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	**177.196.971**	**187.358.058**
F.	**NET INCREASE IN CASH (3063-3064)**	3065	**15.505.386**	**-**
G.	**NET DECREASE IN CASH (3064-3063)**	3066	**-**	**9.695.678**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	**28.957.649**	**39.661.743**
I.	**EXCHANGE RATE GAINS**	3068	**777.270**	**843.573**
J.	**EXCHANGE RATE LOSSES**	3069	**710.170**	**1.851.989**
K.	**CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)**	3070	**44.530.135**	**28.957.649**

In Belgrade
On 12.03.2019.

Legal representative of the bank

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Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED
in the period from 01.01. to 31.12.2018

(in RSD thousand)

No	DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 128)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total comumns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	Total (columns 2-3+4+5+6-7+8-9+10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
1	**Opening balance as at 1 January of the previous year**	4001	17.191.466	4033	-	4065	22.843.084	4097	19.320.508	4129	6.507.144	4147	67.159	4165	545.985	4203	7.048.674	4241	66	4285	59.292.420	4291	-
2	Effects of the first implementation of new IFRS - increase	4002	-	4034	-	4066	-	4098	-	4130	-	4148	-	4166	-	4204	-	4242	-	x	x	x	x
3	Effects of the first implementation of new IFRS – decrease	4003	-	4035	-	4067	-	4099	-	4131	-	4149	-	4167	-	4205	-	4243	-	x	x	x	x
4	Changes in accounting policies and correction of prior period error – increase	4004	-	4036	-	4068	-	4100	-	4132	-	4150	-	4168	-	4206	-	4244	-	x	x	x	x
5	Changes in accounting policies and correction of prior period error – decrease	4005	-	4037	-	4069	-	4101	-	4133	-	4151	-	4169	-	4207	-	4245	-	x	x	x	x
6	**The adjusted opening balance as at 1 January of the previous year (No. 1+2-3+4-5)**	4006	17.191.466	4038	-	4070	22.843.084	4102	19.320.508	4134	6.507.144	4152	67.159	4170	545.985	4208	7.048.674	4246	66	4286	59.292.420	4292	-
7	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4135	102.454	4153	4.056	x	x	x	x	4247	-	x	x	x	x
8	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4136	565.840	4154	46.091	x	x	x	x	4248	-	x	x	x	x
9	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4171	8.267.995	x	x	4249	1	x	x	x	x
10	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4209		4250		x	x	x	x
11	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4172	-	4210	-	4251	-	x	x	x	x
12	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4173	-	4211	-	4252	-	x	x	x	x
13	Transactions with owners recognized directly in equity – increase	4007	-	4039	-	4071	-	4103	-	x	x	x	x	4174	-	4212	-	4253	-	x	x	x	x
14	Transactions with owners recognized directly in equity – decrease	4008	-	4040	-	4072	-	4104	-	x	x	x	x	4175	-	4213	-	4254	-	x	x	x	x
15	Distribution of profit – increase	4009	-	4041	-	4073	-	4105	1.686	x	x	x	x	4176	-	4214	-	4255	-	x	x	x	x
16	Distribution of profit and/or coverage of losses – decrease	4010	-	4042	-	4074	-	4106	4.861.264	x	x	x	x	4177	352.895	4215	5.212.472	4256	-	x	x	x	x
17	Dividend payments	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	16.808	4216	-	4257		x	x	x	x
18	Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	19.881	4217	-	4258		x	x	x	x
19	Other – decrease	4013	-	4045	-	4077	-	4109	21.407	x	x	x	x	4180	107.066	4218	170.524	4259	2	x	x	x	x
20	**Total transactions with owners (No. 13-14+15-16-17+18-19) ≥ 0**	4014	-	4046	-	4078	-	4110	-	x	x	x	x	4181	-	4219	-	4260	-	x	x	x	x
21	**Total transactions with owners (No. 13-14+15-16-17+18-19) < 0**	4015	-	4047	-	4079	-	4111	4.880.985	x	x	x	x	4182	456.888	4220	5.382.996	4261	2	x	x	x	x
22	**Balance as at 31 December of the previous year (No. 6+7-8+9-10+11-12+20-21 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 6+8-7)**	4016	17.191.466	4048	-	4080	22.843.084	4112	14.439.523	4137	6.043.758	4155	109.194	4183	8.357.092	4221	1.665.678	4262	65	4287	67.100.116	4293	-

No	DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 128)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total comumns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	Total (columns 2-3+4+5+6-7+8-9+10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
23	**Opening balance as at 1 January of the current year**	4017	17.191.466	4049	-	4081	22.843.084	4113	14.439.523	4138	6.043.758	4156	109.194	4184	8.357.092	4222	1.665.678	4263	65	4288	67.100.116	4294	-
24	Effects of the first implementation of new IFRS - increase	4018		4050	-	4082	-	4114	-	4139	222.611	4157	-	4185	-	4223	46.350	4264	-	x	x	x	x
25	Effects of the first implementation of new IFRS – decrease	4019		4051	-	4083	-	4115	100.823	4140	105.324	4158	108.862	4186	1.155.433	4224	-	4265	-	x	x	x	x
26	Changes in accounting policies and correction of prior period error – increase	4020		4052	-	4084	-	4116	-	4141	-	4159	-	4187	-	4225	-	4266	-	x	x	x	x
27	Changes in accounting policies and correction of prior period error – decrease	4021		4053	-	4085	-	4117	-	4142	-	4160		4188	-	4226	-	4267	-	x	x	x	x
28	**Adjusted opening balance as at 1 January of the current year (No. 23+24-25+26-27)**	4022	17.191.466	4054	-	4086	22.843.084	4118	14.338.700	4143	6.161.045	4161	332	4189	7.201.659	4227	1.712.028	4268	65	4289	66.023.659	4295	-
29	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4144	26.749	4162	75	x	x	x	x	4269	-	x	x	x	x
30	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4145		4163		x	x	x	x	4270	-	x	x	x	x
31	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4190	8.380.332	x	x	4271	2	x	x	x	x
32	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4228	-	4272	-	x	x	x	x
33	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191	-	4229	-	4273	-	x	x	x	x
34	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192	-	4230	-	4274	-	x	x	x	x
35	Transactions with owners recognized directly in equity – increase	4023	-	4055	-	4087	-	4119	-	x	x	x	x	4193	-	4231	-	4275	-	x	x	x	x
36	Transactions with owners recognized directly in equity – decrease	4024	-	4056	-	4088	-	4120	-	x	x	x	x	4194	-	4232	-	4276	-	x	x	x	x
37	Distribution of profit – increase	4025	-	4057	-	4089	-	4121	3.166.101	x	x	x	x	4195		4233	-	4277	-	x	x	x	x
38	Distribution of profit and/or coverage of losses – decrease	4026	-	4058	-	4090	-	4122	-	x	x	x	x	4196	3.392.409	4234	226.308	4278	-	x	x	x	x
39	Dividend payments	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	2.535.916	4235	-	4279	-	x	x	x	x
40	Other – increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	23.509	4236	-	4280	-	x	x	x	x
41	Other – decrease	4029	-	4061	-	4093	-	4125	957	x	x	x	x	4199	399.420	4237	4.019	4281	1	x	x	x	x
42	**Total transactions with owners (No. 35-36+37-38-39+40+41) ≥ 0**	4030	-	4062	-	4094	-	4126	3.165.144	x	x	x	x	4200	-	4238	-	4282	-	x	x	x	x
43	**Total transactions with owners (No. 35-36+37-38-39+40+41) < 0**	4031	-	4063	-	4095	-	4127	-	x	x	x	x	4201	6.304.236	4239	230.327	4283	1	x	x	x	x
44	**Balance as at 31 December of the current year (No. 28+29-30+31-32+33-34+42-43 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 28+30-29)**	4032	17.191.466	4064	-	4096	22.843.084	4128	17.503.844	4146	6.187.794	4164	257	4202	9.277.755	4240	1.481.701	4284	66	4290	71.522.051	4296	-

In Belgrade
Date 12.03.2019

Legal representative of the bank

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KOMERCIJALNA BANKA AD BEOGRAD

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2018

Belgrade, March 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

Komercijalna banka ad, Belgrade (hereinafter "The Parent Bank") was established on December 1, 1970, and was transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered in the Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991. The tax identification number of the Parent Bank is 100001931.

The largest share in the controlling activities of the parent banks is:

Republic of Serbia	41.75%
EBRD, London	24.43%

The parent bank has three dependent legal entities with ownership:

- 100% - Komercijalna banka ad, Podgorica, Montenegro
- 100% - Investment Management Company KomBank INVEST ad, Belgrade, Serbia
- 99.998% - Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina.

The minority owner in Komercijalna banka ad, Banja Luka, with 0.002% is the Agency for Export, Insurance and Financing of the Republic of Serbia.

Consolidated financial statements and notes to the consolidated financial statements are the data of the Parent Bank, Komercijalna Banka AD, Podgorica, Komercijalna Banka ad, Banja Luka and KomBank INVEST ad Investment Company, Belgrade (in further text: "Group").

Komercijalna banka ad, Podgorica was founded in November 2002 as an affiliate of Komercijalna banka ad, Belgrade and registered in the central registry of the Commercial Court in Podgorica on March 6, 2003. The registration number of Komercijalna banka ad, Podgorica is 02373262. Komercijalna banka ad, Budva, in July 2018, changed the name and Head office location from Komercijalna banka a.d. Budva in Komercijalna banka a.d. Podgorica with headquarters in Podgorica.

Komercijalna banka AD, Banja Luka was established in September 2006 and on September 15, 2006 it was registered in the court register by the Decision of the Basic Court in Banja Luka. The registration number of Komercijalna banka ad, Banja Luka is 11009778.

Investment Management Company KomBank INVEST ad, Belgrade was established in December 2007 and registered on February 5, 2008. The Company's registration number is 20379758.

The Group's activities include credit, deposit and guarantee operations and payment transactions in the country and abroad in accordance with the Banking Law, as well as investment fund management activities. The Group is obliged to operate according to the principles of liquidity, safety and profitability.

On December 31, 2018, the Group consists of: the head office and the headquarters of the Home Bank in Belgrade, at St. Sava Street no. 14; the headquarters of Komercijalna banka ad, Podgorica in Podgorica – Cetinjska 11, Business Centre Capital Plaza; headquarters of Komercijalna banka ad, Banja Luka in Banja Luka - Jevrejska street no. 69; the head office of the Investment Management Company KomBank INVEST AD, Belgrade, Belgrade, Kralja Petra br.19; 6 business centres, 19 branches and 211 branches in the territory of Serbia, Montenegro and Bosnia and Herzegovina (2017: 11 business centres, 13 branches and 220 branches).

As at 31 December 2018, the Group had 3,076 employees, and on 31 December 2017 had 3,106 employees.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for compiling and presenting consolidated financial statements

The Group's consolidated financial statements for 2018 were compiled in accordance with International Financial Reporting Standards (IFRS).

The attached consolidated financial statements are presented in the format prescribed by the Decision on the Forms and Contents of Positions in the Forms of the Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 101/2017, 38/2018, 103/2018).

Consolidated financial statements have been prepared in accordance with the historical cost principle, unless otherwise stated in the accounting policies set out below.

In preparing these financial statements, the parent bank applied the accounting policies set out in Note 3.

During 2018, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The individual financial statements have been audited by external auditors, in accordance with local regulations.

For the purpose of preparing consolidated financial statements, individual financial statements of subsidiary banks have been adapted to the presentation of financial statements based on the accounting regulations of the Republic of Serbia.

The consolidated financial statements of the Group are expressed in thousands of RSD. Dinar represents the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are quoted in RSD and rounded up in thousands.

Functional currencies of the EUR from the financial statements of Komercijalna banka AD, Podgorica and BAM from the financial statements of Komercijalna banka ad, Banja Luka are converted into the reporting currency, i.e. the functional currency of the Parent bank - dinar (RSD) on the basis of the official published rates in the Republic of Serbia.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2018:

- **IFRS 9 Financial Instruments**

  The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. For detailed information on the effects and disclosures please see the Notes 4.1 and 4.1.1.

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

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

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

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

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

  The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

  The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2. Changes in accounting policy and disclosures (continued)

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

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

  The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. It is not expected that the requirements of these improvements will have significant effect on Group's financial statements.

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

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

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

IFRS 16 is released in January 2016. year and replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases-Incentives and SIC-27 evaluation of the substance of transactions involving the legal form of rent. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leasing and requires tenants to calculated all leases within one model similar to the accounting for financial leasing according to IAS 17. Standard includes two exemptions from recognition for leasees – leases of "low-value assets" (e.g. Personal computers) and short term leases (i.e. leases with lease term of 12 months or less). On the start date of the lease, the lessee will acknowledge the obligation for payment of leases (i.e. the obligation for leasing) and asset is the right to use the asset over the life of the lease (i.e. the right to use the funds). The lessee will be required to separately recognised cost interest on obligation of leasing and the cost at which the right to the use of the funds.

Accounting for leasors under IFRS 16 has remained essentially unchanged in comparison to the accounting under IAS 17. Leasors will continue to classify all contracts using the same principle as a classification according to IAS 17 and distinguish between two kinds of leases: operating and financial leasing.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requests more detailed disclosures from the lessee and the leasor than IAS17 requested.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Transition to IFRS16

The Group has made the transition to IFRS 16 in accordance with the modified retrospective approach. Comparative data from previous years are not corrected.

The Group has chosen to use exceptions, which are the proposed by the standard for the contracts for which the lease ends within 12 months from the date of the initial application, as well as the contracts for which the underlying asset can be considered a low-value assets. The Group has agreements to lease certain office equipment, printing and photocopying devices which are classified as low-value assets.

The following categories of leases have been identified as a result of transition to IFRS 16 from 1 January 2019, that were previously recognized as an operating lease, leases now qualify as defined per standard: real estate, technical equipment and vehicles. At the first-time adoption, right of use of leased assets is generally measured using average incremental borrowing rate that varies from 0.3324% to 2.4310% for EUR and 2.8660% to 4.1253% for RSD contracts. The first time adoption resulted in recognition of lease liabilities in Parent Bank accounting records in total of RSD 1,349,455 thousand and, accordingly, right of use of assets in balance sheet as of 1 January 2019 in the preliminary amount of RSD 1,349,455 thousand.

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

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

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

  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be ‘negative compensation’), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that these amendments will have significant effect on Group’s financial statements.

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

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

- **IFRIC INTERPETATION 23: Uncertainty over Profit tax Treatments**

  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for Profit taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that this interpretation will have significant effect on Group’s financial statements.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that these amendments will have significant effect on Group's financial statements.

- **Conceptual Framework in IFRS standards**

  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**

  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. It is not expected that these amendments will have significant effect on Group's financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that these amendments will have significant effect on Group's financial statements.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

In the preparation and presentation of the financial statements for the period January-December 2018, the implementation of IFRS 9 amended the NBS regulatory framework, according to which the banks were obliged to apply new forms of financial statements with validity starting from January 1st 2018.

According to the amended regulations, the banks were obliged to adapt the data from the pre-calendar year to the new structure without modifying the financial data.

During the preparation of the financial statements for 2018, the Group applied new accounting policies in the part of financial instruments and enabled the allocation of credit losses to all accounting periods in which the benefits from the assets inflow to the entity, which is a prerequisite for determining the correct result.

(a) Consolidation

The parent bank has control over the following legal entities, the consolidation of which has been made in these financial statements:

Legal entity	Share in entity's capital
Komercijalna banka ad, Podgorica, Montenegro	100%
Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina	99.99%
Investment Management Company KomBank INVEST a.d., Belgrade	100%

The Consolidated Income Statement and the Consolidated Cash Flow Statement have been reclassified using the average exchange rate in the Republic of Serbia for 2018 of 118.2752 for one EUR and 60.4731 for one BAM and other consolidated financial statements (balance sheet, other comprehensive income and statement of changes in equity) by applying the closing exchange rate on the balance sheet date of 118.1946 for one EUR or 60.4319 for one BAM.

(b) Conversion of foreign exchange amounts

Business changes in foreign currency are translated into RSD at the middle exchange rate of the currency that was valid on the day of the business change.

Monetary positions in foreign currency assets and liabilities, which are measured at cost, are translated into RSD according to the middle exchange rate prevailing at the balance sheet date. Foreign exchange differences arising from the translation of foreign exchange positions are presented in the income statement. Non-monetary positions of assets that are measured at cost in foreign currency are translated into RSD according to the average exchange rate of the currency that was valid on the day of the business change.

The most important currencies used in the conversion of balance sheet items denominated in foreign currency, as determined by the National Bank of Serbia, were the following:

In RSD

	2018	2017
USD	103.3893	99.1155
EUR	118.1946	118.4727
CHF	104.9779	101.2847
BAM	60.4319	60.5741

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense is recognized in the income statement using the effective interest rate method. An effective interest rate is the rate at which future cash flows are discounted over the expected period of financial assets or liabilities (or, if necessary, for a shorter period) to its present value.

When calculating the effective interest rate, Group members estimate future cash flows taking into account all contractual terms relating to a financial instrument, but not future losses that may arise.

The calculation of the effective interest rate includes all paid or received fees and charges, which are an integral part of the effective interest rate – loan approval fees as well as annexation fees.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability.

Recognition of interest income on impaired loans is done by net principle, by reducing the gross accrued interest for the amount of the impairment, or for the amount that is certain that it will not be charged.

Recognition of interest income on impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes significantly impaired, from the moment of initial recognition, it becomes Stage 3, and interest income is calculated using an alternative concept of unwinding - IRC method by reducing the accrued interest income associated with it with the allowance for impairment losses recognized in the current year, whereby interest receivable is recognized at gross principle.

Interest income and expense for all assets and liabilities traded is considered to be incidental to the trading activities of the Group's members and are presented together with all other changes in the fair value of assets and liabilities traded under net trading income.

(d) Fees and commissions

Income from fees and commissions and expense, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate.

Other income from fees and commissions is recorded at the moment of services provided. Income from fees and commissions includes revenues from international and domestic payment services, issuance and use of payment cards, issuance of guarantees, letters of credit and other banking services.

Other fees and commissions are mainly related to fees based on transactions and services performed and are recorded at the moment of receiving the service.

(e) Net gains based on the fair value of financial instruments measured

Net gain based on the fair value of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net gains on the derecognition of financial instruments at fair value

Net gains on derecognition of financial instruments at fair value refer to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

(g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are shown in the position of other income.

(h) Operational and financial leasing

All payments made during the year under operating lease are recorded as an expense in the income statement equally straightforward over the lease term. Approved leasing incentives are recognized within the total cost of leasing during the lease period.

The minimum lease rate for a financial lease is allocated between the financial costs and the reduction of the remaining amount of the financial lease liability. Financial expenses are divided into all periods during the lease period, giving a uniform periodic interest rate for the remaining amount of the lease obligation.

(i) Tax expense

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the income statement except to the extent that they relate to items that are recognized directly within the capital or within the other comprehensive income.

(I) Current Profit tax

Current tax represents the expected liability or profit tax receivable for the accounting period, using tax rates applicable or effective at the reporting date, with appropriate tax adjustments from the previous year.

(II) Deferred taxes

Deferred taxes are determined in relation to temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the value of assets and liabilities for tax purposes. When defining deferred taxes, the tax rates that are expected to be applied at the time of occurrence of temporary differences are used and based on the legal regulations that were applied at the reporting date.

Deferred tax assets and deferred tax liabilities are netted if there is a legal right to net current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected the amount of deferred tax liabilities or assets.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and tax credits that can be transferred to subsequent fiscal periods to the extent that there is likely to be a taxable profit from which tax loss is transferred and loans can be reduced. Deferred tax assets are subject to an analysis at the end of each reporting period and are adjusted to the extent that it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(III) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, the Group members pay different taxes and contributions, value added tax, capital gains tax and earnings contributions. These expenditures are included in "Other Expenses".

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets
A financial asset is any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right to receive cash or another financial asset from another entity; or
- a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments

Financila liabilities

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity; or
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

Principles of valuation of financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

The Group assesses the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the way in which business operations are managed and the manner in which management reports.
The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows.

The business model determines whether cash flows arises from the collection of contracted cash flows, the sale of a financial asset or both. A business model for the classification of financial assets is determined at the appropriate level of aggregation.

Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist solely of principal and interest payments on the remaining principal (SPPI criterion).

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Financial assets can be classified into the following categories:

- financial assets measured at amortized cost (AC)
- financial assets measured at fair value through profit and loss account (FVTPL)
- financial assets measured at fair value through other comprehensive income through the income statement - "recycling" (FVOCI)
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Group categorizes all placements from its portfolio relating to:

- **Loans and receivables** as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Group does not intend to sell in the short term
- **Securities** that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- **Securities, which include debt securities and equity securities (capital instruments)**:
    - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
    - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
    - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and

- **Financial derivatives** that include forward and swap transactions.

Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

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

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

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

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

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

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

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

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

The Group has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered.

Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

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

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other comprehensive income.

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

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

Stage 1

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

Stage 2

All financial instruments in which significant increase in credit risk has been realized are classified in stage 2, and impairment allowance are calculated on the basis of expected losses for the entire lifetime of the instrument.

The Group is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be days past due of 31 to 90 days of repayment, customer restructuring, and client being on the watch list.

Stage 3

As in accordance with IAS 39, financial instruments are included in stage 3, where there is objective evidence of impairment. There is no change in the treatment of loans classified in that stage, apart from the fact that multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Group also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Group has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

The effect of the first time adoption of IFRS 9 as of 1 January 2018 is recorded through the retained earnings. The Group will not restate comparative data for previous years on the basis of changes relating to classification and valuation as well as impairment. The Group will recognize differences in the carrying amounts of financial assets that arise from the application of IFRS 9 within equity as at 1 January 2018.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(III) Derecognition

Members of the Group cease to recognize a financial asset when the contractual rights over cash flows associated with an asset expire, or when a member of the Group transfers the transaction with all essential rights and benefits related to the ownership of a financial asset or if it does not transfer or retain all substantive property rights, but does not retain control over a financial asset. All ownership of a transferred financial asset that meets the criteria for termination of recognition that a Group member has created or retained is recognized as a separate asset or liability in the balance sheet. Upon derecognition of a financial asset, the difference between the carrying amount (or the carrying amount of the part of the asset transferred), and collect the received remuneration (including new assets acquired less for new assumed liabilities), as well as the aggregate gains or losses previously recognized in the report on the total result are recognized in the income statement.

A member of the Group carries out transactions by which it transfers the assets recognized in his balance sheet, although he reserves all or substantially, all the risks and benefits or part of the transferred assets. If all or substantially all risks and benefits are retained, then there is no cessation of recognition of the asset. The transfer of funds by retaining all or substantially all risks and benefits includes, for example, re-purchase transactions.

In the case of transactions in which a member of the Group neither holds, nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, a member of the Group continues to recognize the asset to the extent that its relationship with the asset continues, which is determined on based on its exposure to changes in the value of the transferred asset. A member of the Group shall execute the obligation when the obligation is settled, terminated or transferred to another.

(IV) Netting

Financial assets and liabilities are netted and the net amount is disclosed in the statement of financial position only when the Group has the legal right to net recognized amounts and when it intends to settle liabilities on a net basis or at the same time realize the asset and settle the obligation.

Income and expense is disclosed by net principle only when permitted by IFRS or for income and expenses arising from a group of similar transactions, such as transactions held by the Group's members in trading.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with a maturity shorter than 3 months, low risk of change in value, used by the members of the Short-Term Liquidity Management Group.

Cash is measured at amortized cost in the balance sheet.

(l) Property and equipment

(I) Recognition and measurement

Initial measurement of property and equipment is done at cost or at purchase price.

The cost includes expenses directly attributable to the acquisition of the asset. Purchased software, which is an integral part of the software necessary for the functional usability of the equipment, is capitalized as part of this equipment.

After initial recognition, the equipment is measured at cost less accumulated amortization and total accumulated losses due to the decrease in value.

After initial recognition, the property is valued at the revaluation amount, which represents their fair value at the revaluation date less the subsequent accumulated amortization and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis in order to ensure that the carrying amount does not differ significantly from the value that would have been achieved using fair value at the end of the reporting period.

When parts of the property or equipment have different useful lives, they are kept as separate items (main components) of the equipment.

Gains or losses arising from the disposal of property and equipment are determined as the difference between the value of their sale and their carrying amount and are recorded in other income or expenses.

(II) Subsequent costs

The cost of replacing an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Group member and if the cost of the cost of that part can be reliably measured. The carrying amount of the replacement part is written off. The cost of regular servicing of property and equipment is recognized in the income statement when it arises.

(III) Depreciation

Depreciation is recognized in the income statement in equal annual amounts over the estimated useful lives of a given item of real estate, plant and equipment, since this way best reflects the expected consumption of the useful economic value contained in the asset. Leased assets are depreciated during the lease period or useful life of the asset, depending on the period of time it is shorter.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and equipment (continued)

The applied depreciation rates in the current and previous accounting period are:

Description	Estimated useful life (in years)	%
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 - 15	6.70% -50.00%
Investments in other fixed assets	1 - 23.5	4.25% -86.20%

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.
Maintenance costs are recognized in the income statement for the period in which they are incurred.

(m) Intangible assets

Intangible assets are valued at cost or purchase price less depreciation and impairment losses.

Subsequent costs from investing in intangible assets can only be capitalized in the event of increased future economic benefits from the assets to which they relate. All other costs represent the expense of the period in which they were incurred.

Depreciation is presented in the income statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of non-material investments is 3 to 10 years, i.e. depreciation rates range from 10.00% to 33.34%.

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

(n) Investment property

Investment properties represent real estate held to earn rental income or capital appreciation for both purposes and not for sale in a regular course of business or for use in the production or purchase of goods or services or for administrative purposes.

Initial valuation of investment property is carried out at cost, ie price cost. The purchase value of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

For the subsequent evaluation of investment property, the Group members use the cost model, ie investment property is measured at cost less accumulated amortization and impairment losses.

Estimated lifetime of investment property is 40 years, and depreciation is calculated at a rate of 2.50%. Depreciation is presented in the income statement in equal annual amounts during the estimated useful lives of the given real estate item, since this way best reflects the expected consumption of the useful economic value contained in the asset.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(o) Leasing

In 2018, members of the Group classified lease contracts for real estate and equipment according to the rules of IFRS 17, which has been effective as of December 31, 2018. The classification rules of the Standard will be applied from January 2019. IFRS 16 defines the initial recognition, measurement and disclosure of leases for both parties to the contract, or for the recipient and the lessor. More detailed in Note 2.3: *Standards that were issued, but have not yet entered into force and have not been adopted before.*

Under the leasing agreement, the members of the Group appear as a leasing user. Members of the Group classify leasing as financial in the case when the contract regulates that all risks and benefits on the basis of ownership of the leased object are transferred to the leasing user. All other leasing contracts are classified as operating lease contracts.

Leasing contracts relating to the lease of business premises in which the branches are located are mainly related to operational leasing. All payments made during the year under operating lease are recorded as the cost in the statement of the total result equally straightforward over the lease term.

Funds held under a finance lease are recognized as assets of the Group's members at their fair value or, if that value is lower, at the present value of the minimum lease payments determined at the beginning of the lease term. An appropriate obligation to the lessor is included in the financial position statement as a financial lease liability. The leasing rate is divided into the portion referring to the financial cost and the part that reduces the obligation on the basis of financial leasing, so that a constant interest rate on the remaining part of the obligation is achieved. The financial cost is expressed directly as the expense of the period.

(p) Impairment of non-financial assets

The carrying amount of non-financial assets is analysed at the end of each reporting period in order to determine whether there are indicators indicating that their impairment has occurred. In case it is determined that there are certain indicators of impairment, the recoverable amount of the assets is determined. An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is determined as a value that is greater than the asset's fair value and fair value. For the purposes of determining the use value, estimated future cash inflows from the asset are discounted to their present value, using a pre-tax discount rate, reflecting the current market estimate of the time value of money as well as asset-specific risks.

An impairment loss is recognized in the case where the carrying amount of an asset is greater than its recoverable amount. An impairment loss is recognized within the results of the period.

Impairment losses from previous periods are estimated at the end of each reporting period in order to determine whether loss reductions have occurred or that they no longer exist. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount of the asset. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, less amortization, in the event that there was no recognition of the impairment loss.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(q) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities are the main source of financing for the Group.

The Group members classifies financial instruments as financial liabilities or as equity in accordance with the substance of the contractual terms for a specific instrument.

Deposits, debt securities, loans and subordinated liabilities are initially valued at fair value plus all direct transaction costs, while their subsequent valuation is carried at amortized cost using the effective interest rate method.

(r) Provisions

Provision is recognized when a Group expects, as a result of past events, to have a present legal or enforceable obligation that can be reliably identified and whose settlement is expected to result in an outflow of resources representing economic benefits to the Group. The provision is determined by discounting the expected future cash outflows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where appropriate, the risks specific to the obligation.

(s) Benefits of employees

In accordance with regulations, members of the Group are obliged to pay liabilities to state funds to ensure the social security of employees. These obligations include employee contributions at the expense of the employer in amounts calculated according to the rates laid down by relevant legal regulations. Members of the Group are also obliged to suspend contributions from employees' gross salaries and to pay them on behalf of employees. Contributions made at the expense of the employer and contributions made at the expense of the employee shall be credited to the expense of the period to which they relate.

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at 31 December 2018, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in Note 35.

(t) Financial guarantees

Financial guarantees are contracts that a Group member is obligated to make to their customers for losses incurred due to default of a particular debtor by default, and in accordance with the terms of the debt instrument.

Liabilities for financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the term of the financial guarantee. The liability under the guarantee is subsequently measured in the amount that is greater than the amortized value and the present value of the expected future payment (when the payment on the basis of the guarantee is likely). Financial guarantees are recorded under off-balance sheet items.

(u) Capital and reserves

The Group's capital includes founding shares, future issuance shares, emission premium, reserves, fair value reserves, accumulated results and the result of the current year.

The Group's capital was formed from the investments made by the founders of the Parent bank and the minority founder of Komercijalna banka ad, Banja Luka in cash and non-cash form. The founder may not withdraw funds invested in the Group's capital.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(v) Earnings per share

The parent bank displays basic and reduced earnings per share for its own ordinary shares. The basic earnings per share is calculated by dividing the gain or loss attributable to the owners of ordinary shares of the Parent Bank weighted average of the number of ordinary shares in circulation during the period.

The reduced earnings per share is calculated by dividing the adjusted gain or loss attributable to ordinary shareholders for the effects of preferential, convertible shares, weighted average of the number of ordinary shares in circulation during the period.

(w) Segment reporting

The business segment is part of the Group - a member of the Group, which independently deals with business activities from which revenues can be generated and incurred, including revenues and expenses arising from transactions with other members of the Group, whose business result is regularly controlled by the parent bank's management (as the main operational decision maker), to make decisions about resource allocation by segments and evaluate their results. Separate audited financial statements are available for business segments of the Group

In accordance with the International Financial Reporting Standard 8 - Business Segments, the Group also discloses information about the operation of operational segments, thus providing information users with additional information on revenues and expenditures arising from key business activities (Note 6.2).

When determining the operational segments, the following were used:

a) Different products and services that segments offer;
b) Separate Segment Management and
c) Structure of internal reporting

4. RISK MANAGEMENT

The banking group recognized the risk management process as a key element of business management, since exposure to risks stems from all business activities, as an inseparable part of banking operations, managed through identification, measurement, evaluation, monitoring, control and mitigation, or the establishment of risk limits , as well as reporting in accordance with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment.

The risk management process includes clearly defining and documenting the risk profile, as well as its alignment with the Group's preference for risk and risk tolerance, in accordance with adopted strategies and policies.

Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Group is exposed, maintaining the required level of capital adequacy, maintaining the participation NPL in total loans to acceptable level for the Group, the highest acceptable level of non-performing loans, maintenance of indicators of liquid assets coverage above the level and regulated by regulations and internal limits, the development of the Group's activities in accordance with the business strategy and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

In view of the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, adequate changes were made in the internal acts regulating risk management. By amending the Strategy and the Risk Management Policy, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of non-performing receivables.

At the beginning of 2018, the Group performed the harmonization of internal acts (methodologies and procedures) in accordance with the amendments of the regulations of the National Bank of Serbia in the area of accounting and financial reporting, introducing the obligation to apply the International Financial Reporting Standard 9 in banks (IFRS 9). The aforementioned amendments prescribe the obligation for banks to, from January 1, 2018 calculate the credit losses in accordance with this Standard. In accordance with IFRS 9, the Group has adopted a new Methodology for assessing the impairment of balance sheet assets and probable loss on off-balance sheet items, which is applicable from January 1, 2019.

Risk Management System

The risk management system is defined by the following acts:

- Risk Management Strategy and Strategy and Capital Management Plan;
- Risk management policies;
- Risk management procedures;
- Methodologies for managing individual risks;
- Other acts.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The risk management strategy defines:

• Long-term goals, determined by the Bank's business policy and strategy, as well as the risk and risk tolerance set in line with those goals;
• Basic principles of risk transfer and management;
• Basic principles of the internal assessment of the Group's capital adequacy;
• Overview and definitions of all risks to which the Group is or may be exposed.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Group.

The Banking Group has identified the basic principles of risk management in order to fulfil its long-term goals:

• Organization of the business of a separate organizational unit for risk management;
• Functional and organizational separation of risk management activities from the Group's regular business activities;
• Comprehensive risk management;
• Effectiveness of risk management;
• Cyclical risk management;
• Developing risk management as a strategic commitment;
• Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

• Active risk management;
• Preventive measures and activities aimed at minimizing further deterioration in asset quality;
• Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
• Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
• Assessment of the borrower's financial condition;
• A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
• Segregation of bad assets;
• Principle of materiality in defining possible measures;
• Increased frequency of monitoring the value of collateral and the funds obtained from collection;
• Organizational separation of the Sector for Prevention and Management of Risk Placements;
• Transparent reporting.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

Management policies for certain types of risk define in more detail:

• The way of organizing the banking risk management process of the Banking Group and the clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
• The method of assessing the risk profile of the banking group and the methodology for identifying and measuring, or risk assessment;
• Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the banking Group uses and their structure;
• The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
• Measures to mitigate risks and rules for the implementation of these measures;
• Method and methodology for implementing the process of internal capital adequacy assessment of the banking group;
• Principles of functioning of the internal control system;
• The framework and frequency of stress testing, as well as handling in cases of adverse stress test results.

Risk Management Procedures the Group details the risk management process and the responsibilities and responsibilities of all organizational parts of the parent Bank and members of the banking group in the risk management system.

The individual methodologies of the Group members set out in more detail the methods and approaches used in the risk management system.

Jurisdictions

The *Board of Directors* is in charge and responsible for the adoption of the strategy and policies for risk management and capital management strategy, establishing a system of internal controls and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementing the process internal capital adequacy assessments, and others.

The *Executive Board* is responsible and accountable for the implementation of the risk management strategy and strategy and the capital management strategy by adopting risk management procedures, i.e. identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Board of Directors in relation to those activities. Also, the Executive Board analyses the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Group's exposure to a person related to the Group and shall notify the Management Board accordingly.

4. RISK MANAGEMENT (continued)

Jurisdiction (continued)

The *Audit Committee (Business Monitoring Committee)* is responsible and accountable for the analysis and supervision of the application and adequate implementation of the adopted strategies and policies for risk management and internal control systems of the parent Bank and the Group. At least once a month, the Board of Directors reports on its activities and irregularities and proposes the way in which they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

The *Assets and Liabilities Management Committee* is competent and responsible for monitoring the exposure to risks arising from the structure of balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk. Each member of the Group has an Asset and Liability Management Committee.

The *Credit Committee* decides on credit requirements within the framework of the Bank's founding regulations, analyses the exposure of the parent Bank to credit, interest and currency risk, analyses the loan portfolio, and also proposes measures to the Executive Board of the parent Bank. Each member of the Group has a credit committee which decides within its competencies and limits.

The *Risk management function* of the parent Bank defines and proposes to adopt the strategy, policies, procedures and methodology of risk management, identifies, measures, mitigates, monitors and controls and reports on the risks to which the parent Bank and the Group are exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the banking group.

The *Bank's Asset Management Division* is responsible for managing assets and liquidity, as well as managing Assets and Liabilities at the Group level. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The *Internal audit function* is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit on its findings and recommendations is reported by the Audit Committee and the Steering Committee.

The *Compliance function* is obliged to identify and assess at least annually the risks of compliance of the operations of the parent Bank, as well as the Group member, and propose risk management plans, on which it draws up a report that is submitted to the Executive Board and the Board for monitoring the operations of the parent Bank.

Risk management process

At the banking group level, the risks identified in the business are assessed regularly. Measurement implies the application of qualitative and quantitative methods and measurement models that allow for the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, their significance is determined based on a comprehensive risk assessment that is characteristic of particular business, products, activities and processes of the banking group.

Risk mitigation involves diversification, transfer, reduction and / or risk avoidance, in line with risk profile, risk pricing and risk tolerance for the banking group.

4. RISK MANAGEMENT (continued)

Risk management process (continued)

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established, which depend on the business strategy and market environment, as well as on the level of risk that the Group is ready to accept.

The Group has established a regular risk and risk profile reporting system that enables relevant employees at all levels in the Group to provide timely, accurate and sufficiently detailed information needed to make business decisions and efficient risk management, that is, secure and stable operations.

Types of risk

The Banking Group is particularly exposed in the business to the following types of risks: credit and related risks, liquidity risk, market risk, operational risk, investment risk, concentration risk, exposure and country risk, as well as all other risks that may arise in the ordinary course of business member of the Group.

4.1. Credit risk

Credit risk is the risk of the possibility of adverse effects on the Group's financial result and capital due to non-performance of the debtor's obligations towards members of the Group.

Members of the Group have defined criteria for granting loans, changing conditions, extending the deadline and restructuring the receivables, which are prescribed by procedures and methodologies for placement approval and risk management.

Prior to the approval of placements, the Group members assess the creditworthiness of the borrower as the primary source of repayment of placements based on internally defined criteria and the collateral offered as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the financial condition and creditworthiness of the debtor, as well as the value and legal security of credit protection and other relevant factors) and independent risk assessment, competent persons, committees and member bodies of the Group, in accordance with the defined decision system Decision on placement approval.

The Group defined the decision on the exposure to credit risk through the decision-making system, depending on the type of clients and the level of exposure. Credit decision makers are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

When making decisions, the principle of dual control of the so-called. A "four eyes principle", which ensures that there is always a proposed party and a party that approves a particular placement.

The organizational model of the Group's credit risk management system ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the function of independent risk management and support activities on the one hand, from risk-taking activities, competencies and responsibilities. Members of the Group have established an adequate information system that includes full information of persons involved in the credit risk management system.

In accordance with the scope, type and complexity of the operations it performs, the Group has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The acceptable level of exposure to the Group's credit risk is in line with the defined risk management strategy and depends on the structure of the Group's portfolio, which limits the potential impact of negative effects on the financial result and capital adequacy.

The basic principles of credit risk management are:

- Credit risk management at the level of individual placements and at the level of the Group's entire portfolio;
- Maintaining the level of credit risk that minimizes the negative impact on the financial result and equity;
- Ranking of placements according to their risk;
- Performance in accordance with good practices for approving loans;
- Providing adequate controls for credit risk management.

With a view to managing credit risk, the Group's members strive to deal with clients with good creditworthiness and obtain appropriate payment security instruments. Members of the Group assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

All members of the Group perform quantitative and / or qualitative measurement, i.e. an assessment of the identified credit risk. The process of measuring credit risk is based on measuring the risk level of individual placements based on the internal rating system.

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement.

In order to adequately and efficiently manage the risks they are exposed to in their operations, the parent Bank and Group members also respect the principles prescribed by the regulations of their Central Banks, which require the classification of each placements on the basis of the prescribed framework and the calculation of the reserve for estimated losses.

Credit risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile, or maintaining an acceptable level of quality of the Group's loan portfolio.

The basic techniques of credit risk mitigation are:

- Exposure Limits - concentration risk,
- Diversification of investments,
- Security instruments.

Exposure limits based on a single borrower are based on an assessment of the borrower's creditworthiness, and exposure limits at the portfolio level are focused on the concentration limit of exposure in the portfolio. Members of the Group continuously control the movement of credit risk within a defined risk profile.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Group), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

The Group monitors exposure to defined limits with the same or similar risk factors and, depending on the general economic trends, trends in particular activities and geographical areas, the values set forth in the Business Plan of the Group, regularly reviews the defined limits and proposes redefinition of these in the event of a change in risk factors.

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1, 2019 banks were obliged to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to retail sector of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring of quality of placements at the individual borrower level is primarily based on providing up-to-date information on the financial condition and creditworthiness of the borrower and the market value of collateral, while monitoring credit risk at the portfolio level is done by identifying changes at the level of client groups of a certain level of risk, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of assets.

Credit risk control implies the process of continuous monitoring of operations with a defined system of limits, especially when exposure to credit risk tends to the upper limit of the defined risk profile, especially when introducing new business products and activities.

In order to protect against the risk of non-fulfilment of obligations in dealing with clients, the Group members take the following measures for regulating receivables: extension of the deadline, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures.

If the measures taken to regulate the placements, i.e. the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, a proposal for the permanent write-off of the remaining receivables or transfer from the balance sheet to the off-balance sheet is initiated.

A group, besides credit exposure, also has an off-balance sheet exposure (payable and performance guarantees, guarantees, letters of credit) on the basis of which it has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposure, the Group members use the same control processes and procedures that are used for credit risk.

The credit risk reporting includes the internal and external reporting system, which is implemented according to the established dynamics in accordance with the defined reporting system:

• Members of the Group report to the parent Bank on a monthly basis;
• The parent bank reports on a consolidated basis, semi-annually and annually.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

IFRS 9 Financial instruments

Starting from January 1, 2018, The Group applies IFRS 9 that replaced the IAS 39. In accordance with IFRS 9, the financial assets can be classified and measured as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI criterion;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

The Group's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Group has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income, with a reclassification of profit and loss through the income statement.

Also, by applying IFRS 9, the Group calculates impairment for credit placements given to the countries and Central Banks of the Group's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

Identification of problematic and restructured receivables

Members of the Group monitor the quality of the portfolio based on identifying and analysing early warning signals from clients. Warning signals are monitored on a regular basis and on the basis of their analysis, clients are classified as Standard, Potentially risky (Watch List) and NPL clients (clients with problematic receivables).

In accordance with the application of IFRS 9, starting from January 1, 2018, The Group also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients rank as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Clients located in stages 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfilment of the criteria of material significance, are impaired individually. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios.

Restructured unproblematic clients are classified as potentially risky clients, that is, to stage 2 of impairment, while restructured problematic are classified as problematic clients, and are categorized into stage 3 impairment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic receivables without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements, ie mitigating and reducing credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have days past due more than 90 days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the borrower will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. Problematic receivables are all receivables from the debtor, if one receivable is classified as problematic receivable.

Restructuring of receivable is the approval, due to the financial difficulties of the borrower, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favourable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice ‘forbearance’. In addition, the category of restructured receivables also includes receivables in which:

- changes in the contractual conditions for repayment of problematic receivables or which, in the absence of the above mentioned changes, would be classified as problematic receivables,
- a change in the contractual conditions for the repayment of receivables leading to total or partial write-off in a material amount,
- the Group members activated the contractual restructuring clauses on the basis of which the terms of repayment change due to occurrence of certain events (embedded clauses) against the debtor from which the receivable has already been classified into a group of problematic receivables or would have been so classified if those clauses were not activated,
- if the debtor, at the same time as the new receivable was approved (or in the short period before or after that approval), paid on the basis of another receivable of the Group (or other legal entity under which the receivable was transferred to that debtor), which has been classified or fulfilled conditions to be classified in a group of problematic ones or, in the absence of a new receivable, would be classified in the said group, that is, fulfil those conditions.

In accordance with the application of IFRS 9, any restructuring of receivables due to financial difficulties is considered as a modified or altered financial asset.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Modifications that result in the derecognition of the old financial asset and the initial recognition of the new one, which were motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as "POCI" purchased or originated credit-impaired, initially valued at fair value. At the time of initial recognition, they have no impairment, but it is necessary to include the expected credit losses over the life of the asset in the calculation of the effective interest rate.

Consequently, the Group includes initial expected credit losses in the assessment of cash flows when calculating the credit-adjusted effective interest rate of a financial asset that is deemed to have been impaired at the time of initial recognition. Also, for the purpose of calculating impairment, these assets will remain at stage 3 for the entire period of time.

IFRS 9 in the event of a significant modification of a financial instrument, indicates the need to derecognise an old financial asset and recognise the new one at fair value at the date of recognition.

Derecognition leads to a permanent gain or loss recognized in the income statement and is equal to the difference between the amortized cost of an old financial asset and the fair value of a new financial asset deducted for the amount of expected credit losses recognized as impairment on a new financial asset.

Members of the Group regularly follow the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

Restructured receivable classified in the group of problematic receivable of a member of the Group after one year from the date of its restructuring are classified into a group of receivables that are not considered problematic if the following conditions are met:

- the amount of impairment for restructured receivable has not been determined and the status of default has not occurred;
- in the last 12 months, payments were made in due time or with a delay not exceeding 30 days, in accordance with the changed terms of repayment;
- Based on the analysis of the financial condition, ie the creditworthiness of the borrower, it was estimated that the borrower will be able to settle the liabilities in full in accordance with the changed terms of repayment.

Risk of asset quality change - asset delinquency

The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 17 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of loans.

The Group uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Group (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitors (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4d, 4dd, and 5). Risk Category 4 is divided into three sub-categories: 4 - Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Group protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

Risk of asset value change - asset delinquency

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the real loan will be settled from these assets.

The Group members assess the impairment of receivables on a group and on a single basis.

Individual and Group Assessment at Level 3

Group members estimate impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), i.e. placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfilment of the client's obligations towards the members of the Group, a new assessment of the impairment of the placements is made.

The materiality threshold of a member of the Group is determined on the basis of an analysis of the value structure of the portfolio by types of clients and products.
An impairment loss on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watch process, information on the increased level of risk of the borrower.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9, which is applicable from January 1, 2018. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables that are located at stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of future expected credit loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 - Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Group calculates the impairment charge based on the 12-month expected credit losses;

- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Group calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Group's members and other exposures with a credit risk weight of 0, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses amount to 0.

All financial instruments in which significant increase in credit risk has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument.

The Group considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like).

The Group calculates the cost of impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

For retail and corporate sector, the Group calculates the expected credit losses (impairment) in the following way:

$$\boldsymbol{ECL = \sum_{t=1}^{T}(EAD_t * MPD_t * LGD_t * DF_t)}$$

ECL	Expected credit loss
EAD	Exposure at default
MPD	Marginal Probability of default
LGD	Loss given default
DF	EIR based discount factor

This formula is used to calculate the expected credit losses (impairments) at stages 1 and 2, along with respect to the time horizon.
EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

For the calculation of EAD for stage 1, the Group assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-fulfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Group is still exposed. Based on historical data, the group calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Group includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

To calculate impairment for Stage 1, the Group uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Group uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, ie the probability of default for the entire life of the financial instrument.

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31. December.

LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Group, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Group applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Group takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - DF for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Group. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Group uses a different method of calculating impairment. The Group does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure of financial.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Instruments of the state, its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\,rate*t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the borrower is classified at stage 3. Also, for stages 1 and 2, the Group establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Group reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Group calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the Group uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Group's members. For unused commitments for which the Group has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Group does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Group members use, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Group members provide contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For retail loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the parent Bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

When assessing real estate or mortgages on movable property, members of the Group require a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Group, and the policies are vinculated for the benefit of the Group.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Group protects against potential losses due to inability to collect collateral.

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the Group pay attention to the regular valuation of collaterals. For non-risk placements (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - stage 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Group (realized sales, supply and demand) by the regions specified in the collateral catalogue, using the statistical model, etc. For all business real estate, the Group conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

The value of collateral and the trend of movement is monitored and updated by the members of the Group in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The total exposure to credit risk as at 31 December 2018 and 2017 is shown in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD

	31.12.2018		31.12.2017	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**468,202,521**	**441,586,959**	**430,849,698**	**400,108,315**
Cash and balances with the central bank	73,992,038	73,992,039	56,076,748	56,076,748
Loans and advances to banks and other financial institutions	21,265,408	21,037,537	30,436,134	30,233,555
Loans and receivables from customers	206,358,685	191,448,642	193,015,753	174,242,139
Financial assets (securities and derivatives)	137,520,384	137,518,790	121,522,584	121,522,580
Other assets	9,892,999	7,153,663	10,722,146	7,480,376
Assets	19,173,007	10,436,287	19,076,333	10,552,917
II. Off-balance sheet items	**45,669,661**	**45,360,450**	**37,158,398**	**36,986,816**
Payable guarantees	3,899,996	3,807,747	4,017,215	3,965,934
Performance guarantees	3,628,533	3,580,265	4,807,375	4,765,328
Irrevocable liabilities	37,774,785	37,632,128	28,036,262	27,981,989
Other	366,347	340,310	297,546	273,565
Total (I+II)	**513,872,182**	**486,947,408**	**468,008,096**	**437,095,131**

Starting from January 1, 2018 The Group applies IFRS 9 that replaced the IAS 39. Data for 2017 are presented in accordance with the then-applicable IAS 39, and are not comparable with information published for 2018. The differences arising from the application of IFRS 9 are directly recognized through retained earnings as at January 1st, 2018. In accordance with the aforementioned, the effects of the first application of IFRS 9 are detailed as at January 1st, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)
Total exposure to credit risk – transition to IFRS 9

	IAS 39 31.12.2017			IFRS 9 01.01.2018				
	Category	Gross	Net	Reclassified	Impairment allowance	Gross	Net	Category
I Assets		**309,327,114**	**278,585,735**	-	**(957,556)**	**309,327,115**	**277,628,179**	
Cash and balances with the central bank	L&R[1]	56,076,748	56,076,748	-	-	56,076,748	56,076,748	AC[2]
Loans and advances to banks and other financial institutions	L&R	30,436,134	30,233,555	-	(18,976)	30,436,134	30,214,579	AC
Loans and receivables from customers	L&R	193,015,753	174,242,139	-	(863,391)	193,015,753	173,378,748	AC
Financial assets (securities and derivatives)	L&R	10,722,146	7,480,376	-	(75,190)	10,722,146	7,405,186	AC
Other assets	-	19,076,333	10,552,917	-	-	19,076,333	10,552,917	-
II Off-balance sheet items		**37,158,398**	**36,986,816**	-	**(85,281)**	**37,158,398**	**36,901,535**	
Payable guarantees	L&R	4,017,215	3,965,934	-	(58,749)	4,017,215	3,907,185	AC
Performance guarantees	L&R	4,807,375	4,765,328	-	9,414	4,807,375	4,774,742	AC
Irrevocable liabilities	L&R	28,036,262	27,981,989	-	(39,501)	28,036,262	27,942,488	AC
Other	L&R	297,546	273,565	-	3,555	297,546	277,120	AC
III Financial assets available for sale	**AFS[3]**	**116,252,874**	**116,252,871**	**(116,252,871)**	**(259,769)**			-
Reclassified in: Financial assets at fair value through other comprehensive income[6]	-	-	-	116,252,871	(259,769)	**116,252,874**	**115,993,101**	**FVOCI[4]**
IV Financial assets at fair value through profit and loss held for trading	**FVPL[5]**	**5,269,709**	**5,269,709**	**(5,269,709)**	**-**			-
Reclassified in: Financial assets at fair value through profit and loss	-	-	-	5,269,709	-	**5,269,709**	**5,269,709**	**FVPL**
Total (I+II+III+IV)		**468,008,095**	**437,095,131**	**121,522,580**	**(1,302,606)**	**468,008,095**	**435,792,524**	

L&R[1]– *loans and receivables according to the classification of IAS 39*
AC[2] – *amortised cost according to the classification of IFRS9*
AFS[3] – *items available for sale according to the classification of IAS 39*
FVOCI[4] – *items that are valued at fair value through other comprehensive income according to the classification of IFRS9*
FVPL[5]– *items that are valued at fair value through profit and loss held for trading according to the classification of IAS 39, that is items that are valued at fair value through profit and loss according to the classification of IFRS9*
[6]Note: net values of financial assets that are valued at fair value through other comprehensive income are deducted for the amount of credit risk impairment even though they are not a deductible item of the gross amount of the assets

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

First adoption of IFRS 9 – effect of impairment allowance

	Impairment allowance		
	31.12.2017	IFRS	01.01.2018
I. Assets	**30,741,383**	**1,217,326**	**31,958,709**
Cash and balances with the central bank	-	-	-
Loans and advances to banks and other financial institutions	202,579	18,975	221,554
Loans and receivables from customers	18,773,614	863,392	19,637,006
Financial assets (securities and derivatives)	4	259,769	259,773
Other assets	3,241,770	75,190	3,316,960
Assets	8,523,416	-	8,523,416
II. Off-balance sheet items			
Payable guarantees	**171,582**	**85,280**	**256,863**
Performance guarantees	51,281	58,749	110,030
Irrevocable liabilities	42,047	(9,414)	32,633
Other	54,273	39,501	93,774
Total (I+II)	23,981	(3,555)	20,426
I. Assets	**30,912,965**	**1,302,606**	**32,215,572**

[1]Note: net values of financial assets that are valued at fair value through other comprehensive income are deducted for the amount of credit risk impairment even though they are not a deductible item of the gross amount of the assets

All financial assets are in stage 1 and relate mostly to Securities issued by the Republic of Serbia, as well as to currency swaps transactions.

Changes in loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018	**159,531,739**	**6,424,780**	**27,059,234**	**193,015,753**
New receivables	37,258,159	413,743	17,053	37,688,954
Decrease/collection of receivables	(16,354,377)	(2,263,349)	(6,255,588)	(24,873,314)
Transfer to stage 1	-	(1,490,757)	(210,040)	(1,700,797)
Transfer to stage 2	(2,645,448)	-	(59,968)	(2,705,416)
Transfer to stage 3	(1,314,711)	(285,587)	-	(1,600,298)
Transfer from other stages	1,700,797	2,705,416	1,600,298	6,006,511
Other changes	2,759,759	(510,157)	(1,722,310)	527,292
31.12.2018	**180,935,918**	**4,994,088**	**20,428,679**	**206,358,685**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in impairment allowance of loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018	**1,454,694**	**177,363**	**18,004,948**	**19,637,006**
New receivables	393,272	11,862	11,970	417,104
Decrease/collection of receivables	(392,675)	(37,198)	(4,829,250)	(5,259,123)
Transfer to stage 1	-	(30,954)	(110,391)	(141,345)
Transfer to stage 2	(33,174)	-	(30,649)	(63,823)
Transfer to stage 3	(27,284)	(18,223)	-	(45,507)
Transfer from other stages	141,345	63,823	45,507	250,675
Other changes	(291,080)	138,750	267,387	115,057
31.12.2018	**1,245,099**	**305,423**	**13,359,522**	**14,910,044**

During 2018, transitions of exposures by stages are consequence of regular business changes:

- transition to Stage 1 from Stages 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2017, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1 is a consequence of an increase in credit risk in a certain number of clients;
- Transition to Stage 3 from Stages 1 and 2 is a consequence of an increase in credit risk (account blockage longer than 60 days, and an increase in over 90 days in most cases). During the year, stage 1 receivables were at Stage 2 before they went into Stage 3. Reduction of Stage 3 receivables is due to the regulation of risk claims (collection from collateral and regular business operations of clients).

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	41,169,671	1,128,707	1,649,460	43,947,838	37,690	21,066	766,147	824,902	43,122,935
Cash Loans	32,134,316	403,332	282,914	32,820,561	123,542	17,172	192,578	333,293	32,487,269
Agricultural Loans	8,403,020	102,421	265,238	8,770,680	61,768	4,247	140,095	206,111	8,564,569
Other Loans	5,467,471	128,473	195,775	5,791,720	36,706	2,655	175,980	215,341	5,576,379
Micro Business	10,966,226	410,455	945,043	12,321,724	155,377	9,868	451,632	616,877	11,704,847
Total retail	**98,140,704**	**2,173,388**	**3,338,430**	**103,652,523**	**415,084**	**55,008**	**1,726,433**	**2,196,524**	**101,455,999**
Large corporate clients	36,875,197	2,076,200	11,595,741	50,547,139	331,352	237,377	7,901,653	8,470,382	42,076,757
Middle corporate clients	10,275,020	323,692	1,990,077	12,588,790	128,244	5,554	1,322,112	1,455,910	11,132,879
Small corporate clients	5,530,375	288,722	1,595,043	7,414,139	66,100	2,614	864,980	933,694	6,480,445
State owned clients	14,973,115	132,086	503,850	15,609,052	109,603	4,870	139,219	253,692	15,355,359
Other	15,141,506	-	1,405,537	16,547,043	194,716	-	1,405,126	1,599,842	14,947,202
Total corporate	**82,795,214**	**2,820,700**	**17,090,248**	**102,706,163**	**830,015**	**250,415**	**11,633,089**	**12,713,520**	**89,992,643**
Total	**180,935,918**	**4,994,088**	**20,428,679**	**206,358,685**	**1,245,099**	**305,423**	**13,359,522**	**14,910,044**	**191,448,642**
Due from banks	**21,054,117**	**-**	**211,292**	**21,265,409**	**16,579**	**-**	**211,292**	**227,871**	**21,037,538**

Note: According to the internal segmetation retail sector includes individuals, agriculture clients and micro businesses (entrepreneurs and micro clients).

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

01.01.2018.	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	38,103,826	1,251,707	1,735,814	41,091,347	38,147	29,954	888,853	956,955	40,134,392
Cash Loans	25,878,192	338,620	350,588	26,567,400	110,124	20,621	275,801	406,546	26,160,854
Agricultural Loans	7,112,350	116,032	206,502	7,434,885	65,474	7,634	108,925	182,033	7,252,852
Other Loans	5,720,091	60,290	395,984	6,176,365	34,778	2,970	383,652	421,401	5,754,964
Micro Business	9,176,000	230,132	1,105,531	10,511,663	135,253	8,468	453,778	597,499	9,914,164
Total retail	**85,990,459**	**1,996,781**	**3,794,419**	**91,781,660**	**383,776**	**69,648**	**2,111,009**	**2,564,434**	**89,217,226**
Large corporate clients	35,902,260	2,593,317	16,958,551	55,454,128	654,859	88,670	12,015,848	12,759,377	42,694,751
Middle corporate clients	11,059,466	996,948	2,090,406	14,146,820	118,659	7,785	1,342,478	1,468,923	12,677,897
Small corporate clients	5,397,370	475,859	1,781,079	7,654,308	59,675	6,389	926,483	992,546	6,661,762
State owned clients	10,499,848	361,875	997,190	11,858,914	90,131	4,871	170,041	265,043	11,593,871
Other	10,682,335	-	1,437,589	12,119,925	147,594	-	1,439,090	1,586,684	10,533,241
Total corporate	**73,541,280**	**4,427,999**	**23,264,815**	**101,234,094**	**1,070,918**	**107,714**	**15,893,939**	**17,072,572**	**84,161,522**
Total	**159,531,739**	**6,424,780**	**27,059,234**	**193,015,753**	**1,454,694**	**177,363**	**18,004,948**	**19,637,006**	**173,378,748**
Due from banks	**30,233,576**	**-**	**202,558**	**30,436,134**	**18,996**	**-**	**202,558**	**221,554**	**30,214,580**

Note: According to the internal segmentation, the retail sector includes individuals, farmers and microbusiness (entrepreneurs and micro clients).

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Loans and receivables from customers, banks and other financial organizations

31.12.2017	Non-problematic receivables	Non-performing receivables	Total	Impairment of Non-problematic receivables	Impairment of non-performing receivables	Total Impairment	Net
Housing Loans	39,355,533	1,735,814	41,091,347	96,490	594,165	690,629	40,400,692
Cash Loans	26,216,812	350,588	26,567,400	216,115	262,960	479,075	26,088,326
Agricultural Loans	7,228,382	206,502	7,434,885	62,967	100,167	163,133	7,271,751
Other Loans	5,780,381	395,984	6,176,365	81,840	376,724	458,564	5,717,801
Micro Business	9,406,132	1,105,531	10,511,663	134,612	476,179	610,790	9,900,872
Total Retail	**87,987,240**	**3,794,419**	**91,781,660**	**592,023**	**1,810,194**	**2,402,217**	**89,379,443**
Large corporate clients	38,495,577	16,958,551	55,454,128	333,797	11,881,648	12,215,445	43,238,683
Middle corporate clients	12,056,414	2,090,406	14,146,820	82,748	1,389,311	1,472,059	12,674,761
Small corporate clients	5,873,229	1,781,079	7,654,308	79,221	910,951	990,172	6,664,136
State owned clients	10,861,724	997,190	11,858,914	89,843	166,416	256,259	11,602,655
Other	10,682,335	1,437,589	12,119,925	308	1,437,155	1,437,463	10,682,462
Total Corporate	**77,969,279**	**23,264,815**	**101,234,094**	**585,916**	**15,785,481**	**16,371,397**	**84,862,696**
Total	**165,956,519**	**27,059,234**	**193,015,753**	**1,177,939**	**17,595,675**	**18,773,614**	**174,242,139**
Due from banks	**30,233,576**	**202,558**	**30,436,134**	**21**	**202,558**	**202,579**	**30,233,555**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairment allowance of receivables in the Balance Sheet

	31.12.2017	01.01.2018	Increase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2018
Total retail	2,401,401	163,033	1,701,713	(1,635,822)	(433,800)	2,196,524
Total corporate	16,372,213	700,359	3,858,506	(3,695,578)	(4,521,981)	12,713,520
Total	**18,773,614**	**863,392**	**5,560,219**	**(5,331,400)**	**(4,955,780)**	**14.910.044**
Due from banks	**202,579**	**18,975**	**67,961**	**(76,584)**	**14,940**	**227,871**

* Other changes relate to the carry-over of entirely impaired receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

Problematic loans and receivables are those loans and receivables for which the Group has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk category 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – stages 1 and 2

For non-problematic receivables (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group level (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

The impairment assessment on a group basis is based on the probability of the occurrence of debtor's probability of default (PD) calculated on the basis of migration into the status of default, by type of client or product. By appreciating the specifics in dealing with clients, migrations for corporate sector, retail sector by types of products, banks and entrepreneurs are specially determined.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivables by days past due – non-problematic receivables, stage 1 and 2

31.12.2018	Stage 1						Stage 2					
	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	40,790,027	379,643	-	-	-	**41,169,671**	786,365	94,658	134,976	112,708	-	**1,128,707**
Cash Loans	29,749,339	2,384,977	-	-	-	**32,134,316**	97,540	83,776	170,356	51,659	-	**403,332**
Agricultural Loans	8,249,595	153,425	-	-	-	**8,403,020**	33,764	4,604	47,628	16,426	-	**102,421**
Other Loans	5,123,965	343,506	-	-	-	**5,467,471**	69,361	18,165	28,755	12,193	-	**128,473**
Micro Businesses	9,865,744	1,100,482	-	-	-	**10,966,226**	235,535	101,374	61,516	12,030	-	**410,455**
Retail clients	**93,778,670**	**4,362,034**	**-**	**-**	**-**	**98,140,704**	**1,222,564**	**302,577**	**443,230**	**205,017**	**-**	**2,173,388**
Large corporate clients	36,462,226	412,971	-	-	-	**36,875,197**	1,558,103	196,700	321,397	-	-	**2,076,200**
Middle corporate clients	9,951,646	323,374	-	-	-	**10,275,020**	187,209	93,527	42,955	-	-	**323,692**
Small corporate clients	5,342,188	188,187	-	-	-	**5,530,375**	227,567	61,146	9	-	-	**288,722**
State owned clients	14,964,539	8,576	-	-	-	**14,973,115**	100,167	31,754	165	-	-	**132,086**
Other	15,061,289	80,217	-	-	-	**15,141,506**	-	-	-	-	-	**-**
Corporate clients	**81,781,889**	**1,013,325**	**-**	**-**	**-**	**82,795,214**	**2,073,046**	**383,128**	**364,527**	**-**	**-**	**2,820,700**
Total	**175,560,559**	**5,375,359**	**-**	**-**	**-**	**180,935,918**	**3,295,610**	**685,705**	**807,756**	**205,017**	**-**	**4,994,088**
Out of which: restructured	1,142,686	214,745	-	-	-	1,357,431	632,639	34,643	17,921	19,881	-	705,085
Due from banks	**21,054,117**	**-**	**-**	**-**	**-**	**21,054,117**	**-**	**-**	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivables by days past due

In RSD thousands

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	38,420,681	559,412	153,873	221,566	-	**39,355,533**
Cash Loans	24,291,275	1,702,682	166,024	56,831	-	**26,216,812**
Agricultural Loans	6,953,492	182,300	71,846	20,745	-	**7,228,382**
Other Loans	5,410,478	312,882	45,446	11,575	-	**5,780,381**
Micro Businesses	8,080,813	1,226,765	77,073	21,481	-	**9,406,132**
Retail clients	**83,156,739**	**3,984,040**	**514,263**	**332,198**	-	**87,987,240**
Large corporate clients	38,038,591	148,686	308,300	-	-	**38,495,577**
Middle corporate clients	11,005,501	946,232	94,118	10,563	-	**12,056,414**
Small corporate clients	5,473,967	310,776	56,863	31,623	-	**5,873,229**
State owned clients	10,743,288	118,436	-	-	-	**10,861,724**
Other	10,548,614	133,614	107	-	-	**10,682,335**
Corporate clients	**75,809,960**	**1,657,745**	**459,388**	**42,186**	-	**77,969,279**
Total	**158,966,699**	**5,641,785**	**973,651**	**374,384**	-	**165,956,519**
Out of which: restructured	2,062,044	410,268	178,344	4,755	-	**2,655,411**
Due from banks	**26,210,359**	**4,023,218**	**-**	**-**	-	**30,233,576**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due – stage 3

In RSD thousands

31.12.2018	Stage 3					
	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	316,657	69,763	48,503	60,150	1,154,388	**1,649,460**
Cash Loans	63,363	29,025	15,718	32,189	142,618	**282,914**
Agricultural Loans	18,824	6,326	3,129	824	236,136	**265,238**
Other Loans	12,458	2,193	843	1,487	178,794	**195,775**
Micro Businesses	97,967	33,701	5,536	27,535	780,304	**945,043**
Retail clients	**509,268**	**141,008**	**73,729**	**122,185**	**2,492,241**	**3,338,430**
Large corporate clients	1,850,211	7,008	258,670	372,861	9,106,992	**11,595,741**
Middle corporate clients	74,482	-	-	-	1,915,595	**1,990,077**
Small corporate clients	39,097	326,954	13,413	-	1,215,579	**1,595,043**
State owned clients	324,552	8,458	-	-	170,839	**503,850**
Other	1,404,715	-	-	-	822	**1,405,537**
Corporate clients	**3,693,058**	**342,420**	**272,083**	**372,861**	**12,409,827**	**17,090,248**
Total	**4,202,326**	**483,428**	**345,812**	**495,046**	**14,902,068**	**20,428,679**
Out of which: restructured	2,148,552	26,553	40,609	26,846	11,387,669	13,630,228
Due from banks	**211,292**	**-**	**-**	**-**	**-**	**211,292**

Receivables less than 90 days in delay which are in stage 3 are related to the clients with financial difficulties and Bank asses that there is a risk of default by the end of loan repayment, considering that set of different criteria were used in assesing it.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due

In RSD thousands

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	213,931	65,588	18,498	48,523	1,389,275	**1,735,814**
Cash Loans	53,274	19,848	10,750	18,205	248,512	**350,588**
Agricultural Loans	20,079	5,777	9,331	8,440	162,875	**206,502**
Other Loans	14,691	2,471	832	219	377,771	**395,984**
Micro Businesses	70,524	15,459	14,779	56,066	948,704	**1,105,531**
Retail clients	**372,497**	**109,143**	**54,190**	**131,452**	**3,127,137**	**3,794,419**
Large corporate clients	2,262,581	-	-	-	14,695,970	**16,958,551**
Middle corporate clients	93,394	22,138	-	58,566	1,916,308	**2,090,406**
Small corporate clients	88,111	373,012	36,677	2,860	1,280,419	**1,781,079**
State owned clients	741,052	23,022	-	-	233,116	**997,190**
Other	1,436,767	-	-	-	822	**1,437,589**
Corporate clients	**4,621,904**	**418,172**	**36,677**	**61,426**	**18,126,636**	**23,264,815**
Total	**4,994,401**	**527,315**	**90,867**	**192,878**	**21,253,773**	**27,059,234**
Out of which: restructured	2,562,976	78,371	54,310	99,769	16,484,893	**19,280,319**
Due from banks	**202,558**	**-**	**-**	**-**	**-**	**202,558**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans

In RSD thousands

31.12.2018	Gross exposure	Impairment allowance of gross amount	Stage3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**103,652,523**	**2,196,524**	**3,338,430**	**994,393**	**1,726,433**	**3,22%**	**3,021,353**
Housing Loans	43,947,838	824,902	1,649,460	484,505	766,147	3.75%	1,634,862
Cash Loans	32,820,561	333,293	282,914	41,846	192,578	0.86%	146,273
Agricultural Loans	8,770,680	206,111	265,238	16,409	140,095	3.02%	239,149
Other	5,791,720	215,341	195,775	4,320	175,980	3.38%	10,936
Micro Businesses	12,321,724	616,877	945,043	447,313	451,632	7.67%	990,134
Corporate clients	**102,706,163**	**12,713,520**	**17,090,248**	**12,635,835**	**11,633,089**	**16.64%**	**15,423,523**
Agriculture	5,504,088	115,265	222,617	13,411	85,212	4.04%	222,785
Manufacturing Industry	15,786,292	2,449,957	4,180,027	3,830,527	2,333,590	26.48%	4,186,056
Electric Energy	1,064,602	3,105	27,298	-	19	2.56%	27,298
Construction	9,037,935	1,336,673	1,738,493	978,193	1,119,397	19.24%	1,738,866
Wholesale and Retail	26,627,325	1,086,664	2,151,168	1,849,888	786,641	8.08%	2,163,875
Service Activities	9,673,368	1,296,356	1,494,901	1,477,865	1,187,702	15.45%	1,494,901
Real Estate Activities	4.770.586	729,500	1,323,324	983,040	704,066	27,74%	1,323,799
Other	30,241,966	5,695,999	5,952,421	3,502,911	5,416,462	19.68%	4,265,943
Total	**206,358,685**	**14,910,044**	**20,428,679**	**13,630,228**	**13,359,522**	**9.90%**	**18,444,876**
Due from banks	**21,265,409**	**227,871**	**211,292**	**-**	**211,292**	**0.99%**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, stage 3 in total loans

01.01.2018	Gross exposure	Impairment allowance of gross amount	Stage3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**91,781,660**	**2,564,434**	**3,794,419**	**969,008**	**2,111,009**	**4.13%**	**3,397,441**
Housing Loans	41,091,347	956,955	1,735,814	485,860	888,853	4.22%	1,740,307
Cash Loans	26,567,400	406,546	350,588	38,522	275,801	1.32%	254,354
Agricultural Loans	7,434,885	182,033	206,502	19,626	108,925	2.78%	199,458
Other	6,176,365	421,401	395,984	-	383,652	6.41%	22,181
Micro Businesses	10,511,663	597,499	1,105,531	424,999	453,778	10.52%	1,181,140
Corporate clients	**101,234,094**	**17,072,572**	**23,264,815**	**18,267,962**	**15,893,939**	**22.98%**	**21,511,472**
Agriculture	6,221,355	142,952	253,050	28,243	106,767	4.07%	252,908
Manufacturing Industry	23,673,580	5,943,798	9,161,404	8,191,755	5,772,695	38.70%	6,607,183
Electric Energy	1,135,657	4,039	67,005	-	174	5.90%	67,005
Construction	6,474,022	1,100,973	1,083,592	959,452	1,013,704	16.74%	1,297,761
Wholesale and Retail	24,616,833	2,197,571	3,959,953	3,102,644	1,859,944	16.09%	4,048,004
Service Activities	14,773,783	1,511,831	1,438,756	1,411,506	1,155,730	9.74%	1,465,235
Real Estate Activities	1,582,823	681,398	1,345,149	960,907	679,338	84,98%	1,370,156
Other	22,756,041	5,490,010	5,955,907	3,613,454	5,305,587	26.17%	6,403,219
Total	**193,015,753**	**19,637,006**	**27,059,234**	**19,236,969**	**18,004,948**	**14.02%**	**24,908,913**
Due from banks	**30,436,134**	**221,554**	**202,558**	**-**	**202,558**	**0.67%**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, stage 3 in total loans

31.12.2017	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**91,781,660**	**2,402,217**	**3,794,419**	**1,011,772**	**1,810,194**	**4.13%**	**3,372,392**
Housing Loans	41,091,347	690,655	1,735,814	485,979	594,165	4.22%	1,740,307
Cash Loans	26,567,400	479,074	350,588	45,244	262,960	1.32%	242,993
Agricultural Loans	7,434,885	163,133	206,502	19,626	100,167	2.78%	196,094
Other	6,176,365	458,564	395,984	-	376,724	6.41%	11,857
Micro Businesses	10,511,663	610,790	1,105,531	460,924	476,179	10.52%	1,181,140
Corporate	**101,234,094**	**16,371,397**	**23,264,815**	**18,268,546**	**15,785,481**	**22.98%**	**21,511,491**
Agriculture	6,221,355	161,647	253,050	28,243	113,994	4.07%	252,908
Manufacturing Industry	23,673,580	5,963,135	9,161,447	8,191,755	5,735,338	38.70%	6,607,183
Electric Energy	1,135,657	28,197	67,005	-	174	5.90%	67,005
Construction	6,474,022	1,016,800	1,083,331	959,938	1,007,179	16.73%	1,297,761
Wholesale and Retail	24,616,833	2,014,256	3,960,147	3,102,743	1,887,183	16.09%	4,048,023
Service Activities	14,773,783	1,222,929	1,438,775	1,411,506	1,089,580	9.74%	1,465,235
Real Estate Activities	1,582,823	693,244	1,345,149	960,907	691,123	84.98%	1,370,156
Other	22,756,041	5,271,189	5,955,911	3,613,454	5,260,909	26.17%	6,403,219
Total	**193,015,753**	**18,773,614**	**27,059,234**	**19,280,319**	**17,595,675**	**14.02%**	**24,883,882**
Due from banks	**30,436,134**	**202,579**	**202,558**	**-**	**202,558**	**0.67%**	**407,543**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables

	Gross 31.12.2017	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross 31.12.2018	Net 31.12.2018
Housing Loans	1,744,523	249,026	(277,341)	20,210	(86,957)	1,649,460	883,314
Cash Loans	347,970	176,190	(217,706)	(52)	(23,490)	282,914	90,335
Agricultural Loans	206,500	135,833	(60,430)	(369)	(16,296)	265,238	125,143
Other Loans	420,532	97,047	(320,234)	(10)	(1,560)	195,775	19,795
Micro Businesses	1,071,727	137,681	(225,571)	(1,466)	(37,327)	945,043	493,411
Retail	**3,791,253**	**795,776**	**(1,101,282)**	**18,314**	**(165,631)**	**3,338,430**	**1,611,998**
Large corporate clients	16,958,508	637,060	(5,297,666)	(29,428)	(672,732)	11,595,741	3,694,089
Middle corporate clients	2,090,247	30,154	(76,529)	(4,362)	(49,433)	1,990,077	667,965
Small corporate clients	1,779,793	20,894	(96,302)	(2,445)	(106,898)	1,595,043	730,063
State owned clients	997,190	-	(1,055)	(1,913)	(490,372)	503,850	364,631
Other	1,437,561	-	-	(2,701)	(29,322)	1,405,537	412
Corporate Clients	**23,263,299**	**688,108**	**(5,471,552)**	**(40,849)**	**(1,348,758)**	**17,090,248**	**5,457,159**
Total	**27,054,552**	**1,483,885**	**(6,572,834)**	**(22,535)**	**(1,514,388)**	**20,428,679**	**7,069,157**
Due from banks	**202,558**	**-**	**-**	**-**	**8,734**	**211,292**	**-**

The decrease of problematic receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the Parent Bank.

Other changes relate to a partial increase/decrease in the amount of receivables within one lot during the year and mostly to the partial collection at parent Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Non-problematic receivables

	31.12.2018				31.12.2017			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	42,123,365	175,013	42,298,378	42,030,683	39,084,856	270,676	39,355,533	39,001,059
Cash Loans	32,204,582	333,066	32,537,648	7,006,684	26,144,252	72,560	26,216,812	11,970,041
Agricultural Loans	8,475,549	29,893	8,505,441	6,667,316	7,200,380	28,002	7,228,382	6,065,831
Other Loans	5,557,274	38,671	5,595,945	280,321	5,756,521	23,860	5,780,381	156,647
Micro Businesses	10,798,757	577,924	11,376,681	11,081,615	8,799,696	606,436	9,406,132	9,523,078
Retail	**99,159,526**	**1,154,567**	**100,314,093**	**67,066,619**	**86,985,706**	**1,001,535**	**87,987,240**	**66,716,656**
Large corporate clients	33,479,142	5,472,256	38,951,398	33,648,145	37,281,395	1,214,182	38,495,577	36,547,962
Middle corporate clients	10,491,602	107,110	10,598,712	9,402,845	11,844,621	211,792	12,056,414	11,429,111
Small corporate clients	5,744,738	74,359	5,819,096	5,300,314	5,663,004	210,225	5,873,229	5,812,991
State owned clients	12,910,092	2,195,210	15,105,302	10,906,404	9,042,905	1,818,819	10,861,724	6,158,448
Other	14,001,791	1,139,615	15,141,406	9,354,027	5,580,295	5,102,041	10,682,335	4,513,126
Corporate Clients	**76,627,365**	**8,988,550**	**85,615,914**	**68,611,735**	**69,412,221**	**8,557,058**	**77,969,279**	**64,461,639**
Total	**175,786,891**	**10,143,116**	**185,930,007**	**135,678,355**	**156,397,927**	**9,558,593**	**165,956,519**	**131,178,295**
Due from banks	**21,054,117**	**-**	**21,054,117**	**14,262**	**30,233,464**	**112**	**30,233,576**	**-**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

31.12.2018	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables – Stage 2	Impairment of restructured receivables – Stage 2	Resturctured receivables – Stage 3	Impairment of restructured receivables – Stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**103,652,523**	**2,196,524**	**2,062,902**	**410,451**	**287,479**	**10,716**	**994,393**	**390,900**	**1.99%**	**1,820,561**
Housing Loans	43,947,838	824,902	1,028,436	206,236	244,146	7,577	484,505	198,529	2.34%	1,028,238
Cash Loans	32,820,561	333,293	437,955	24,854	18,782	731	41,846	20,354	1.33%	202,531
Agricultural Loans	8,770,680	206,111	17,857	5,531	1,448	-	16,409	5,531	0.20%	17,630
Other	5,791,720	215,341	4,748	304	429	19	4,320	285	0.08%	4,034
Micro Businesses	12,321,724	616,877	573,906	173,525	22,675	2,390	447,313	166,200	4.66%	568,129
Corporate Clients	**102,706,163**	**12,713,520**	**13,629,841**	**8,986,728**	**417,606**	**50,089**	**12,635,835**	**8,929,910**	**13.27%**	**13,602,036**
Agriculture	5,504,088	115,265	80,289	-	-	-	13,411	-	1.46%	80,289
Manufacturing Industry	15,786,292	2,449,957	3,830,527	2,311,289	-	-	3,830,527	2,311,289	24.26%	3,824,668
Electric Energy	1,064,602	3,105	-	-	-	-	-	-	0.00%	-
Construction	9,037,935	1,336,673	978,193	931,745	-	-	978,193	931,745	10.82%	978,193
Wholesale and Retail	26,627,325	1,086,664	2,254,045	670,629	104,299	15,253	1,849,888	648,648	8.47%	2,232,099
Service Activities	9,673,368	1,296,356	1,780,738	1,222,452	302,874	34,836	1,477,865	1,187,615	18.41%	1,780,738
Real Estate Activities	4.770.586	729,500	993,473	683,104	10,433	-	983,040	683,104	20,82%	993.473
Other	30,241,966	5,695,999	3,712,575	3,167,509	-	-	3,502,911	3,167,509	12.28%	3,712,575
Total	**206,358,685**	**14,910,044**	**15,692,744**	**9,397,178**	**705,085**	**60,806**	**13,630,228**	**9,320,810**	**7.60%**	**15,422,597**
Due from banks	**21,265,409**	**227,871**	**-**	**-**	**-**	**-**	**-**	**-**	**0.00%**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

31.12.2017	Gross exposure	Impairment of gross exposure	Restructured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percentage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	**91,781,660**	**2,402,217**	**1,839,065**	**1,011,772**	**377,743**	**2.00%**	**1,569,799**
Housing Loans	41,091,347	690,655	985,645	485,979	186,128	2.40%	983,744
Cash Loans	26,567,400	479,074	256,425	45,244	24,538	0.97%	55,818
Agricultural Loans	7,434,885	163,133	19,711	19,626	5,399	0.27%	18,746
Other	6,176,365	458,564	5,815	-	11	0.09%	6,793
Micro Businesses	10,511,663	610,790	571,469	460,924	161,666	5.44%	504,697
Corporate Clients	**101,234,094**	**16,371,397**	**20,096,664**	**18,268,546**	**12,935,446**	**19.85%**	**19,483,092**
Agriculture	6,221,355	161,647	149,589	28,243	16,594	2.40%	149,589
Manufacturing Industry	23,673,580	5,963,135	8,970,181	8,191,755	5,660,335	37.89%	8,591,732
Electric Energy	1,135,657	28,197	-	-	-	0.00%	-
Construction	6,474,022	1,016,800	988,884	959,938	911,027	15.27%	980,283
Wholesale and Retail	24,616,833	2,014,256	3,396,861	3,102,743	1,319,589	13.80%	3,170,340
Service Activities	14,773,783	1,222,929	1,734,740	1,411,506	1,107,568	11.74%	1,734,740
Real Estate Activities	1,582,823	693,244	960,907	960,907	673,604	60.71%	960,907
Other	22,756,041	5,271,189	3,895,502	3,613,454	3,246,730	17.12%	3,895,502
Total	**193,015,753**	**18,773,614**	**21,935,730**	**19,280,319**	**13,313,189**	**11.36%**	**21,052,891**
Due from banks	**30,436,134**	**202,579**	**-**	**-**	**-**	**0.00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	Gross 31.12.2017	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2018	Net 31.12.2018
Housing Loans	982,456	87,289	(17,214)	13,472	(37,567)	1,028,436	822,200
Cash Loans	255,665	210,035	(24,935)	(34)	(2,777)	437,955	413,100
Agricultural Loans	19,711	1,448	(716)	(45)	(2,542)	17,857	12,326
Other Loans	4,932	286	(184)	-	(286)	4,748	4,444
Micro Businesses	570,853	45,122	(34,774)	(860)	(6,435)	573,906	400,382
Retail	**1,833,619**	**344,181**	**(77,823)**	**12,533**	**(49,607)**	**2,062,902**	**1,652,452**
Large corporate clients	17,514,538	-	(5,479,533)	(28,635)	(675,267)	11,331,103	3,563,244
Middle corporate clients	1,344,790	106,007	(179,906)	(2,891)	(10,716)	1,257,285	512,858
Small corporate clients	950,937	51,043	(136,417)	(1,132)	(32,643)	831,789	357,347
State owned clients	1,055	-	(1,055)	(2)	2	-	-
Other	281,899	-	(72,234)	-	-	209,664	209,664
Corporate Clients	**20,093,220**	**157,051**	**(5,869,145)**	**(32,661)**	**(718,623)**	**13,629,841**	**4,643,113**
Total	**21,926,838**	**501,231**	**(5,946,967)**	**(20,128)**	**(768,230)**	**15,692,743**	**6,295,565**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The decrease of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the parent Bank. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

Members of the Group implement different restructuring measures depending on the needs of clients, respecting the Group's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Group members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period,
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of receivables is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Group (collateral or financial approval of favourable repayment terms),
- Partial write-offs - in the past period, the Group members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

The Group manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio.

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

31.12.2018.	Stages 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Retail	**90,888,589**	**5,253,961**	**4,171,542**	**-**	**-**	**2,848,318**	**282,282**	**207,831**	**-**	**-**
Housing Loans	38,051,990	2,397,779	1,848,609	-	-	1,521,937	105,355	22,168	-	-
Cash Loans	30,328,202	1,342,620	866,826	-	-	226,782	39,524	16,607	-	-
Agricultural Loans	8,449,046	5,661	50,734	-	-	263,341	252	1,645	-	-
Other	5,249,338	28,314	318,293	-	-	179,373	2,761	13,642	-	-
Micro Businesses	8,810,013	1,479,588	1,087,081	-	-	656,884	134,391	153,768	-	-
Corporate Clients	**59,521,054**	**7,052,300**	**19,042,560**	**-**	**-**	**16,648,632**	**245,749**	**195,867**	**-**	**-**
Agriculture	5,146,080	111,151	24,241	-	-	222,617	-	-	-	-
Manufacturing Industry	10,444,552	43,008	1,118,705	-	-	4,160,130	12,108	7,789	-	-
Electric Energy	72,008	-	965,296	-	-	27,298	-	-	-	-
Construction	6,188,277	202,276	908,889	-	-	1,592,833	145,661	-	-	-
Wholesale and Retail	21,801,978	1,484,572	1,189,607	-	-	1,875,109	87,981	188,078	-	-
Service Activities	5,785,984	1,092,256	1,300,226	-	-	1,494,901	-	-	-	-
Real Estate Activities	3.376.422	69,562	1,279	-	-	1,323,324	-	-	-	-
Other	6,705,753	4,049,474	13,534,318	-	-	5,952,421	-	-	-	-
Total	**150,409,643**	**12,306,261**	**23,214,103**	**-**	**-**	**19,496,950**	**528,032**	**403,697**	**-**	**-**
Due from banks	**6,475,642**	**3,792**	**912,089**	**11,075,238**	**2,587,355**	**-**	**-**	**-**	**-**	**211,292**

Depending on general economic trends and developments in individual industrial sectors, the Group members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

	Non problematic receivables					Problematic receivables				
31.12.2017	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	**80,443,626**	**4,025,430**	**3,518,184**	**-**	**-**	**3,122,801**	**343,401**	**328,217**	**-**	**-**
Housing Loans	35,946,088	1,816,173	1,593,272	-	-	1,532,194	167,780	35,840	-	-
Cash Loans	24,286,208	1,222,315	708,289	-	-	302,978	38,768	8,841	-	-
Agricultural Loans	7,153,549	6,728	68,106	-	-	205,882	64	556	-	-
Other	5,353,083	54,526	372,772	-	-	383,880	3,615	8,489	-	-
Micro Businesses	7,704,698	925,689	775,745	-	-	697,866	133,174	274,491	-	-
Corporate Clients	**58,769,024**	**7,041,714**	**12,158,541**	**-**	**-**	**22,791,567**	**242,462**	**230,786**	**-**	**-**
Agriculture	5,813,795	121,360	33,150	-	-	253,050	-	-	-	-
Manufacturing Industry	13,235,355	105,722	1,171,056	-	-	9,145,453	15,994	-	-	-
Electric Energy	82,030	3	986,619	-	-	67,005	-	-	-	-
Construction	4,747,909	210,783	431,998	-	-	934,013	149,319	-	-	-
Wholesale and Retail	18,359,633	1,044,963	1,252,091	-	-	3,652,235	77,126	230,786	-	-
Service Activities	11,743,285	881,824	709,899	-	-	1,438,755	19	-	-	-
Real Estate Activities	167,366	54,032	16,276	-	-	1,345,149	-	-	-	-
Other	4,619,651	4,623,026	7,557,453	-	-	5,955,907	4	-	-	-
Total	**139,212,649**	**11,067,144**	**15,676,726**	**-**	**-**	**25,914,368**	**585,863**	**559,003**	**-**	**-**
Due from banks	**7,883,218**	**4,122**	**604,369**	**5,234,504**	**16,507,363**	**-**	**-**	**-**	**-**	**202,558**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

	31.12.2018		31.12.2017	
	Gross	Net	Gross	Net
Financial assets:	-	-	-	-
− at fair value through profit and loss	4,956,659	4,956,659	-	-
− at fair value through other comprehensive income	132,563,725	132,562,131	-	-
− at amortised cost	-	-	-	-
- at fair value through profit and loss held for trading	-	-	5,424,642	5,424,642
- available for sale	- -	-	116,097,941	116,097,938
- held to maturity	-	-	-	-
Total	**137,520,384**	**137,518,790**	**121,522,583**	**121,522,580**

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market, as well as securities of the Republic of Serbia, which are assessed according to the methodology of internally developed models (mark to model) , as well as swap transactions and bonds of the Republic of Serbia, which are held at fair value through the other comprehensive income, or on the basis of market prices for securities traded on the stock market (mark to market).

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska, the Republic of Montenegro, municipality bonds and bonds of other banks. Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

Loans and receivables from customers covered by collateral

31.12.2018	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,805,655	29,309	-	3,064,373	40,899,337	1,099,674	13,157	-	18,516	1,131,346
Cash Loans	594,117	570,097	-	5,650,432	6,814,647	66,690	15,445	-	109,902	192,038
Agricultural Loans	3,140,795	127,429	21,059	3,285,027	6,574,310	59,772	27	3,363	29,844	93,006
Other	123,135	4,576	-	92,355	220,066	59,388	647	-	220	60,255
Micro Businesses	2,861,209	674,733	81,707	7,049,261	10,666,910	200,345	76,362	3,022	134,976	414,705
Total Retail	**44,524,911**	**1,406,144**	**102,767**	**19,141,448**	**65,175,270**	**1,485,870**	**105,637**	**6,384**	**293,459**	**1,891,349**
Large Corporate Clients	21,629,141	393,087	101,803	9,477,508	31,601,539	554,800	-	-	1,491,806	2,046,606
Middle Corporate Clients	3,323,924	280,297	-	5,474,932	9,079,153	180,036	-	21,718	121,939	323,692
Small Corporate Clients	2,028,365	210,265	21,377	2,732,970	4,992,976	200,390	54,796	-	52,151	307,338
State	614,943	1,182	2,426,895	7,731,818	10,774,837	-	-	-	131,567	131,567
Other	84,330	-	129,717	9,139,981	9,354,027	-	-	-	-	-
Corporate Clients	**27,680,702**	**884,832**	**2,679,792**	**34,557,208**	**65,802,533**	**935,226**	**54,796**	**21,718**	**1,797,463**	**2,809,202**
Total	**72,205,613**	**2,290,976**	**2,782,559**	**53,698,656**	**130,977,803**	**2,421,095**	**160,433**	**28,102**	**2,090,922**	**4,700,552**
Of which: restructured	647,930	-	129,717	360,058	1,137,705	329,321	-	-	347,427	676,747
Due from banks	**-**	**14,262**	**-**	**-**	**14,262**	**-**	**-**	**-**	**-**	**-**

Other colaterals are pledge on goods, pladge on receivables, pledge on equipment and warranty.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

31.12.2018.	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	1,559,454	-	-	75,408	1,634,862
Cash Loans	22,856	1,887	-	121,530	146,273
Agricultural Loans	173,236	-	192	65,721	239,149
Other	8,119	-	-	2,817	10,936
Micro Businesses	795,477	5,157	2,855	186,645	990,134
Total Retail	**2,559,141**	**7,044**	**3,047**	**452,121**	**3,021,353**
Large Corporate Clients	9,904,778	-	-	1,686,932	11,591,710
Middle Corporate Clients	1,572,673	-	4,100	321,250	1,898,022
Small Corporate Clients	1,485,758	-	-	116,175	1,601,933
State	7,306	-	297,254	27,298	331,859
Other	-	-	-	-	-
Corporate Clients	**12,970,515**	**-**	**301,354**	**2,151,655**	**15,423,523**
Total	**15,529,656**	**7,044**	**304,401**	**2,603,776**	**18,444,876**
Of which: restructured	12,026,732	-	-	1,581,413	13,608,145
Due from banks	**-**	**-**	**-**	**-**	**-**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

31.12.2017	Non-problematic receivables					Problematic receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,584,525	26,826	-	1,389,709	**39,001,059**	1,638,134	3,069	-	99,104	**1,740,307**
Cash Loans	459,863	458,565	-	11,051,613	**11,970,041**	19,763	7,157	-	216,073	**242,993**
Agricultural Loans	3,060,954	29,580	31,127	2,944,170	**6,065,831**	145,561	-	12	50,521	**196,094**
Other	32,706	6,202	-	117,740	**156,647**	8,968	4	-	2,884	**11,857**
Micro Businesses	2,124,368	556,769	-	6,841,941	**9,523,078**	690,071	9,368	-	481,701	**1,181,140**
Total Retail	**43,262,416**	**1,077,941**	**31,127**	**22,345,172**	**66,716,656**	**2,502,498**	**19,599**	**12**	**850,283**	**3,372,392**
Large Corporate Clients	16,904,885	321,177	6,161,689	13,160,211	**36,547,962**	14,634,237	-	-	2,301,515	**16,935,752**
Middle Corporate Clients	5,117,639	450,957	-	5,860,515	**11,429,111**	1,808,248	-	-	235,632	**2,043,880**
Small Corporate Clients	1,919,093	346,296	9,538	3,538,064	**5,812,991**	1,608,457	14	-	172,103	**1,780,574**
State	397,383	2,261	709,940	5,048,865	**6,158,448**	9,160	0	669,596	72,511	**751,267**
Other	139,047	-	148,486	4,225,593	**4,513,126**	-	18	-	-	**18**
Corporate Clients	**24,478,048**	**1,120,690**	**7,029,652**	**31,833,248**	**64,461,639**	**18,060,101**	**32**	**669,596**	**2,781,761**	**21,511,491**
Total	67,740,464	2,198,631	7,060,779	54,178,421	131,178,295	20,562,599	19,631	669,608	3,632,044	24,883,882
Of which: restructured	**1,212,404**	**24,096**	**207,719**	**569,879**	**2,014,098**	**17,009,448**	**-**	**-**	**2,029,345**	**19,038,793**
Due from banks	**-**	**114,998**	**-**	**305,960**	**420,958**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

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December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan to Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	December 31, 2018	December 31, 2017
Less than 50%	29,756,845	28,945,003
50% - 70%	19,940,392	16,739,193
71% - 100%	26,117,784	22,114,046
101% - 150%	9,039,303	9,278,934
More than 150%	10,445,887	17,866,577
Total exposure	**95,300,211**	**94,943,753**
Average LTV	**68,61%**	**67,89%**

4.1.8. Foreclosed assets

Foreclosed assets by Group members are presented in the following review:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2017	**577,171**	**2,462,522**	**112,900**	**260,281**	**3,412,873**
Acquisition	-	88,993	4,702	-	93,695
Sale	-	(88,993)	(4,702)	-	(93,695)
Transfer to investment property	-	-	-	-	-
Transfer to assets held for sale	(151,359)	-	-	-	-
Transfer to fixed assets	-	(30,480)	-	-	(30,480)
Other	(1,179)	(1,204)	(65)	(229)	(2,676)
31.12.2018	**575,992**	**2,430,838**	**112,835**	**260,052**	**3,379,717**
Impairment Allowances	**224,631**	**1,147,791**	**89,295**	**136,819**	**1,598,537**
Net	**351,361**	**1,283,047**	**23,540**	**123,233**	**1,781,180**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Group's financial result and capital due to the Group's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Group respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Group members, whose decisions may influence the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- diversifies sources of funds, by currency and maturity;
- form and maintain sufficient level of liquidity reserves;
- manages funds;
- monitor future cash flows and liquidity on a daily basis;
- limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
- defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

- GAP analysis;
- Rational analysis;
- Stress test.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Mitigation involves maintaining the liquidity risk at an acceptable level for the Group's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Group's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month. Starting from 30.06.2017. The Group has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
As at December 31	3.86	4.13	3.56	3.92	414%	415%
Average for the period	4.05	4.71	3.82	4.38	401%	-
Maximum for the period	4.23	5.29	4.07	4.83	414%	-
Minimum for the period	3.86	4.13	3.56	3.92	387%	-

During 2018, the liquidity indicator, the narrow liquidity indicator and the liquidity coverage ratio ranged above the defined limits.

The Group defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2018	2017
GAP up to 1 month / Total assets	Max (10%)	1.99%	1.43%
Cumulative GAP up to 3 months / Total assets	Max (20%)	1.81%	4.66%

In addition, the Group limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	73,992,039	-	-	-	-	73,992,039
Loans and receivables due from other banks and other financial institutions	17,381,560	2,290,401	240,630	1,124,946	-	21,037,537
Loans and receivables due from customers	9,542,916	9,388,245	42,203,745	81,450,663	48,863,073	191,448,642
Financial assets (securities)	11,210,413	10,552,128	17,775,934	90,150,487	7,829,828	137,518,790
Other assets	1,877,006	563,471	1,399,901	-	-	3,840,378
Total	**114,003,934**	**22,794,245**	**61,620,210**	**172,726,096**	**56,692,901**	**427,837,386**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,386,160	1,846,942	491,821	2,503,361	-	8,228,284
Deposits and other liabilities due to customers	252,122,048	12,808,624	54,048,285	29,181,484	2,507,715	350,668,156
Other liabilities	2,414,912	175,398	6,173,267	19,445	-	8,783,022
Total	**257,923,120**	**14,830,964**	**60,713,373**	**31,704,290**	**2,507,715**	**367,679,462**
Net liquidity gap As of December 31, 2018	**(143,919,186)**	**7,963,281**	**906,837**	**141,021,806**	**54,185,186**	**60,157,924**

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2017

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	56,076,748	-	-	-	-	56,076,748
Loans and receivables due from other banks and other financial institutions	25,200,198	3,844,150	136,513	1,052,694	-	30,233,555
Loans and receivables due from customers	10,870,090	9,074,983	36,092,091	74,507,110	43,697,865	174,242,139
Financial assets (securities)	4,818,794	14,000,125	19,972,101	82,037,900	693,660	121,522,580
Other assets	2,064,500	1,370,393	146,640	215,961	493,178	4,290,672
Total	**99,030,330**	**28,289,651**	**56,347,345**	**157,813,665**	**44,884,703**	**386,365,694**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,648,799	1,113,674	915,645	1,459,658	-	6,137,776
Deposits and other liabilities due to customers	222,453,947	13,741,808	52,687,717	26,464,168	2,230,108	317,577,748
Other liabilities	5,248,237	91,973	1,636,303	38,286	-	7,014,799
Total	**230,350,983**	**14,947,455**	**55,239,665**	**27,962,112**	**2,230,108**	**330,730,323**
Net liquidity gap As of December 31, 2017	**(131,320,653)**	**13,342,196**	**1,107,680**	**129,851,553**	**42,654,595**	**55,635,371**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and avista deposits will be withdrawn within one month.

The Group collects deposits of corporate and retail sector, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Group's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Group manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves. The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis. The Group regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash Flows of monetary assets and monetary liabilities as at 31 December 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	73,992,038	-	-	--		73,992,038
Loans and receivables due from other banks and other financial institutions	17,388,011	2,302,500	254,799	1,137,335		21,082,645
Loans and receivables from clients	10,362,533	10,890,948	48,069,453	98,486,884	63,385,690	231,195,508
Financial assets (securities)	11,210,413	10,564,322	17,804,171	90,307,063	7,829,828	137,715,797
Other assets	1,877,009	563,471	1,399,900	-	-	3,840,380
Total	**114,830,004**	**24,321,241**	**67,528,323**	**189,931,282**	**71,215,518**	**467,826,368**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,396,667	1,870,016	523,577	2,552,011	-	8,342,271
Deposits and other liabilities due to customers	252,316,922	12,885,014	54,556,906	30,491,471	2,969,792	353,220,105
Other liabilities	2,447,731	175,398	6,173,268	19,445	-	8,815,842
Total	**258,161,320**	**14,930,428**	**61,253,751**	**33,062,927**	**2,969,792**	**370,378,218**
Net liquidity gap						
As of December 31, 2018	**(143,331,316)**	**9,390,813**	**6,274,572**	**156,868,355**	**68,245,726**	**97,448,150**

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2017

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	56,076,748	-	-	-	-	56,076,748
Loans and receivables due from other banks and other financial institutions	25,209,287	3,847,610	151,359	1,058,968	-	30,267,224
Loans and receivables from clients	11,635,049	10,508,677	41,814,152	90,500,227	57,585,533	212,043,638
Financial assets (securities)	4,680,261	14,026,774	20,038,891	82,519,852	718,340	121,984,118
Other assets	2,533,852	1,370,393	146,639	215,960	493,178	4,760,022
Total	**100,135,197**	**29,753,454**	**62,151,041**	**174,295,007**	**58,797,051**	**425,131,750**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,652,413	1,143,859	959,611	1,557,409	-	6,313,292
Deposits and other liabilities due to customers	222,550,508	13,880,143	53,290,370	27,404,904	2,662,841	319,788,766
Other liabilities	5,274,736	91,973	1,636,303	38,286	-	7,041,298
Total	**230,477,657**	**15,115,975**	**55,886,284**	**29,000,599**	**2,662,841**	**333,143,356**
Net liquidity gap						
As of December 31, 2017	**(130,342,460)**	**14,637,479**	**6,264,757**	**145,294,408**	**56,134,210**	**91,988,394**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates. In the case of transaction and avista deposits that are in accordance with a conservative approach, allocated to a maturity of up to one month, undiscounted cash flows include only flows based on the debt principal.

Market risks

Market risk is the possibility of adverse effects on the Group's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Group is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Group members whose decisions may influence the Group's exposure to this risk.

4.3. Interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Group manages the following types of interest rate risk:

• Risk of time mismatch of repayment and repricing risk;
• Yield curve risk - to whom it is exposed due to change in yield curve shape;
• Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
• Optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Group manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Group particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of capital;
- Stress test.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile and implies the process of defining the Group's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Group's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Group's members on interest rate risk management.

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	**2018**	**2017**
Relative GAP	Max 15%	1.48%	2.04%
Coefficient of Disparity	0.75 – 1.25	1.02	1.02

During 2018, interest rate risk indicators moved within internally defined limits.

Compliance with internally defined limits of economic value of capital:

	2018	**2017**
On December 31st	4.48%	4.46%
Average for period	5.36%	4.93%
Maximum for period	6.24%	5.39%
Minimum for period	4.48%	4.46%
Limit	**20%**	**20%**

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:
Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2018

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	28,710,086	-	-	-	-	28,710,086	45,281,953	73,992,039
Loans and receivables from banks and other financial organisations	16,369,533	2,278,351	32,357	247,637	-	18,927,878	2,109,659	21,037,537
Loans and receivables from clients	51,821,705	17,835,405	53,083,130	60,706,216	7,516,746	190,963,202	485,440	191,448,642
Financial assets (securities)	11,208,649	10,552,011	17,313,063	90,148,094	7,829,710	137,051,527	467,263	137,518,790
Other assets	-	-	-	-	-	-	3,840,378	3,840,378
Total	**108,109,973**	**30,665,767**	**70,428,550**	**151,101,947**	**15,346,456**	**375,652,693**	**52,184,693**	**427,837,386**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,388,392	1,845,725	693,519	2,300,743	-	8,228,379	(95)	8,228,284
Deposits and other financial liabilities to clients	253,469,172	13,642,671	52,730,960	27,578,599	2,229,472	349,650,874	1,017,282	350,668,156
Other liabilities	-	-	-	-	-	-	8,783,022	8,783,022
Total	**256,857,564**	**15,488,396**	**53,424,479**	**29,879,342**	**2,229,472**	**357,879,253**	**9,800,209**	**367,679,462**
Interest rate GAP -At December 31, 2018	**(148,747,591)**	**15,177,371**	**17,004,071**	**121,222,605**	**13,116,984**	**17,773,440**	**42,384,484**	**60,157,924**

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2017

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	16,820,938	-	-	-	-	16,820,938	39,255,810	56,076,748
Loans and receivables from banks and other financial organisations	24,344,964	3,838,711	112,967	85,384	-	28,382,026	1,851,529	30,233,555
Loans and receivables from clients	51,036,588	13,982,811	41,227,020	54,787,837	12,715,701	173,749,957	492,182	174,242,139
Financial assets (securities)	4,680,160	14,000,125	19,972,102	82,037,900	693,660	121,383,947	138,633	121,522,580
Other assets	-	-	-	-	-	-	4,290,672	4,290,672
Total	**96,882,650**	**31,821,647**	**61,312,089**	**136,911,121**	**13,409,361**	**340,336,868**	**46,028,826**	**386,365,694**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,657,555	2,654,829	196,475	626,327	22,396	6,157,582	-19,806	6,137,776
Deposits and other financial liabilities to clients	224,541,827	16,025,194	50,859,171	23,763,258	1,329,434	316,518,884	1,058,864	317,577,748
Other liabilities	-	-	-	-	-	-	7,014,799	7,014,799
Total	**227,199,382**	**18,680,023**	**51,055,646**	**24,389,585**	**1,351,830**	**322,676,466**	**8,053,857**	**330,730,323**
Interest rate GAP At December 31, 2017	**(130.316.732)**	**13.141.624**	**10.256.443**	**112.521.536**	**12.057.531**	**17.660.402**	**37.974.969**	**55.635.371**

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Group members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Group.

The Group assesses the impact that standardized interest rate shocks (parallel positive and negative interest rates on the reference yield curve of 200 basis points) could have for each significant currency individually and for all other currencies together.

In modelling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Group on the basis of historical developments and expert assessments, is specifically considered, the Group has carried out an estimate of the movement of transaction deposits, demand deposits and retail savings by applying relevant statistical models from domain analysis of time series.

Report on GAP Interest Rate Risk of the Monetary Sub-balance on December 31, 2018 (continued)

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Group's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2018		
At 31 December	442,304	(442,304)
2017		
At 31 December	346,780	(346,780)

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk

The Group is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. All positions contained in the banking book and trading book in foreign currency and gold, as well as dinar (RSD) positions indexed by currency clause are exposed to foreign exchange risk.

In order to minimize exposure to foreign exchange risk, the Group performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Group comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

• GAP analysis and foreign exchange risk indicator;
• VaR;
• Stress test;
• Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at 31 December:

	2018	2017
Total risk foreign exchange position	6,997,500	7,308,623
Foreign exchange risk indicator	12.25%	14.29%
Regulatory limit	20%	20%

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December 31, 2018

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2018

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	36,151,062	273,785	710,028	7,127,817	44,262,692	-	-	-	29,729,347	73,992,039
Loans and receivables from banks and other financial organisations	9,084,054	2,381,279	3,071,605	2,691,227	17,228,165	-	-	-	3,809,372	21,037,537
Loans and receivables from clients	36,995,011	-	-	2,205,124	39,200,135	101,017,998	-	3,651,403	47,579,106	191,448,642
Financial assets (securities)	70,581,056	11,273,911	1,702,199	-	83,557,166	249,591	-	-	53,712,033	137,518,790
Other assets	1,178,684	95,892	63,825	22,348	1,360,749	-	-	-	2,479,629	3,840,378
Total	**153,989,867**	**14,024,867**	**5,547,657**	**12,046,516**	**185,608,907**	**101,267,589**	**-**	**3,651,403**	**137,309,487**	**427,837,386**
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,563,400	379,330	246,907	3,945,523	6,135,160	19,073	-	-	2,074,051	8,228,284
Deposits and other financial liabilities to clients	246,275,960	12,908,254	8,756,910	6,862,782	274,803,906	468,239	19,705	-	75,376,306	350,668,156
Other liabilities	812,752	122,798	108,507	183,930	1,227,987	-	-	-	7,555,035	8,783,022
Total	**248,652,112**	**13,410,382**	**9,112,324**	**10,992,235**	**282,167,053**	**487,312**	**19,705**	**-**	**85,005,392**	**367,679,462**
Net Currency Position, 31 December 2018	**(94,662,245)**	**614,485**	**(3,564,667)**	**1,054,281**	**(96,558,146)**	**100,780,277**	**(19,705)**	**3,651,403**	**52,304,095**	**60,157,924**

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December 31, 2018

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2017

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,980,237	194,101	532,982	4,276,526	**37,983,846**	-	-	-	18,092,902	**56,076,748**
Loans and receivables from banks and other financial organisations	6,417,542	3,332,450	2,695,986	2,271,811	**14,717,788**	227,865	-	-	15,287,901	**30,233,555**
Loans and receivables from clients	18,945,728	-	-	2,838,679	**21,784,407**	105,852,986	-	4,011,996	42,592,750	**174,242,139**
Financial assets (securities)	72,837,246	9,474,357	1,782,330	164,417	**84,258,350**	1,947,199	-	-	35,317,031	**121,522,580**
Other assets	1,676,506	262,767	887	153,019	**2,093,179**	-	-	-	2,197,493	**4,290,672**
Total	**132,857,259**	**13,263,675**	**5,012,185**	**9,704,452**	**160,837,571**	**108,028,051**	**-**	**4,011,996**	**113,488,077**	**386,365,695**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,887,061	34,162	20,137	209,334	**3,150,694**	2,388,808	-	-	598,274	**6,137,776**
Deposits and other financial liabilities to clients	224,706,977	11,783,751	8,757,887	6,447,725	**251,696,340**	6,666,426	18,890	-	59,196,092	**317,577,748**
Other liabilities	1,394,516	1,027,312	84,513	100,363	**2,606,704**	8,921	-	-	4,399,174	**7,014,799**
Total	**228,988,554**	**12,845,225**	**8,862,537**	**6,757,422**	**257,453,738**	**9,064,155**	**18,890**	**-**	**64,193,540**	**330,730,323**
Net Currency Position, 31 December 2017	**(96,131,295)**	**418,450**	**(3,850,352)**	**2,947,030**	**(96,616,167)**	**98,963,896**	**(18,890)**	**4,011,996**	**49,294,537**	**55,635,372**

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

The Group also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Group's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Group calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2018 and 2017 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2018				
Foreign currency risk	19,264	15,478	39,766	1,972
2017				
Foreign currency risk	28,582	30,447	55,893	17,137

4.6. Operational risk

The Group members monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank Group member, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank of the Group member in charge of risk management monitors and reports on operational risks.

The Group performs measurement and / or assessment of operational risk through a quantitative and / or qualitative assessment of the identified operational risk. The Group members conduct measurement of operational risk exposure through event logging, self-evaluation and stress testing of operational risk. Self-assessment involves assessing risk exposure by organizational units in accordance with the map of identified operational risks by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures. The stress test is an operational risk management technique, which assesses the potential impact of specific events and / or changes in several risk factors for exposure to operational risk.

The Group can't eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk, the Group takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

Through reliable reporting on the implementation of measures to mitigate operational risks, the Group has established a monitoring system for activities undertaken by the Group members in order to reduce operational risks and preventive responses to emerging operational events. The Group assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Group's processes and processes, as well as limitation of losses in emergencies, the Banking Group members adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The member banks of the Group have adopted the Disaster Recovery Plan.

4.7. Risks of investment

The risk of the Group's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Group's investment in a person who is not a person in the financial sector may be up to 10% of the Group's capital, whereby this investment implies an investment by which members of the Group acquire a holding or shares of a person other than a person in the financial sector. The Group's total investments in non-entities in the financial sector and in fixed assets and investment property of the Group may be up to 60% of the Group's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.8. Risk of exposure

The Group's large exposure to a single entity or a group of related parties, including entities related to the Group, is an exposure that exceeds 10% of the Group's capital.

In its business, the Group takes care of compliance with the regulatory defined exposure limits:

• Exposure to a single client or a group of related parties must not exceed 25% of the Group's capital;
• The sum of all large Group exposures must not exceed 400% of the Group's capital.

Defined limits of exposure to one client or a group of related parties also applies to clients related to the Group.

The Group's exposure to one entity or group of related parties, as well as the exposure to clients related to the Group, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.9. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Group is exposed, or the risk of the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

• Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

• Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Group manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Group's capital, depending on the country's internal rating category. The Group performs measurement and control of the exposure of the country risk portfolio based on the grouping of receivables according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Group defines the exposure limits individually by country of origin of the debtor.

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4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of RSD

	31.12.2018					31.12.2017	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables from clients	191,448,642	187,064,015	7,496,770	928,892	178,683,791	174,242,139	172,486,614
Financial assets held to maturity						-	-
Financial Liabilities							
Deposits and other financial liabilities to clients	350,668,156	350,658,898			350,658,898	317,577,748	317,597,843

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to clients, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.

For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Group would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Group.

The fair value of investment securities held to maturity is estimated using market prices or by using discounted cash flow models based on current market interest rates offered for instruments of a similar product. Held-to-maturity investments are matured and book values are equal to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

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

Financial instruments measured at fair value

In thousands of RSD

	31.12.2018				31.12.2017			
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit and loss in RSD	597,571	1,197,682	-	1,795,253	-	-	-	-
Financial assets at fair value through profit and loss in foreign currency	323,293	2,838,113	-	3,161,406	-	-	-	-
Financial assets at fair value through other comprehensive income in RSD	-	51,916,780	-	51,916,780	-	-	-	-
Financial assets at fair value through other comprehensive income in foreign currency	13,656,359	66,739,402	249,590	80,645,351	-	-	-	-
Financial assets at fair value through profit and	-	-	-	-	572,576	4,852,066	-	5,424,642
Securities available for sale (in RSD)	-	-	-	-	1,888,350	33,137,523	-	35,025,872
Securities available for sale (in foreign currency)	-	-	-	-	2,190,531	78,548,757	332,778	81,072,066
Total	**14,577,223**	**122,691,977**	**249,590**	**137,518,790**	**4,651,457**	**116,538,346**	**332,778**	**121,522,580**

Level 1 comprises financial instruments with whom it can be traded on the stock exchange, while level 2 contains securities which fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (auctions).

The fair value of assets for which no direct trading information is available is assigned to level 3.

4. RISK MANAGEMENT (continued)

4.11. Capital management

The Group has established a risk management system in accordance with the scope and structure of its business activities, and the objective of capital management is the smooth realization of the Group's business objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main goals of managing the capital are:
- Preservation of the minimum regulatory requirement (EUR 10 million);
- Maintenance of individual capital buffers;
- Respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- Maintaining confidence in security and business stability;
- Realization of business and financial plans;
- Supporting the expected growth in placements;
- Enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The regulatory capital of the Group is the sum of the Tier 1 capital (consisting of the Common Equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratios represent the ratio of capital of the Group (total, Tier 1 or Common Equity Tier 1) and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks, operational risk, risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries of the banking Group shall be determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risk is calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

Capital adequacy ratios

In thousands of RSD

	31.12.2018	31.12.2017
Tier 1 capital	60,605,577	57,278,280
Common Equity Tier 1 capital	60,232,067	56,904,770
Additional Tier 1 capital	373,510	373,510
Tier 2 capital	-	-
Deductible items of capital	(3,469,604)	(6,119,492)
Capital	**57,135,973**	**51,158,788**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	190,017,311	168,012,566
Risk exposure amount for operational risk	33,733,114	33,979,411
Risk exposure amount for market risks	2,833,830	6,349,897
Capital adequacy ratio (min. 14.02%)	**25.22%**	**24.56%**
Tier 1 capital adequacy ratio (min. 12.02%)	**25.22%**	**24.56%**
Common Equity Tier 1 capital adequacy ratio (min. 10.52%)	**25.05%**	**24.38%**

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

During 2018, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively) .

By the Capital Management Strategy and Plan, the Group ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2018, the Group calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

• Strategic goals and the period for their realization;
• A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
• Procedures for planning an adequate level of available internal capital;
• The way to reach and maintain an adequate level of available internal capital;
• Restrictions on available internal capital;
• Demonstrating and explaining the effects of stress testing on internal capital requirements;
• Allocation of capital;
• Business plan in case of occurrence of unforeseen events.

On a continuous basis, the Group conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

• is based on identification and risk measurement;
• provides a comprehensive assessment and monitoring of the risks to which the banking Group is exposed or may be exposed;
• Provides adequate available internal capital in accordance with the risk profile of the banking Group;
• is involved in the banking Group management system and decision making;
• Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the banking group level include:

• Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
• Calculation of the amount of internal capital requirements;
• Calculation of stressed internal capital requirement for individual risks;
• Determining the total internal capital requirement;
• Comparison of the following elements:
    1) capital and available internal capital;
    2) minimum capital requirements and internal capital requirements for individual risks;
    3) the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of the placement aims ensure a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Group assesses the impairment of receivables on a group and on an individual basis.

Individual assessment

The Group assesses the impairment allowance for each individually significant placement with the default status (risky placement, sub-category risk 4D, 4DD and 5 according to the internal rating system), ie placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfilment of client's obligations towards the Bank, a new assessment of the impairment of placements is made.

The materiality threshold is determined by the Group on the basis of an analysis of the value structure of the portfolio by types of customers and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

5. USE OF ASSESSMENT (continued)

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information to which the Group has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

5. USE OF ASSESSMENT (continued)

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Group also determines the probable loss for unused commitments, for which there is not unconditional and without prior notice, possible cancelation the contracted obligation. When calculating provisions based on unused commitments, the Group uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Group performs valuation of financial instruments by:

- Fair value through profit and loss

- Fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through profit and loss are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition. With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity. The amounts shown in the other comprehensive income cannot be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

5. USE OF ASSESSMENT (continued)

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensive income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.
The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.
If the Group settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

The concept of fair value

When measuring fair values, the Group identifies methods/techniques that need to maximize the use of observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Group determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Group performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.
In the event that the market for financial instruments is not active, fair value is determined using methodology assessment. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyses, and other alternative methods. The selected assessment methodology maximizes the use of market data, is based on the least possible extent on the Group-specific estimates, and includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Group considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments, based on Politics and Strategy risk management.

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

The parent bank monitors and discloses business segments through two model reports:

- Reporting by strategic segments - members of the Group (note 6.1.) and
- Reporting by operational segments - business lines (note 6.2.).

Information about the results of each reporting segment is shown below.

The Group has four members representing strategic organizational parts:

Komercijalna banka a.d Belgrade, Serbia, Parent bank	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Podgorica, Montenegro	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
KomBank INVEST Investment fund management company a.d Belgrade, Serbia	It includes investment fund management activities

The parent bank monitors and discloses operations in strategic segments - the Group's members within its consolidated financial statements. The Group carries out most of its business on the territory of the Republic of Serbia. Dependent legal entities are not material to the individual financial report of the parent bank.

The balance sheet sum of the parent bank amounts to 90.23% of the total balance sheet sum of the consolidated balance sheet (2017: 92.9%).

The balance sheet sum of Komercijalna banka ad Podgorica, amounts to 3.48% of total consolidated assets (2017: 3.05%), Komercijalna banka ad, Banja Luka 6.26% (2017: 4.04%) and KomBank INVEST 0.03 % (2017: 0.01%).

The result of the strategic segment is used to measure business performance, since the management of the parent bank believes that this information is most relevant for evaluating the results of a particular strategic segment in comparison with other legal entities operating in the listed activities in the local market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation

For the purposes of consolidation, and prior to the consolidation procedure, the reclassification of positions in the individual financial statements of the members of the Group that are subject to the correction of the balance sheet and the results in the profit and loss account set out in the statutory statements is carried out, as appropriate.

Corrected financial statements represent initial balance sheet items that are subject to the consolidation.

As at December 31, 2018 the following reclassifications are made in the balance sheet and profit and loss accounts of the Group members, except for the member of KomBank INVEST, which did not have the effect of reclassification:

Balance sheet

In thousand of RSD

Balance sheet sum of Parent Bank	**401,165,980**
Correction for impairment allowance related to equity instrument in the subsidiary banks	2,869,029
Correction for impairment allowance that relate to placements to subsidiary banks	1,322
Corrected balance sheet sum of Parent Bank	**404,036,331**
Statutory balance sheet sum of KB Banja Luka	**27,859,851**
Deduction for the accrued income for receivables measured at amortised cost at EIR	446
Deduction for the accrued expenses for liabilities measured at amortised cost at EIR	(54,415)
Corrections for the impairment allowance that relate to the Parent Bank	(1,712)
Corrected balance sheet sum of KB Banja Luka	**27,804,170**

Statutory balance sheet sum of KB Podgorica	**16,809,534**
Deduction for the accrued expenses for liabilities measured at amortised cost at EIR	3,434
Corrections for the impairment allowance that relate to the Parent Bank	(18,540)
Corrected balance sheet sum of KB Podgorica	**16,794,428**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation (continued)

Income statement

In thousand of RSD

Result of Parent Bank	**8,145,182**
Corrections for the effect of net change in impairment allowance of placements that are related to subsidiary banks (negative effect)	**(4,937)**
Corrections for the effect of net change in provisions for losses on off-balance sheet assets (positive effect)	**7,262**
Corrected result of Parent Bank	**8,147,507**

Statutory result of KB Banja Luka	**122,702**
Corrections for the effect of net change in impairment allowance of placements that are related to Parent bank (negative effect)	**(121)**
Exchange rate differences on tax on local tax and deferred taxes - effect recognized in equity (positive effect)	**12**
Corrected result of KB Banja Luka	**122,593**

Statutory result of KB Podgorica	**111,092**
Corrections for the effect of net change in impairment allowance of placements that are related to Parent bank (positive effect)	3,436
Exchange rate differences on tax on local tax and deferred taxes - effect recognized in equity (positive effect)	6
Corrected result of KB Podgorica	**114,534**

During the consolidation, the elimination of all mutual relations from the balance sheet was carried out in the amount of RSD 7,209,128 thousand (2017: RSD 7,226,876 thousand). From income statement total income in the amount of RSD 28,802 thousand (2017: RSD 68,429 thousand) and expenditures in the amount of RSD 23,059 thousand (2017: RSD 43,414 thousand).

Standalone reclassified balance sheets as at December 31, 2018:

In thousands of RSD

KB Beograd	404,036,331
KB Podgorica	16,794,428
KB Banja Luka	27,804,170
KomBank Invest	161,158
Summed reclassified unconsolidated balance sheets	**448,796,087**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation (continued)

Standalone reclassified income statements (before tax) from January 1st to December 31st, 2018:

In thousands of RSD

KB Beograd	8,123,398
KB Podgorica	122,034
KB Banja Luka	139,853
KomBank INVEST	1,624
Summed reclassified unconsolidated balance sheets	**8,386,909**

6.1.b Review of consolidated transacions

Balance sheet 2018

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
448,796,087	**7,209,128**	**441,586,959**
Cash / Payables	8,848	
Placements / Liabilities	1,719,392	
Deposits / Capital	5,480,888	

Income Statement 2018

In thousands of RSD

Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	income	expense	
8,386,909	**28,802**	**23,059**	**8,381,166**
Interest	3,449	3,449	
Fees	8,671	8,671	
Other income/expenses	618	618	
Exchange rate differences (reclassified to equity)	16,064	10,321	

Balance sheet 2017

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
407,335,192	**7,226,876**	**400,108,316**
Cash / Payables	1,192	
Placements / Liabilities	1,744,796	
Deposits / Capital	5,480,888	

Income Statement 2017

In thousands of RSD

Collective unconsolidated profit in the Income statement (before taxes)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	Income	Expense	
7,341,399	**68,429**	**43,414**	**7,316,383**
Interest	4,061	4,061	
Fees	9,469	9,469	
Exchange rate differences (reclassified to equity)	54,899	29,884	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2018

Below is an overview of the activities of strategic segments from the consolidated balance sheet and the consolidated income statement:

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	63,595,710	2,466,997	7,929,332	-	73,992,039
Receivables under derivatives	4,070	-	-	-	4,070
Securities	133,177,598	1,967,042	2,227,301	142,779	137,514,720
Loans and receivables from banks and other financial organisations	18,371,519	1,143,293	1,506,349	16,376	21,037,537
Loans and receivables from clients	167,545,674	8,597,573	15,305,395	-	191,448,642
Intangible assets	557,051	25,194	45,223	-	627,468
Property, plant and equipment	5,619,078	306,695	121,592	19	6,047,384
Investment property	1,896,347	94,956	268,512	-	2,259,815
Current tax assets	-	-	1,650	-	1,650
Deferred tax assets	840,967	-	-	-	840,967
Fixed assets held for sale and assets from discontinued operations	227,630	255,595	175,778	-	659,003
Other assets	6,612,032	496,610	43,046	1,976	7,153,664
TOTAL ASSETS	**398,447,676**	**15,353,955**	**27,624,178**	**161,150**	**441,586,959**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2018 (continued)

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
LIABILITIES AND EQUITY					
Deposits and other liabilities due to banks, other financial institutions and the Central bank	4,042,274	237,889	3,948,121	-	8,228,284
Deposits and other financial liabilities to clients	317,229,084	13,840,132	19,598,940	-	350,668,156
Provisions	1,646,400	130,585	22,732	9,136	1,808,853
Current tax liabilities	-	119	10,782	143	11,044
Deferred tax liabilities	-	9,841	4,836	-	14,677
Other liabilities	9,059,972	95,359	177,810	753	9,333,894
Total liabilities	**331,977,730**	**14,313,925**	**23,763,221**	**10,032**	**370,064,908**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	8,300,982	(734,409)	218,749	10,732	7,796,054
Reserves	22,979,387	618,124	93,638	232	23,691,381
Non-controlling participation	-	-	66	-	66
Total equity	**71,314,919**	**(116,285)**	**312,453**	**10,964**	**71,522,051**
Total liabilities and equity	**403,292,649**	**14,197,640**	**24,075,674**	**20,996**	**441,586,959**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2017:

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
АКТИВА					
Cash and cash funds held with the central bank	49,840,887	2,366,019	3,869,842	-	56,076,748
Securities	117,288,767	2,300,043	1,778,837	154,933	121,522,580
Loans and receivables from banks and other financial organisations	29,047,033	778,990	407,532	-	30,233,555
Loans and receivables from clients	153,897,367	7,104,793	13,239,979	-	174,242,139
Intangible assets	460,263	10,308	27,816	-	498,387
Property, plant and equipment	5,655,248	305,336	56,586	30	6,017,200
Investment property	1,988,608	112,256	279,700	-	2,380,564
Current tax assets	-	-	5,622	-	5,622
Deferred tax assets	857,096	6,431	-	-	863,527
Fixed assets held for sale and assets from discontinued operations	241,148	310,676	235,794	-	787,618
Other assets	6,798,285	506,853	173,478	1,760	7,480,376
TOTAL ASSETS	**366,074,702**	**13,801,705**	**20,075,186**	**156,723**	**400,108,316**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2017 (continued)

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
LIABILITIES AND EQUITY					
Liabilities under derivatives	7,845	-	-	-	7,845
Deposits and other liabilities due to banks, other financial institutions and the Central bank	3,283,494	196,445	2,657,837	-	6,137,776
Deposits and other financial liabilities to clients	292,471,640	11,960,678	13,145,430	-	317,577,748
Provisions	1,368,051	162,331	15,848	5,653	1,551,883
Current tax liabilities	-	47	1,672	32	1,751
Deferred tax liabilities	-	-	1,647	-	1,647
Other liabilities	7,543,442	83,554	101,032	1,522	7,729,550
Total liabilities	**304,674,472**	**12,403,055**	**15,923,466**	**7,207**	**333,008,200**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	7,341,571	(772,527)	113,036	9,334	6,691,414
Reserves	19,645,901	586,110	141,964	112	20,374,087
Non-controlling participation	-	-	65	-	65
Total equity	**67,022,022**	**(186,417)**	**255,065**	**9,446**	**67,100,116**
Total liabilities and equity	**371,696,494**	**12,216,638**	**16,178,531**	**16,653**	**400,108,316**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2018

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	13,741,459	558,654	791,833	577	15,092,523
Interest expenses	(910,270)	(83,003)	(152,606)	-	(1,145,879)
Net interest gains	**12,831,189**	**475,651**	**639,227**	**577**	**13,946,644**
Income from fees and commissions	7,200,038	188,349	241,604	23,037	7,653,028
Expenses on fees and commissions	(1,996,886)	(45,230)	(70,170)	(295)	(2,112,581)
Net gains from fees and commissions	**5,203,152**	**143,119**	**171,434**	**22,742**	**5,540,447**
Net gains from changes in fair value of financial instruments	44,076	-	-	4,496	48,572
Net gains from derecognition of the financial instruments measured at fair value	230,194	-	16,872	18	247,084
Net exchange rate losses and losses on agreed currency clause	2,863	(3,274)	(1,122)	1	(1,532)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	11,818	29,335	10,528	-	51,681
Net gains from derecognition of the financial instruments measured at amortised cost	526,547	-	-	-	526,547
Other operating income	155,351	7,636	11,808	-	174,795
Total operating income	**19,005,190**	**652,467**	**848,747**	**27,834**	**20,534,238**
Salaries, salary compensations and other personal expenses	(4,442,799)	(265,618)	(320,675)	(14,845)	(5,043,937)
Depreciation costs	(551,988)	(34,940)	(42,816)	(10)	(629,754)
Other income	280,229	58,264	36,886	13	375,392
Other expenses	(6,167,977)	(296,849)	(379,966)	(9,981)	(6,854,773)
(Loss)/Profit before taxes	**8,122,655**	**113,324**	**142,176**	**3,011**	**8,381,166**
Profit tax	-	(119)	(18,076)	(181)	(18,376)
Gain/(loss) on deferred taxes	24,109	(7,381)	816	-	17,544
Profit/(loss) for the year	**8,146,764**	**105,824**	**124,916**	**2,830**	**8,380,334**

Within the stated consolidated profit, the gain that accrues to owners without the control right is RSD 2 thousand.

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2017

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	14,048,478	570,143	739,378	400	15,358,399
Interest expenses	(1,606,137)	(76,856)	(158,168)	-	(1,841,161)
Net interest gains	**12,442,341**	**493,287**	**581,210**	**400**	**13,517,238**
Income from fees and commissions	6,692,276	190,745	254,228	22,258	7,159,507
Expenses on fees and commissions	(1,616,461)	(44,896)	(84,273)	(276)	(1,745,906)
Net gains from fees and commissions	**5,075,815**	**145,849**	**169,955**	**21,982**	**5,413,601**
Net gains from changes in fair value of financial instruments	56,537	-	-	5,083	61,620
Net gains from derecognition of the financial instruments measured at fair value	91,584	534	10,386	19	102,523
Net income/(expense) from exchange rate differences and effects of contractual currency clause	(111,257)	24,405	9,430	20	(77,402)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	17,883	2,356	16,103	-	36,342
Net gains from derecognition of the financial instruments measured at amortised cost	306	-	-	-	306
Other operating income	183,973	6,584	10,802	-	201,359
Total operating income	**17,757,182**	**673,015**	**797,886**	**27,504**	**19,255,587**
Salaries, salary compensations and other personal expenses	(4,520,197)	(281,361)	(315,193)	(14,061)	(5,130,812)
Depreciation costs	(563,582)	(25,234)	(36,844)	(20)	(625,680)
Other income	753,804	15,898	9,257	23	778,982
Other expenses	(6,305,123)	(297,342)	(348,142)	(11,087)	(6,961,694)
(Loss)/Profit before taxes	**7,122,084**	**84,976**	**106,964**	**2,359**	**7,316,383**
Profit tax	-	(46)	(9,300)	(35)	(9,381)
Gain/(loss) on deferred taxes	930,118	29,978	898	-	960,994
Profit/(loss) for the year	**8,052,202**	**114,908**	**98,562**	**2,324**	**8,267,996**

Within the stated consolidated profit, the gain that accrues to owners without the control right is RSD 1 thousand.

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The parent bank has three operating segments:

- Transactions with legal entities Parent banks - Includes loans, deposits and other transactions with clients to legal entities other than banks,
- Retail banking of the parent bank - Includes loans, deposits and other transactions with clients to individuals, micro clients, entrepreneurs and farmers, and
- Investment banking and interbank banking of the parent bank - Includes transactions with securities and other financial instruments, as well as transactions with banks.

Since the dependent members of the Group operate as independent entities in their local markets and that the results thus obtained are used to measure their business performance, that the business of individual members of the Group as strategic segments is shown under note 6.1, and that the parent bank is more of 90% of the consolidated balance sheet, for reporting purposes by operational segments at the Group level, dependent members of the Group are shown under a single segment (Subsidiaries).

When looking at the profitability/outcome of each segment of the Parent bank, besides revenues and expenditures generated from client transactions, the income and expenses from internal relations between the segments of the Parent Bank are calculated by means of transfer prices determined on the basis of the respective market prices (net income/expenses from internal relations), as well as part of the net income / expenses that the parent Bank reported from the operations with subsidiaries.

Significant impact on the result in 2018 had net income from indirect write-offs amounting to RSD 51,681 thousand (of which the collected written off receivables amounted to RSD 329,451 thousand). In addition to the net income of indirect write-offs, Net gains from derecognition of the financial instruments measured at amortised cost significantly contributed to the result in 2018 in the amount of RSD 526,547 thousand as a result of several receivables sold.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is indebted to direct operational costs that relate to that segment as well as part of the indirect operating costs (the allocation of these costs to the segments is made using the appropriate keys used to allocate the cost of cost centers to profit centers).

Direct operating expenses at the Group level amount to RSD 8,264,772 thousand and account for 70% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (salaries, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of deals with the population of the Parent bank refers to the amount of RSD 5,764,006 thousand of direct costs (70% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees in the work with the population.

In accordance with the above said, the Group achieved profit before tax in the business year 2018 in the amount of RSD 8,381,166 thousand.

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6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2018 is shown below:

31.12.2018	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6,680,346	2,461,416	4,599,696	-	1,351,065	-	15,092,523
Interest expenses	(630,059)	(178,255)	(101,956)	-	(235,609)	-	(1,145,897)
Net interest gains	6,050,287	2,283,161	4,497,740	-	1,115,456		13,946,644
Net income/expenses from related party transactions	(727,305)	(601,012)	1,331,766	-	(3,449)	-	-
Net fees	3,835,447	757,668	610,037	-	337,295	-	5,540,447
Net fees from related party transactions	-	-	6,997	-	(6,997)	-	-
Profit before impairment allowance	9,158,429	2,439,817	6,446,540	-	1,442,305	-	19,487,091
Net gains/losses from impairment allowance	(25,518)	22,453	12,558	-	36,548	5,640	51,681
Profit before operating expenses	9,132,911	2,462,270	6,459,098	-	1,478,853	5,640	19,538,772
Direct operating expenses	(5,764,006)	(1,410,121)	(179,085)	-	(911,560)	-	(8.264,772)
Net exchange rate gain/(loss)	-	-	2,863	-	(4,395)	-	(1,532)
Net exchange difference from related parties transactions	-	-	(10,321)	-	16,064	(5,743)	-
Net other income/(expenses)	(174,657)	488,433	233,641	-	68,701	-	616,118
Net other income/(expenses) from related party transactions	206	206	206	-	(618)	-	-
Profit before indirect operating expenses	3,194,454	1,540,788	6.506,402	-	647,045	(103)	11,888,586
Indirect operating expenses	(1,590,127)	(1,193,677)	(336,767)	-	(386,849)	-	(3,507,420)
Profit before taxes	**1,604,327**	**347,111**	**6,169,635**	**-**	**260,196**	**(103)**	**8,381,166**
Assets per segment							
Cash and cash equivalents	-	-	63,595,710	-	10,396,316	13	73,992,039
Cash from related parties transactions	-	-	-	-	8,848	(8,848)	-
Due from banks	-	-	18,370,198	-	2,662,152	5,187	21,037,537
Due from banks from related parties transactions	-	-	107,531	-	1,611,625	(1,719,156)	-
Due from customers	91,855,167	75,690,507	-	-	23,902,968	-	191,448,642
Investment securities	-	-	133,177,598	-	4,337,122	-	137,514,720
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	15,757,175	1,836,845	1	17,594,021
Other from related parties transactions	-	-	-	236	-	(236)	-
	91,855,167	**75,690,507**	**217,862,896**	**15,757,411**	**44,755,876**	**(4,334,898)**	**441,586,959**
Liabilities per segment							
Liabilities to banks	-	-	4,042,274	-	4,186,010	-	8,228,284
Liabilities to banks from related parties transactions	-	-	1,620,474	-	107,531	(1,728,005)	-
Liabilities to customers	261,120,783	49,937,553	6,170,748	-	33,439,072	-	350,668,156
Subordinated liabilities	-	-	-	-	-	-	-
Other	-	-	-	10,713,635	462,096	(7,263)	11,168,468
Other from related parties transaction	-	-	-	-	236	(236)	-
	261,120,783	**49,937,553**	**11,833,496**	**10,713,635**	**38,194,945**	**(1,735,504)**	**370,064,908**

Notes: Placements to micro clients are presented within the segment of retail business
Indirect operating costs relate to expenditures that are not under the control of business segments

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6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2017 is shown below:

31.12.2017	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6,367,966	2,649,990	5,030,522	-	1,309,921	-	15,358,399
Interest expenses	(897,588)	(207,371)	(501,178)	-	(235,024)	-	(1,841,161)
Net interest gains	5,470,378	2,442,619	4,529,344	-	1,074,897		13,517,238
Net income/expenses from related party transactions	(886,255)	(768,155)	1,658,266	-	(3,856)	-	-
Net fees	3,613,223	876,021	586,570	-	337,787	-	5,413,601
Net fees from related party transactions	-	-	6,412	-	(6,412)	-	-
Profit before impairment allowance	8,197,346	2,550,485	6,780,592	-	1,402,416	-	18,930,839
Net gains/losses from impairment allowance	(310,881)	266,530	62,234	-	18,459	-	36,342
Profit before operating expenses	7,886,465	2,817,015	6,842,826	-	1,420,875	-	18,967,181
Direct operating expenses	(5,783,836)	(1,672,719)	(182,687)	-	(907,162)	-	(8.546,404)
Net exchange rate gain/(loss)	-	-	(111,257)	-	33,855	-	(77,402)
Net exchange difference from related parties transactions	-	-	54,899	-	(29,884)	(25,015)	-
Net other income/(expenses)	(82,584)	557,765	55,202	-	15,732	-	546,115
Net other income/(expenses) from related party transactions	2,020,045	1,702,061	6.658.983	-	533,416	(25,015)	10,889,490
Profit before indirect operating expenses	(1,612,287)	(1,237,636)	(343,916)	-	(379,268)	-	(3,573,107)
Profit before taxes	**407,758**	**464,425**	**6,315,067**	**-**	**154,148**	**(25,015)**	**7,316,383**
Assets per segment							
Cash and cash equivalents	-	-	49,840,887	-	6,235,861	-	56,076,748
Cash from related parties transactions	-	-	-	-	1,192	(1,192)	-
Due from banks	-	-	29,047,033	-	1,186,522	-	30,233,555
Due from banks from related parties transactions	-	-	496,756	-	1,247,819	(1,744,575)	-
Due from customers	81,512,171	72,385,196	-	-	20,344,772	-	174,242,139
Investment securities	-	-	117,288,767	-	4,233,813	-	121,522,580
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	16,000,648	2,032,646	-	18,033,294
Other from related parties transactions	-	-	-	221	-	(221)	-
	81,512,171	**72,385,196**	**199,285,302**	**16,000,869**	**35,282,625**	**(4,357,847)**	**400,108,316**
Liabilities per segment							
Liabilities to banks	-	-	3,283,494	-	2,854,282	-	6,137,776
Liabilities to banks from related parties transactions	-	-	1,249,011	-	496,756	(1,745,767)	-
Liabilities to customers	242,076,775	41,434,135	8,960,731	-	25,106,107	-	317,577,748
Subordinated liabilities	-	-	-	-	-	-	-
Other	-	-	-	8,919,338	373,338	-	9,292,676
Other from related parties transaction	-	-	-	-	221	(221)	-
	242,076,775	**41,434,135**	**13,493,236**	**8,919,338**	**28,830,704**	**(1,745,988)**	**333,008,200**

Notes: Placements to micro clients are presented within the segment of retail business
Indirect operating costs relate to expenditures that are not under the control of business segments

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUE

The methodology and assumptions used to calculate fair (fair) values for those financial assets and liabilities that are not recorded at fair value in the financial statements are as follows:

(i) The assets and liabilities in which the present value in books is approximately equal to the fair value

With financial assets and liabilities that are highly liquid and with a short-term maturity (up to one year), it is assumed that the present book value is approximately equal to fair value. This assumption is also used in demand deposits, savings deposits with no specified maturity and all financial instruments with a variable interest rate.

(ii) Instruments with a fixed interest rate

The fair value of financial assets and liabilities with fixed interest rates, carried at amortized cost, is estimated by comparing market interest rates at the moment of initial recognition with current market interest rates for financial instruments of similar characteristics. The estimated fair value of assets and liabilities with a fixed interest rate is to a large extent corresponds to the carrying amount, given that the agreed interest rates do not deviate from the market rates. Members of the Group do not have materially significant deviations on this basis.

8. NET INTEREST GAINS

Net interest gains consists of:

		In thousands of RSD For the year that ends December 31,
Income from:	**2018**	**2017**
Banks and REPO placements	249,625	304,534
Clients	10,314,604	10,138,393
Central Bank (liquid assets and required reserves deposited)	283,703	371,056
Securities	4,244,591	4,544,416
Interest income	**15,092,523**	**15,358,399**
Liabilities to banks and other financial organizations	(121,653)	(133,890)
Liabilities to customers	(916,472)	(1,282,452)
Received loans	(107,754)	(424,819)
Interest expense	**(1,145,879)**	**(1,841,161)**
Net interest gains	**13,946,644**	**13,517,238**

Total interest income and expense accounted for using the effective interest method presented in the previous table relates to financial assets and liabilities not carried at fair value through profit and loss.

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9. NET INCOME / (EXPENSES) FROM THE FEES AND COMMISSIONS

Net gains from fees and commissions / (expenses) consist of:

	In thousands of RSD For the year that ends December 31 2018	2017
Income in RSD		
Fees for payment services	3,577,857	3,243,428
Fees for granted loans and guarantees-retail	20,939	28,845
Fees for granted loans and guarantees-corporate	93,582	152,973
Fee for purchase of foreign currency	410,146	455,964
Fee for brokerage and custody services	29,906	36,505
Card payment fees	2,188,081	1,795,588
Fees based on inquiries in the Credit Bureau	69,291	87,771
Fees and commissions for other banking services	499,570	561,413
	6,889,372	**6,362,487**
Revenues in foreign currency		
Fees for payment services	354,737	344,999
Fees for granted loans and guarantees-corporate	35,991	34,376
Fee for brokerage and custody services	20,844	12,778
Card payment fees	273,557	285,881
Fees and commissions on other banking services	78,527	118,986
	763,656	**797,020**
	7,653,028	**7,159,507**
Expenses in RSD		
Fees for payment services	(135,377)	(125,732)
Fees based on the purchase of foreign currency	(32,831)	(64,340)
Card payment fees	(931,306)	(770,319)
Fees based on inquiries in the Credit Bureau	(64,462)	(78,149)
Fees and commissions from other banking services	(131,657)	(138,458)
	(1,295,633)	**(1,176,998)**
Expenses in foreign currency		
Fees for payment services	(103,010)	(93,909)
Card payment fees	(623,138)	(392,177)
Fees and commissions from other banking services	(90,800)	(82,822)
	(816,948)	**(568,908)**
	(2,112,581)	**(1,745,906)**
Net profit from fee and commission	**5,540,447**	**5,413,601**

10. NET GAINS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains from changes in fair value of financial instruments:

		In thousands of RSD For the year that ended December 31
	2018	**2017**
Revenue from the change in fair value of derivatives intended for trading – SWAP	11,915	-
Gains on the fair value adjustment of securities – investment units	14,114	17,934
Revenue from the change in the fair value of securities – treasury bills and bonds of the Republic of Serbia and other financial institutions	22,647	51,739
Total revenues	**48,676**	**69,673**
Expenses from the change in the fair value of derivatives held for trading - SWAP	-	(7,845)
Losses on the fair value adjustment of securities – investment units	(32)	(208)
Losses on the changes in value of securities	(72)	-
Total expenses	**(104)**	**(8,053)**
Net trading gain	**48,572**	**61,620**

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gains from derecognition of the financial instruments measured at fair value:

		In thousands of RSD For the year that ends December 31
	2018	**2017**
Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income	103,863	55,454
Gains arising from the derecognition of securities at fair value through income statement	162,443	47,280
Losses arising from the derecognition of financial instruments valued at fair value through other comprehensive income	(688)	-
Losses arising from the derecognition of financial instruments valued at fair value through income statement	(18,534)	(211)
Net gain	**247,084**	**102,523**

Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 103,863 thousand relate to the bonds of the Republic of Serbia and bonds of the Republic of Srpska, in the amount of RSD 50,078 thousand in the local and RSD 53,785 thousand in the foreign currency.

Gains arising from the derecognition of securities at fair value through income statement in the amount of RSD 162,443 thousand relate to bonds of the Republic of Serbia in the amount of RSD 78,148 thousand, and bonds of the Republic of Srpska in foreign currency in the amount of RSD 80,133 thousand and investment units in RSD in the amount of 4,162 thousand.

Losses arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 688 thousand relate to: bonds of the Republic of Serbia in the amount of RSD 353 thousand and bonds of the Republic of Srpska in foreign currency, in the amount of RSD 335 thousand.

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Losses arising from the derecognition of financial instruments valued at fair value through income statement in the amount of RSD 18,534 thousand relate to bonds of the Republic of Serbia in local currency in the amount of RSD 298 thousand, bonds of the Republic of Serbia in foreign currency in the amount of RSD 9,142 thousand and sale of foreign currency SWAP arrangements in the amount of RSD 9,094 thousand.

12. NET EXCHANGE RATE LOSSES AND LOSSES ON AGREED CURRENCY CLAUSE

		In thousands of RSD For the year ended December 31
	2018	**2017**
Positive currency clause effects – corporate clients	639,208	1,325,087
Positive currency clause effects – value adjustment of securities	2,627	7,533
Foreign exchange gains - value adjustment of liabilities	5,503	17,989
Positive currency clause effects – retail customers	706,052	427,235
Foreign exchange gains	2,586,267	14,940,221
Total gains	**3,939,657**	**16,718,065**
Negative currency clause effects – corporate clients	(787,602)	(3,575,513)
Negative currency clause effects – value adjustment of securities	(3,357)	(24,147)
Negative currency clause effects – value adjustment of liabilities	(4,636)	(4,170)
Negative currency clause effects – retail customers	(664,949)	(2,546,402)
Foreign exchange losses	(2,480,645)	(10,645,235)
Total losses	**(3,941,189)**	**(16,795,467)**
Net loss	**(1,532)**	**(77,402)**

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net impairment charges relate to:

		In thousands of RSD For the year ended 31 December
	2018	**2017**
Impairment allowance of financial assets measured at amortised cost	(6,290,137)	(12,703,727)
Provisions for off-balance sheet items	(383,333)	(338,553)
Impairment allowance of direct write-off of placements of loans and receivables	(3,638)	(5,951)
Impairment allowance for debt securities measured through other comprehensive income	(114,688)	-
Reversal of impairment allowance of financial assets valued at amortised cost	6,097,706	11,948,417
Reversal of provisions for off-balance sheet items	330,916	397,562
Reversal of allowance for debt securities measured through other comprehensive income	85,404	-
Income from collection of receivables previously written-off	329,451	738,594
Total	**51,681**	**36,342**

Within the position of indirect write-offs of placements of balance sheet items, the Group recorded the impairment of material values acquired through collection of receivables in the amount of RSD 109,932 thousand, based on estimation of the value of real estate and equipment by authorized appraisers and in accordance with internal acts of the Group.

During 2018, the collected receivables in the amount of RSD 329,451 thousand mostly relate to collecting receivables from the off-balance sheet for which the write-off from the balance sheet to the off-balance sheet was previously carried out, out of which RSD 134,263 thousand relate to collection of retail loan and the remainder in the amount of RSD 195,188 thousand relate collection of corporate loans.

By the end of January 2019, material collections of impaired placements were not made, which would have the effect of eliminating the allowance for impairment in accordance with the requirements of IAS 10.

Credit risk effects of debt securities in the amount of net expenses in the amount of RSD 29,284 thousand the Group recognized in the equity as losses from debt instruments (expense of debt securities at fair value through other comprehensive income in the amount of RSD 114,688 thousand and income on the same basis in the amount of RSD 85,404 thousand). These positions are exempt from the table below.

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Effect of first application of IFRS 9 correction 01/01/2018 reduced by the effect of internal relations

Parent Bank In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities through the other comprehensive income	The total effect of the first application of IFRS 9 recognized through correction of the results of the previous year
943,486	211,947	1,155,433

KB Podgorica In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities	The total effect of the first application of IFRS 9 recognized through correction of the capital
22,765	23,585	46,350

KB Banja Luka In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities	The total effect of the first application of IFRS 9 recognized through correction of the capital
78,415	22,409	100,824

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13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENTS ON IMPAIRMENT ALLOWANCE ACCOUNTS AND PROVISION FOR OFF-BALANCE SHEET ITEMS

	Loans and receivables due from banks (Note 25.2)	Loans and receivables from clients (Note 26.2)	Investment securities (Notes 24)	Other assets (Note 31)	Off-balance sheet liabilities (Note 35)	Total
Balance as at January 1st, 2018	**202,579**	**18,773,614**	**3**	**3,140,917**	**171,582**	**22,288,695**
Correction of the opening balance of IFRS 9 - correction of the results in equity	18,982	859,653	1,828	78,900	85,303	1,044,666
Correction of the initial balance of 100% impaired shares	-	-	-	(504,732)	-	(504,732)
Corrected balance as at January 1st, 2018	**221,561**	**19,633,267**	**1,831**	**2,715,085**	**256,885**	**22,828,629**
New impairment allowance	56,129	5,990,896	586	242,526	383,333	6,673,470
Decrease in impairment allowance	(59,817)	(5,745,785)	(818)	(291,286)	(330,916)	(6,428,622)
Foreign exchange effects	9,171	(13,667)	(5)	(1,496)	(90)	(6,087)
Write-offs	-	(5,155,182)	-	(10,785)	-	(5,165,967)
Other changes	827	200,514	-	(16,345)	-	184,996
Balance as of December 31, 2018	**227,871**	**14,910,043**	**1,594**	**2,637,699**	**309,212**	**18,086,419**

*effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2018, the Group made an increase in the net expense of impairment and provisioning in the total amount of RSD 244,848 thousand.

Of the other changes in the accounts of impairment allowance and provisions, the amount of RSD 5,165,967 thousand refers to the decrease on the basis of permanent write-off by transfer to off-balance with the Parent Bank, KB Podgorica and KB Banja Luka, based on the application of uniform accounting policies

14. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

	In thousands of RSD For the year ended 31 December 2018	2017
Gain on the derecognition of financial instruments that are valued at amortised cost	526,547	-
Total	**526,547**	**-**

The gain on this basis realized in 2018 in the whole refers to the one contract on the transfer of the receivables of one client on the basis which the Parent bank received the amount of EUR 12,900,000 or RSD 1,522,765 thousand. Based on the transaction, a positive effect on the income statement in the amount of RSD 526,547 thousand dinars was achieved.

15. NET GAIN FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATED ENTITIES AND JOINT VENTURES

	In thousands of RSD For the year ended 31 December 2018	2017
Gains on sales – participation in the capital of JUBMES banka	-	306
Net gain	**-**	**306**

16. OTHER OPERATING INCOME

	In thousands of RSD For the year ended December 31 2018	2017
Other income from operations	164,059	192,195
Income from dividends and equity participations	10,736	9,164
Total	**174,795**	**201,359**

Within the operating income from operations in the amount of RSD 164,059 thousand, the largest amounts relate to: fees for renting real estate in the country including received advances in the amount of RSD 80,708 thousand and income per based on the refund of communal expenses in the amount of RSD 52,510 thousand.

During 2018, the Parent Bank received dividends on the basis of shares and stocks intended for trading in the amount of RSD 10,736 thousand (2017: RSD 9,137 thousand) and form part of the position of other income, dividends from the participation in the ownership of VISA Inc. in the amount of RSD 6,154 thousand, Dunav Osiguranje ADO in the amount of RSD 3,363 thousand and MasterCard in the amount of RSD 1,219 thousand.

17. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

The costs of salaries, wages and other personal expenses consist of:

		In thousands of RSD For the year ended December 31
	2018	**2017**
Net salaries	2,956,795	3,067,911
Net benefits	509,985	480,967
Payroll taxes	429,588	453,421
Payroll contributions	993,431	1,003,739
Considerations paid to seasonal and temporary staff	8,192	15,291
Provisions for retirement benefits – net (Note 34)	81,701	32,606
Other Salaries, salary compensations and other personal expenses	64,245	76,877
Total	**5,043,937**	**5,130,812**

18. DEPRECIATION COSTS

		In thousands of RSD For the year ended December 31
	2018	**2017**
Amortization charge – intangible assets (Note 27.2)	161,229	162,273
Depreciation charge – property and equipment (Note 28.2)	419,447	418,137
Depreciation charge – investment property (Note 29.1)	49,078	45,270
Total	**629,754**	**625,680**

19. OTHER INCOME

		In thousands of RSD For the year ended December 31
	2018	**2017**
Income from reversal of unused provisions for litigations and other liabilities (note 35)	147,719	29,089
Gains from the sale of equipment / real estate	3,718	11,268
Income from decrease of liabilities	41,080	68,924
Surpluses	-	3
Other income	182,875	669,698
	375,392	**778,982**

Within the position of other income of the Parent Bank in 2018, the most significant items are income:

- Based on court disputes adjudicated in favour of the Bank or disputes in termination until the end of the previously connected procedure in the amount of RSD 134,110 thousand
- Based on the decrease in liabilities in the amount of RSD 40,650 thousand resulting from the acquisition of materially insignificant liabilities of inactive parties of current, local and foreign currency accounts of private individuals who in the course of 2018 fulfilled the conditions prescribed by the decision of the Executive Board of the Bank. In the case of a subsequent request of the client for the outgoing debtor, the same will be made against the expense of the Bank's expense.
- From the insurance company for default interest and reimbursement of expenses based on a court decision in the amount of RSD 63,405 thousand
- Based on interest from previous years – private individuals in the amount of RSD 16,260 thousand
- Based on interest from previous years – corporate clients in the amount of RSD 14,251 thousand

20. OTHER EXPENSES

Other expenses relate to:

	In thousands of RSD For the year ended December 31 2018	2017
Cost of materials	373,201	401,199
Cost of production services	2,130,158	2,282,749
Non-material costs (without taxes and contributions)	2,704,964	2,746,978
Tax expenses	164,807	146,519
Contributions expenses	780,027	792,567
Other operating cost	26,427	25,613
Other expenses	342,617	267,464
Losses on the valuation of property and equipment, investment property and intangible assets	12,405	-
Losses arising as a result of changes in value in investment properties and assets held for sale	43,627	107,576
Provisions for litigations (Note 35)	276,540	191,029
Total	**6,854,773**	**6,961,694**

a) Other expenses

Within the position of other expenses of the Parent bank in the amount of RSD 304,928 thousand among others were recorded:

- expenses arising from provisions for litigation in the amount of RSD 270,971 thousand
- expenses based on paid invoices to the insurance company for the life insurance policies of clients, in the amount of RSD 176,422 thousand, and whose payment has been done by the Bank. These policies are used as a collateral for approved loans to individuals. Also, in this position, expenses by policy for users of sets of current accounts and travel insurance of international payment cards in the amount of RSD 64,889 thousand are shown in this position, and
- Losses from write-off and write-off of fixed assets and intangible investments in the amount of RSD 13,405 thousand.

b) Expenses arising from provisions for litigation

Expenses arising from provisions for litigation in the Parent Bank in the total amount of RSD 270,971 thousand (Note 36) refer to increase of expenses for thirty one new case and net increase expenses for active items from previous years

21. PROFIT TAX

The parent bank does not have the possibility to perform tax consolidation on the basis of valid regulations in the Republic of Serbia. The final amounts of tax liabilities for the Group members are determined by applying the tax rate to the tax base established by local tax regulations and disclosed in individual notes with their annual statutory financial statements.

Tax rates for 2018 are:	
Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

The Group's profit tax components as of December 31 are as follows:

	In thousands of RSD For the year ended December 31 2018	2017
Current Profit tax	(18,376)	(9,381)
Gains from deferred taxes	702,775	1,366,704
Losses on deferred taxes	(685,231)	(405,710)
Total	**(832)**	**951,613**

Given the impossibility of tax consolidation, tax components are separately disclosed as follows:

21.1. The Parent Bank

21.1.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year ended December 31 2018	2017
Gains from deferred taxes	700,754	1,335,828
Losses on deferred taxes	(676,645)	(405,710)
Total	**24,109**	**930,118**

In 2018 and 2017, the Bank did not disclose current Profit tax on the basis of current tax regulations.

21. PROFIT TAX (continued)

21.1. The Parent Bank (continued)

21.1.2. The adjustment of the effective tax rate is shown in the following table:

In thousands of RSD

	2018	2018	2017	2017
Profit / (Loss) for the year before taxes		**8,121,073**		**7,187,250**
Tax calculated using the local Profit tax rate	15%	1,218,161	15%	1,078,087
Expenses not recognized for tax purposes	1.05%	85,015	-0.41%	(29,449)
Tax effects of the net capital losses	-0.01%	(621)	-0.01%	(562)
Tax effects of income reconciliation	-0.24%	(19,773)	0.03%	1,868
	-0.43%	(34,851)	-	-
Tax credit received and used in the current year	-7.80%	(632,773)	-5.13%	(368,666)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-7.57%	(615,158)	-9.48%	(681,278)
Deferred tax effect adjustments	-0.30%	(24,109)	-12.94%	(930,118)
Tax effects stated within the income statement		**24,109**		**930,118**

21.1.3. Deferred tax liabilities at 31 December are shown as follows:

In thousands of RSD
For the year that ends December 31

	2018	2017
Balance at 1 January	857,096	(23,592)
Creation and elimination of temporary differences	(16,129)	880,688
Balance at 31 December	**840,967**	**857,096**

During 2018, the Bank did not pay Profit tax, bearing in mind that when calculating Profit tax for 2017, it did not declare the obligation to pay Profit tax due to covering the tax liability by transferred tax loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

21. PROFIT TAX (continued)

21.1. The Parent bank (continued)

21.1.4. Deferred tax assets and liabilities

21.1.4.1 Deferred tax assets and liabilities relate to:

In thousands of RSD

			2018			2017
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	69,359	-	69,359	112,277	-	112,277
Transferred tax losses	878,000	-	878,000	867,146	-	867,146
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	4,885	(570,187)	(565,302)	624	(530,171)	(529,547)
Long-term provisions for retirement benefits	49,098	-	49,098	35,322	-	35,322
Impairment of assets	295,225	-	295,225	265,532	-	265,532
Employee benefits under Article 9 paragraph 2. CIT Law	1,183	-	1,183	1,192	-	1,192
Calculated but not paid public liabilities	13	-	13	-		-
Provisions for litigation	135,023	-	135,023	118,797	-	118,797
Actuarial gains on provisions for severance payments	-	(21,632)	(21,632)	-	(13,623)	(13,623)
Total	**1,432,786**	**(591,819)**	**840,967**	**1,400,890**	**(543,794)**	**857,096**

Transferred tax losses that are not recorded in the Bank's books and on the basis of which no tax assets have been formed, and which can be used to cover the tax on profits in the following periods amount to a total of RSD 7,979,816 thousand and relate to the part of the tax loss realized in 2016.

Deferred tax assets were not formed on tax credits on the basis of investments in fixed assets in the amount of RSD 15,692 thousand nor on the basis of tax credits for intercompany dividends in the amount of RSD 13,154 thousand.

21.1.4.2 Overview of tax credits on which no deferred tax assets are formed:

In thousands of RSD

Type of tax credit	Year	Amount as at 31.12.2018	Amount as at 31.12.2017	Expiration date of use
Tax losses carried forward	2014		-	2019
	2015		2,533,717	2020
	2016	7,979,816	9,719,742	2021
Total tax losses carried forward		**7,979,816**	**12,253,459**	
Impact of tax losses on future Profit tax (15%)		1,196,972	1,838,019	2019 -2021
Tax credit on the basis of investment in fixed assets	2013	15,692	15,692	2023
Tax credit on the basis of intercompany dividends	2014	13,154	13,154	2019
Total tax credits for future Profit tax liabilities		**1,225,818**	**1,866,865**	

21. PROFIT TAX (continued)

21.1. The Parent bank (continued)

21.1.4. Deferred tax assets and liabilities (continued)

21. PROFIT TAX (continued)

21.1. The Parent bank (continued)

21.1.4. Deferred tax assets and liabilities (continued)

21.1.4.3. Movements under temporary differences in 2018 and 2017 are presented as follows:

In thousands of RSD

2018	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	112,277	(46,444)	3,526	-	69.359
Transferred tax losses	867,146	10,854	-	-	878,000
Securities	(529,547)	-	(35,755)	-	(565,302)
Long term provisions for employee benefits	35,322	13,776	-	-	49,098
Acturial gains	(13,623)	-	(8,009)	-	(21,632)
Impairment of assets	265,532	29,693	-	-	295,225
Employee benefits under Article 9 paragraph 2. CIT Law	1,192	(9)	-	-	1,183
Calculated but not paid public liabilities	-	13	-		13
Provisions for legal disputes	118,797	16,226	-	-	135,023
Total	**857,096**	**24,109**	**(40,238)**	**-**	**840,967**

In thousands of RSD

2017	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	77,473	96,720	(61,917)	-	112,277
Transferred tax losses	-	867,146	-	-	867,146
Securities	(565,549)	-	36,003	-	(529,547)
Long term provisions for employee benefits	41,978	3,237	(9,894)	-	35,322
Acturial gains	-	-	(13,623)	-	(13,623)
Impairment of assets	284,297	(18,765)	-	-	265,532
Employee benefits under Article 9 paragraph 2. CIT Law	1,134	58	-	-	1,192
Provisions for legal disputes	137,075	(18,278)	-	-	118,797
Total	**(23,592)**	**930,118**	**(49,431)**	**-**	**857,096**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

21. PROFIT TAX (continued)

21.1. The Parent bank (continued)

21.1.5. Tax effects related to the other comprehensive income

In thousands of RSD

	2018			2017		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities (increase on debt and equity securities)	54,8 32	(8,224)	46,608	(241,847)	36,277	(205,570)
Net decrease due to actuarial losses	53,387	(8,008)	45,379	24,648	(23,517)	1,131
Valuation of property	-	3,526	3,526	-	(61,917)	(61,917)
Decrease due to fair value adjustments of equity investments and securities	(28,403)	4,260	(24,143)	1,823	(274)	1,549
Total	**79,816**	**(8,446)**	**71,370**	**(215,376)**	**(49,431)**	**(264,807)**

21.2. Komercijalna banka ad, Podgorica

21.2.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st	
	2018	**2017**
Tax expense of the period	(119)	(47)
Gains from deferred taxes	1,205	29,978
Deferred Profit tax expense	(8,586)	-
	(7,500)	**29,931**

21.2.2. The adjustment of the effective tax rate is shown in the following table:

	2018	2018	2017	2017
Profit / (Loss) before tax		**118,517**		**59,797**
Tax calculated at the local rate of 9%	9.00%	10,667	9.00%	5,382
Taxable income - related parties and capital gains	0.10%	119	0.08%	47
Tax deductible expenses	0.00%	-	1.79%	1,067
Tax credits	0.00%	-	-10.79%	-6,449
Effective Profit tax	0.10%	119	0.08%	47
Tax effects of items reported in the income statement		**(119)**		**(47)**

21. PROFIT TAX (continued)

21.3. Komercijalna banka ad, Banja Luka

21.3.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st 2018	2017
Tax expense of the period	(18,076)	(9,299)
Gains from deferred taxes	816	898
	(17,261)	**(8,401)**

21.3.2. The adjustment of the effective tax rate is shown in the following table:

	2018	2018	2017	2017
(Loss) / Profit before tax		**139,879**		**89,714**
Tax calculated at the local Profit tax rate of 10%	10.00%	13,988	10.00%	8,971
Tax deductible expenses	8.09%	11,302	5.43%	4,869
Tax free revenue	-5.16%	(7,214)	-5.06%	(4,541)
Effective tax	12.93%	18,076	10.37%	9,299
Tax effects of items reported in the income statement		**(18,076)**		**(9,299)**

21.3.3. Deferred tax liabilities at 31 December are shown as follows:

	In thousands of RSD For the year that ends December 31st 2018	2017
Balance at 1 January	1,647	4,414
Creation and elimination of temporary differences	3,189	(2,767)
Balance at 31 December	**4,836**	**1,647**

21. PROFIT TAX (continued)

21.4. KomBank INVEST Investment fund management company ad, Belgrade

21.4.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st 2018	2017
Tax expense of the period	(181)	(35)
	(181)	**(35)**

21.4.2. The adjustment of the effective tax rate is shown in the following table:

	In thousands of RSD For the year that ends 31 December 2018	2017
Profit before tax	1,624	940
Profit tax at the statutory tax rate of 15%	244	141
The tax effects of net capital gains	181	35
Tax effects of differences of depreciation for tax purposes and accounting depreciation	40	40
Correction of tax effects (effect of used and new)	(465)	(216)
Other	181	35
Tax effects of items reported in the income statement	**(181)**	**(35)**
Effective tax rate	**11.15%**	**3.72%**

22. CASH AND ASSETS IN THE CENTRAL BANK

Cash and balances with the central bank include:

	In thousands of RSD December 31 2018	December 31 2017
In RSD		
Cash on hand	4,247,196	3,045,919
Gyro account	25,485,437	15,047,427
Other RSD cash funds	99	99
In foreign currencies	**29,732,732**	**18,093,445**
Cash on hand		
Foreign currency obligatory reserves	3,956,036	4,622,429
Other cash funds	39,287,392	32,318,639
	1,015,879	1,042,235
Total	**44,259,307**	**37,983,303**
Adjustment to cash for the purpose of preparing cash flow statement		
Foreign currency accounts held with foreign banks (Note 25.1)	9,825,488	5,199,540
Foreign currency obligatory reserves	(39,287,392)	(32,318,639)
	(29,461,904)	**(27,119,099)**
Cash and cash equivalents reported in statement of cash flows	**44,530,135**	**28,957,649**

The Group in the Cash Flow Statement records cash on giro accounts with the central bank, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

<u>The Parent Bank</u>

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash registers.

Within the giro account, the dinar (RSD) mandatory reserve is presented, which represents the minimum reserve of the dinar (RSD) funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the above Decision, RSD required reserve is calculated on the amount of average daily book value of RSD deposits, loans and other RSD liabilities during one calendar month applying the rate ranging from 0.0% to 5.00% depending on maturity of liabilities and their source with this which computes the compulsory reserve requirement makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD counter value calculated compulsory reserve in euros on deposits up to 730 days, and 30.00% of the RSD counter value of the calculated obligatory reserves In Euro on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in the amount of 1.25% per annum (since May 2018).
The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, but in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or equal to the foreign exchange reserve requirement.

22. CASH AND ASSETS IN THE CENTRAL BANK (continued)

The Parent Bank (continued)

Decision on amendment of the Decision on obligatory reserve dated 11.12.2015 (Official Gazette 102/2015), the rates of allocation of the foreign currency reserve requirement are as follows:

• FX deposits with deposits up to 730 days are 20%
• On foreign currency deposits deposited over 730 days the rate is 13%
• For RSD deposits indexed by currency clause, the rate is 100% irrespective of maturity.

By the Decision on the Reserve Requirement of the National Bank of Serbia, the Bank allocated a portion of the foreign currency reserve requirement in RSD in its giro account. The Bank does not make any interest on the obligatory reserve in foreign currency.

Other cash in foreign currency in the amount of RSD 110 thousand (2017: RSD 184 thousand) refers to the account with the Central Securities Depository for trading in securities.

Komercijalna banka ad, Podgorica

The mandatory reserve of the Bank as of December 31, 2018 represents the minimum amount of deposited deposits in accordance with the regulations of the Central Bank of Montenegro, to which the "Decision on Required Reserves of Banks with the Central Bank of Montenegro" ("Official Gazette of Montenegro" No. 73 / 15, 78/15 and 3/16). In accordance with the above, the Bank calculates the required reserve on demand deposits and time deposits.

Deposit accounts with depository institutions in Montenegro refer to the obligatory reserve, which is allocated at the rate of 7.5% on the part of the base that consists of demand deposits and deposits with maturity up to one year, ie up to 365 days, and 7.5% per share of the base deposits are contracted with maturity over one year, or over 365 days. Deposits with a maturity of over one year that have a clause on the possibility of the disposal of these deposits within less than 365 days shall be applied at a rate of 7.5%.

The amount up to 50% is included in available-for-sale assets as an amount that is allowed to dispose of in order to maintain the daily liquidity of the Bank.

The Bank may allocate up to 25% of the required reserve in the form of government bonds issued by Montenegro.

At 50% of the allocated funds, the Central Bank pays the Bank a monthly fee of 1% per annum.

The Bank did not use the reserve requirement funds during 2018.

22. CASH AND ASSETS IN THE CENTRAL BANK (continued)

Komercijalna banka ad, Banja Luka

Cash and cash equivalents include deposited surpluses of liquid assets with the Central Bank of Bosnia and Herzegovina in accordance with the regulations of the Central Bank of Bosnia and Herzegovina.

The obligatory reserve with the Central Bank of Bosnia and Herzegovina represents the minimum reserve of funds in domestic currency calculated in accordance with the Decision on Required Reserves with the Central Bank of Bosnia and Herzegovina.

From 1 July 2016, the Central Bank of Bosnia and Herzegovina calculates remuneration to banks in the following manner:

a) on the amount of the required remuneration means - does not charge compensation,
b) for the amount of funds above the required reserve - charges shall be calculated at a rate equal to 50% of the rate applied by the European Central Bank to Deposit Facility Rate - (Official Gazette of the Republic of Srpska 33/2016).

If during the maintenance period there is a change in the value of the Deposit Facility Rate, the rate applicable on the first day of the maintenance period during which the Change Deposit Facility Rate.

23. RECEIVABLES UNDER DERIVATIVES

	In thousands of RSD For the year that ends December 31 2018	2017
Receivables on the basis of derivative value changes in local currency - SWAP	4,070	-
Total	**4,070**	**-**

24. SECURITIES

24.1. Securities comprise:

	In thousands of RSD For the year that ends December 31 2018	2017
Securities measured at fair value through income statement (in RSD)	1,795,977	2,184,287
Securities measured at fair value through income statement in foreign currency	3,156,612	3,240,355
Total	**4,952,589**	**5,424,642**
Securities measured at fair value through other comprehensive income (in RSD)	52,167,965	33,470,304
Securities measured at fair value through other comprehensive income in foreign currency	80,395,760	82,627,637
Total	**132,563,725**	**116,097,941**
Impairment allowance	(1,594)	(3)
Total	**137,514,720**	**121,522,580**

24. SECURITIES (continued)

24.2 The structure of securities measured at fair value through income statement is shown in the following table:

	In thousands of RSD For the year that ends 2018	2017
Bonds of the Republic of Serbia (in RSD)	1,193,611	1,628,010
Investment units of OIF monetary fund (in foreign currency)	4,794	4,778
Investment units of OIF monetary fund (in RSD)	597,572	551,499
Bonds of the Republic of Serbia (in foreign currency)	3,156,612	3,240,355
Total	**4,952,589**	**5,424,642**

Investment units as at December 31, 2018 in the amount of RSD 602,366 RSD comprise investment units of OIF monetary fund (in foreign currency) and investment units of OIF monetary fund (in RSD).

24.3 The structure of securities measured at fair value through other comprehensive income statement is shown in the following table:

	In thousands of RSD For the year that ends 2018	2017
In RSD		
Bonds of the Republic of Serbia	51,916,780	33,137,523
Municipality bonds (city of Pancevo and municipality of Stara Pazova)	251,185	332,781
Total RSD	**52,167,965**	**33,470,304**
In foreign currencies		
Bonds of the Republic of Serbia	75,650,086	77,178,120
Bonds of foreign banks (Raiffeisen Bank International)	1,702,199	1,782,330
Bonds of the Republic of Srpska	2,884,532	1,778,838
Bonds of the Montenegro	158,943	1,888,350
In foreign currencies	**80,395,760**	**82,627,638**
Total	**132,563,725**	**116,097,942**

Changes in the impairment allowance are as shown:

Impairment allowance of securities measured at fair value through other comprehensive income

	December 31 2018	December 31 2017
Individual impairment allowance		
Balance at January 1st	3	81,710
Correction of opening balance		
IFRS 9 – correction of the result in the capital	1,828	-
Corrected opening balance as at January 1st, 2018	1,831	-
Increase (Note 13)	586	29,813
Exchange rate effects (Note 13)	(5)	(3,523)
Reversal (Note 13)	(818)	(27,211)
Permanent write-off	-	(80,786)
Total individual impairment allowance	**1,594**	**3**

24. SECURITIES (continued)

Impairment allowance of securities measured at amortised cost

	December 31 2018	December 31 2017
Individual impairment allowance		
Balance at January 1st	-	84,169
Correction of opening balance	-	-
IFRS 9 – correction of the result in the capital	-	-
Corrected opening balance as at January 1st, 2018	-	-
Increase (Note 13)	-	-
Exchange rate effects (Note 13)	-	-
Reversal (Note 13)	-	-
Permanent write-off	-	(84,169)
Total individual impairment allowance	**-**	**-**

25. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

25.1 Placements to banks include

	In thousands of RSD 31 December 2018	31 December 2017
RSD loans and receivables		
Per repo transactions	1,500,000	15,000,000
Loans for working capital	1,000,000	200,000
Overnight loans	1,260,000	-
Other placements	15,993	68,549
Placed deposits in local currency	16,376	-
Prepayments	14,744	18,809
Impairment allowance	(1,127)	-
	3,805,986	**15,287,358**
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	9,825,488	5,199,539
Overnight loans	1,587,977	2,144,357
Other loans and receivables due from foreign banks	1,243,418	972,056
Foreign currency deposits placed with other banks	3,793,400	5,929,799
Prepayments	513	819
Other receivables	9,843	13,004
Secured foreign currency warranties	997,656	889,202
Impairment	(226,744)	(202,579)
	17,231,551	**14,946,197**
Total	**21,037,537**	**30,233,555**

As at 31 December 2018, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 1,500,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days, with the annual interest rate from 2.31% to 2.59%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 1.9% to 3.50% per annum.

Short-term time deposits with foreign currency banks were deposited for up to one year with an annual interest rate ranging from 0.05% to 0.20% for the EUR currency, from 1.2% to 2.5% for USD and from 0.13% for CHF.

Long-term time deposits with banks in foreign currency were deposited at the annual interest rate in the range of 0.25% to 0.25%.

Interest rates on placements of short-term loans in foreign currency ranged from 3.00% to 6.50%, while interest rates on planned long-term loans in foreign currency ranged from 3.70% to 6.90%.

25. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS (continued)

25.2 Changes in the impairment allowance account by placements to banks are presented in the following table:

Impairment allowance	2018	2017
Balance at 1 January	202,579	311,994
IFRS 9 – correction of the result in the capital	18,982	-
Corrected opening balance as at January 1st, 2018	**221,561**	**-**
Impairment in the current year:		
Increase (Note 13)	56,129	3,036
Effects of exchange rate change (Note 13)	9,171	(46,791)
Permanent write-off	-	-
Released during the year (Note 13)	(59,817)	(65,660)
Other	827	-
Balance at 31 December	**227,871**	**202,579**

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26. LOANS AND RECEIVABLES FROM CLIENTS

26.1 Loans and receivables from clients:

In thousands of RSD

	2018			2017		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	908,929	(22,389)	886,540	547,983	(15,523)	532,460
Working capital loans	38,238,806	(4,484,678)	33,754,128	41,111,061	(6,948,860)	34,162,201
Export loans	-	-	-	59,381	-	59,381
Investment loans	38,547,851	(1,655,814)	36,892,037	31,305,119	(2,591,763)	28,713,356
Loans for payments of imported goods and services	2,072,507	(18,613)	2,053,894	2,109,314	(18,892)	2,090,422
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	386,037	(289,188)	96,849	416,502	(261,893)	154,609
Other loans and receivables	43,407,400	(7,058,215)	36,349,185	43,331,933	(7,271,480)	36,060,453
Prepayments	120,248	(19,393)	100,855	146,649	(24,290)	122,359
Accruals	(200,317)	-	(200,317)	(174,533)	-	(174,533)
	123,481,461	**(13,548,290)**	**109,933,171**	**118,853,409**	**(17,132,701)**	**101,720,708**
Retail customers						
Transaction account overdrafts	3,629,088	(179,038)	3,450,050	3,852,990	(425,362)	3,427,628
Housing loans	44,282,275	(785,292)	43,496,983	41,444,608	(660,884)	40,783,724
Cash loans	32,855,277	(299,495)	32,555,782	26,591,048	(429,866)	26,161,182
Consumer loans	198,225	(2,765)	195,460	285,226	(6,927)	278,299
Other loans and receivables	2,270,794	(92,333)	2,178,461	2,369,413	(114,850)	2,254,563
Prepayments	260,985	(2,830)	258,155	229,137	(3,024)	226,113
Accruals	(619,420)	-	(619,420)	(610,078)	-	(610,078)
	82,877,224	**(1,361,753)**	**81,515,471**	**74,162,344**	**(1,640,913)**	**72,521,431**
Balance as at December 31	**206,358,685**	**(14,910,043)**	**191,448,642**	**193,015,753**	**(18,773,614)**	**174,242,139**

26. LOANS AND RECEIVABLES FROM CLIENTS (continued)

26.2 Movements on the account of impairment allowance of Loans and receivables from clients are presented in the table below:

In thousands of RSD

	December 31 2018	December 31 2017
Individual impairment allowance		
Balance as at January 1	**17,446,730**	**29,920,987**
Current year impairment allowance:		
IFRS 9 – correction of the result in the capital	110,779	-
Corrected opening balance as at January 1st, 2018	**17,557,509**	**-**
Increase (Note 13)	1,711,065	7,337,739
Reclassified from group to individual impairment allowance	348,305	197,466
Effects of the changes in foreign exchange rates (Note 13)	(7,051)	(419,849)
Reversal (Note 13)	(1,864,903)	(6,605,172)
Permanent write-off	(4,570,641)	(13,010,356)
Previous years interest income	-	2,014
Other (Note 13)	1,953	23,901
Total individual impairment allowance	**13,176,237**	**17,446,730**
Group impairment allowance		
Balance as at January 1	**1,326,884**	**2,169,615**
Current year impairment allowance:		
IFRS 9 – correction of the result in the capital	748,874	-
Corrected opening balance as at January 1st, 2018	**2,075,758**	**-**
Increase (Note 13)	4,279,831	4,684,063
Reclassified from group to individual impairment allowance	(348,305)	(197,466)
Effects of the changes in foreign exchange rates (Note 13)	(6,616)	(411,656)
Reversal (Note 13)	(3,880,882)	(5,108,173)
Written off (Note 13)	(584,541)	(589,260)
Other (Note 13)	198,561	779,761
Total group impairment allowance	**1,733,806**	**1,326,884**
Balance as at December 31	**14,910,043**	**18,773,614**

26. LOANS AND RECEIVABLES FROM CLIENTS (continued)

Loans and receivables due from retail customers

During 2018, short-term and long-term loans to retails in RSD were approved for a period of 30 days to 120 months with nominal interest rates ranging from 1.8% to 14.5% per annum.

Short-term loans to retails in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.50% to 9.60% annually.

Long-term loans to retails in foreign currency are approved for a term of thirteen to three hundred and sixty-five months with nominal interest rates ranging from 1.5% to 13.00% annually.

Loans and receivables due from corporate client

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.35% to 6.00% annually. In foreign currency, short-term loans were approved for a period up to twelve months with an interest rate of 1.3% to 6.00% for EUR per annum whereas for other currencies from 2.00% to 13.2% per annum.

Long-term loans in RSD were approved for a period from thirteen months to thirty months with an interest rate from 2.25% to 5.50% on an annual basis. Long-term loans in foreign currency are approved for a period of up to one hundred forty-four months with an interest rate of EUR from 1.05% to 4.95% annually and for other foreign currencies with an nominal interest rate ranging 2.00% to 11.99% per annum, that is from 4.19% plus six months Euribor to 11.4% plus six months Euribor with the same maturity period.

Risks and uncertainties

The management of the Group members made a provision for potential loan losses using the concept of expected credit loss. Losses due to impairment of assets measured at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of future estimated cash flows discounted using the initial effective interest rate of the asset. Losses are recognized in the income statement and are stated at the expense position and the impairment of financial assets under Loans and receivables from clients. When events after the balance sheet date affect the impairment loss, such a decrease is recognized as an impairment loss through the income statement.

Loans and other receivables are presented in the amount reduced for group and individual impairment allowance. Individual and group provisions are deducted from the carrying amount of loans that are identified as impaired in order to reduce their value to their recoverable amount. In order to protect against the risk of non-performance of obligations in dealing with clients, the Group takes the following measures for regulating receivables: extension of the maturity date, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures. If the measures taken to regulate the placements, ie the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, the proposal for permanent write-off of the remaining receivables of the Group, or transfer from the balance sheet to the off-balance sheet is initiated.

27. INTANGIBLE ASSETS

27.1 Intangible assets consist of

In thousands of RSD

	December 31 2018	December 31 2017
Intangible assets	437,419	367,875
Intangible assets in progress	190,049	130,512
Total	**627,468**	**498,387**

27.2 Changes in intangible assets during 2018 and 2017 are shown in the following table

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as at January 1, 2017	2,247,277	2,563	2,249,840
Additions	4,755	262,196	266,951
Transfers	134,186	(134,186)	-
FX Adjustments	(11,090)	(61)	(11,151)
Balance as at December 31, 2017	**2,375,128**	**130,512**	**2,505,640**
Balance at January 1, 2018	2,375,128	130,512	2,505,640
Additions	19,516	270,867	290,383
Transfers	211,304	(211,304)	-
Disposals	(5,475)	-	(5,475)
FX Adjustments	(656)	(26)	(682)
Balance as at December 31, 2018	**2,599,817**	**190,049**	**2,789,866**
Depreciation			
Balance at January 1, 2017	1,855,294	-	1,855,294
Depreciation (Note 16)	162,273	-	162,273
FX Adjustments	(10,314)	-	(10,314)
Balance as at December 31, 2017	**2,007,253**	**-**	**2,007,253**
Balance at January 1, 2018	2,007,253	-	2,007,253
Depreciation (Note 18)	161,229	-	161,229
Disposals	(5,475)	-	(5,475)
FX Adjustments	(609)	-	(609)
Balance as at December 31, 2018	**2,162,398**	**-**	**2,162,398**
Net Book Value			
Balance as at December 31, 2017	**367,875**	**130,512**	**498,387**
Balance as at December 31, 2018	**437,419**	**190,049**	**627,468**

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28. PROPERTY, PLANT AND EQUIPMENT

28.1 Property, plant and equipment consist of:

In thousands of RSD

	December 31 2018	December 31 2017
Property	5,146,980	5,240,836
Equipment	678,001	634,924
Investments in progress	222,403	141,440
Total	**6,047,384**	**6,017,200**

28.2 Movements on property, plant and equipment during 2018 and 2017 were as follows:

In thousands of RSD

Cost	Property	Equipment	Investment in Progress	Total
Balance at January 1, 2017	7,626,856	3,903,215	50,896	11,580,967
Additions	-	3,962	359,456	363,418
Transfers from investment in progress	60,058	213,000	(268,829)	4,229
Transfers to investment property (Note 29.1)	(14,773)	-	-	(14,773)
Transfers on assets held for sale	(176,051)	-	-	(176,051)
Transfer form equipment	787	(787)	-	-
Transfers from assets acquired through collection of receivables	-	4,013	-	4,013
Disposals and retirements	(67,183)	(115,536)	-	(182,719)
Sales	-	(15,907)	-	(15,907)
FX adjustments	(23,032)	(21,708)	(83)	(44,823)
Balance at December 31, 2017	**7,406,662**	**3,970,252**	**141,440**	**11,518,354**
Balance at January 1, 2018	**7,406,662**	**3,970,252**	**141,440**	**11,518,354**
Additions	-	55,982	390,573	446,555
Transfers from investment in progress	74,395	235,194	(309,589)	-
Transfers from investment property	49,341	-	-	49,341
Transfers to assets for held for sale	(99,152)	-	-	(99,152)
Disposals and retirements	(48,213)	(153,219)	-	(201,432)
Sales	-	(40,140)	-	(40,140)
Shortages as per year count	-	(23,058)	-	(23,058)
FX adjustments	(1,246)	(1,165)	(21)	(2,432)
Balance at December 31, 2018	**7,381,787**	**4,043,846**	**222,403**	**11,648,036**
Depreciation				
Balance at January 1, 2017	**2,078,645**	**3,251,135**	**-**	**5,329,780**
Depreciation (Note 18)	186,308	231,829	-	418,137
Transfers on investment in progress (Note 29.1)	(3,265)	-	-	(3,265)
Transfers on assets held for sale	(25,486)	-	-	(25,486)
Transfers from assets acquired through collection of receivables	1,833	-		1,833
Disposals and retirements	(62,116)	(112,639)	-	(174,755)
Sales	-	(15,322)	-	(15,322)
FX adjustments	(10,093)	(19,675)	-	(29,768)
Balance as at December 31 2017	**2,165,826**	**3,335,328**	**-**	**5,501,154**
Balance at January 1, 2018	**2,165,826**	**3,335,328**	**-**	**5,501,154**
Depreciation (Note 18)	174,480	244,967	-	419,447
Transfers on assets held for sale	(66,684)	-	-	(66,684)
Disposals and retirements	(38,239)	(150,704)	-	(188,943)
Sales	-	(40,140)	-	(40,140)
Shortages as per year count		(22,572)		(22,572)
FX adjustments	(576)	(1,034)	-	(1,610)
Balance as at December 31, 2018	**2,234,807**	**3,365,845**		**5,600,652**
Net book value				
Balance as at December 31, 2017	**5,240,836**	**634,924**	**141,440**	**6,017,200**
Balance as at December 31, 2018	**5,146,980**	**678,001**	**222,403**	**6,047,384**

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28. PROPERTY, PLANT AND EQUIPMENT (continued)

Members of the Group do not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, as of December 31, 2018, the Parent Bank does not have evidence of ownership for 29 construction facilities with the current value of RSD 465,649 thousand (the number of facilities includes assets acquired through collecting receivables). The parent bank's management takes all the necessary measures to obtain ownership papers.
The total write off of fixed assets of the Parent bank at the present value of RSD 12,891 thousand was made during the year on the basis of the write-off of investments in others' fixed assets in the amount of RSD 10,040 thousand.

Based on the Annual list of the Group members, the amount of RSD 2,935 thousand of the permanently useless fixed assets of the present value is disposed of and disposed of.

29. INVESTMENT PROPERTY

29.1 Movements on the account of investment property in 2018 and 2017 are presented below:

In thousands of RSD

	Total
Cost	
Balance at January 1, 2017	3,107,746
Transfers from PP&E	14,773
Transfers from assets held for sale	23,461
Transfers from assets acquired through collection of receivables – correction	(5,272)
Sales	(117,034)
Appraisal – decrease	(79,477)
FX adjustments	(26,675)
Balance at December 31, 2017	**2,917,522**
Balance at January 1, 2018	**2,917,522**
Transfer from PP&E	-
Transfer to PP&E	(49,341)
Transfers from assets held for sale	69,218
Sales	(78,176)
Appraisal – decrease	(7,700)
FX adjustments	(1,561)
Balance at December 31, 2018	**2,849,962**
Depreciation	
Balance at January 1, 2017	499,695
Depreciation (Note 18)	45,270
Transfer to PP&E	3,265
Transfers from assets acquired through collection of receivables – correction	7,672
Sales	(4,438)
Appraisal – decrease	(3,520)
FX adjustments	(10,986)
Balance as at December 31, 2017	**536,958**
Balance at January 1, 2018	536,958
Depreciation (Note 18)	49,078
Transfers from assets acquired through collection of receivables	12,868
Sales	(14,786)
Appraisal – decrease	6,679
FX adjustments	(650)
Balance as at December 31, 2018	**590,147**
Net book value	
Balance as at December 31, 2017	**2,380,564**
Balance as at December 31, 2018	**2,259,815**

29. INVESTMENT PROPERTY (continued)

Information on investment property per members of the Group is presented below:

29. INVESTMENT PROPERTY (continued)

29.2.1 The parent bank

As of December 31, 2018, the Parent bank has listed investment property of the present value in the amount of RSD 1,896,347 thousand, which make the buildings lease.

In 2018, based on the assessment of the authorized external assessor, a decrease in the value of investment property in the amount of RSD 6,892 thousand was made against the impairment expenses (part of note 20). During 2018, the Bank made a changed the purpose for two outlets in Novi Sad to facilities with business purpose.

As at 31 December 2018, the net result on the basis of investment property is negative and amounts to RSD 2,618 thousand.

Property	Area in m^2	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(23,710)	9,239	(14,471)
Nis, Vrtiste new D - building	1,816	(4,313)	-	(4,313)
Nis, TPC Kalca	85	(799)	4,974	4,175
Beograd, Omladinskih brigade 19	15,218	(19,655)	16,487	(3,168)
Sabac, Majur, Obilazni put bb	1,263	(1,742)	-	(1,742)
Lovcenac, Marsala Tita bb,	46,971	(2,696)	7,096	4,400
Negotin, Save Dragovica 20-22	658	(583)	-	(583)
Nis, Bulevar 12. February bb	816	(380)	4,541	4,161
Beograd, Radnicka 22	7,190	(18,189)	18,717	528
Novi Sad, Vardarska 1/B	291	(1,895)	3,608	1,713
Novi Sad, Bulevar Oslobodjenja 88, 3 locals	44	(526)	2,316	1,790
Kotor, Old Town, Palata beskuca, business area, number 1	207	(1,007)	5,647	4,640
Beograd, Luke Vojvodica 77a	80	(604)	856	252
		(76,099)	**73,481**	**(2,618)**

29. INVESTMENT PROPERTY (continued)

29.2.2 Komercijalna banka ad, Banja Luka

As at 31 December 2018, the Bank has classified investment properties in the amount of RSD 268,512 thousand, which make the buildings lease.

On the basis of the concluded long-term lease agreement, in 2018, the Bank made a transfer to investment property from the position of fixed assets intended for sale (business building and land in Hadzici, Brcko) in the amount of RSD 135,380 thousand.

In 2018, based on the assessment of the authorized external assessor, a decrease in the value of investment property in the amount of RSD 7,487 thousand.

Estimation of the value of investment property where the estimated value was lower than the net book value in 2018:

Property	Area in m2	Book value before the appraisal in 000 RSD	Appraisal value In 000 EUR	Appraisal value In 000 RSD	Difference in 000 RSD
Business building: Ground floor-production warehouse; Ground floor - administrative part; Floor-administrative part; Attic-administrative part located in the Non-custom area District Brcko - Industrial and labour zone	1,266	81,060	343	79,306	(1,754)
Business building-production building: Non-custom area Distrikt Brcko	1,088	53,830	223	51,458	(2,372)
Business building-warehouse located in the Non-custom area District Brcko - Industrial and labour zone	873	23,995	58	13,477	(10,518)
TOTAL		**158,885**	**624**	**144,241**	**(14,644)**

As at 31 December 2018, the net result on the basis of investment property amounts to RSD 3,772 thousand:

Object Name	Area in m²	Total Cost	In thousands of RSD Realized rental income	Net result
Brcko, Bescarinska zona bb	7,197	(1,723)	3,155	1,432
Actros motel-pizzeria Nova Topola	5,437	(2,426)	4,029	1,603
Strbac Milovan and Miroslav		(348)	725	377
Sarajevo, Aurum Arena	402	(206)	204	(2)
Nova Topola, land	5,767	(1)	363	362
		(4,704)	**8,476**	**3,772**

29. INVESTMENT PROPERTY (continued)

29.2.3 Komercijalna banka ad, Podgorica

As at 31 December 2018, the Bank has listed investment property in the amount of RSD 94,956 thousand, which make the buildings lease.

As at 31 December 2018, the net result on the basis of investment property amounts to RSD 2,062 thousand:

In thousands of RSD

Object Name	Area in m²	Total Cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	2,062	2,062
		-	**2,062**	**2,062**

30. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In thousands of RSD

	December 31 2018	December 31 2017
Assets held for sale and discontinued operations	659,003	787,618
Total	**659,003**	**787,618**

a) Assets held for sale at the parent bank:

Object Name	Area in m²	Book value
Jasika, office space	75.87	538
Pozarevac, Mose Pijade 2, commercial space	826.82	27,926
Pozarevac, Mose Pijade 2, commercial space	880.86	23,107
Vrbas M. Tita 49, commercial space	145.56	2,128
Kotor, business premises 1 and 2	690.00	91,582
Jastrebac, resort building	687.00	19,388
Jastrebac, summer house	108.00	1,301
Jastrebac, house for aggregate	65.00	310
Belgrade, Palmira Toljatija 5	637.00	61,350
Total		**227,630**

During 2018, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 13,518 thousand.

The parent bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

30. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

b) Assets held for sale at Komercijalna banka ad, Banja Luka

Object name	Area in m²	Booking value in thousands of RSD
Business space Posusje	1,289.00	20,311
Commercial building and land, Kocicevo, Gradiska	5,333.30	14,492
Family apartment building, Prijedor	505.65	5,504
Business buildings and land, Mrkonjic grad	2,619.00	4,339
Business buildings and land, Prijedor	7,043.00	58,883
Commercial building and land, Rovine, Gradiska	961.00	4,957
Business premises - Brcko District	29.00	1,675
Business premises - Brcko District	52.00	4,184
Production and Commercial Complex Brcko Distrikt	67,232.00	58,043
Equipment – machines		3,390
		175,778

During 2018, five objects were sold (flat in Pale, business object and land Prohema doo Brcko, business object Cupic doo Prijedor and Alumina doo Knezevo) and on that basis, fixed assets intended for sale decreased by RSD 105,729 thousand. The total sale price of these facilities amounts to RSD 137,788 thousand.

During 2018, various equipment (merchandise, trailers, commercial vehicles, spare parts and consumables) were sold, and on that basis, fixed assets intended for the sale decreased in the amount of present value of RSD 30,706 thousand. The total selling price of these facilities is 30,386 thousand dinars. A sales loss amounting to RSD 320 thousand was realized.

During 2018, on the basis of the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale in the amount of RSD 14,009 thousand was made.

In compliance with the internal acts of the Bank, a decrease in the value of fixed assets intended for sale in the amount of RSD 1,716 thousand has been made.

Total impairment of fixed assets intended for sale during 2018 is RSD 15,725 thousand.

The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

30. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

c) Assets held for sale at Komercijalna banka ad, Podgorica:

Object Name	Area in m^2	Booking value in thousands of RSD
2 business premises at the Stari Aerodrom in Podgorica	97	5,496
4 business premises at the Stari Aerodrom in Podgorica	455	26,973
Pasture area on Cemovsko polje in Podgorica	375	1,172
2 apartments and 2 garages in Perazic Dol in Podgorica	135	18,095
Land in Razevici	547	6,567
Land and auxiliary building in Podgorica	849	-
Land and production hall for wood processing in Andrijevica (3 auxiliary buildings and buildings in the energy sector)	14.233	8,829
Unurbanized land in Kotor	31.534	35,718
Forest in Budva	709	14,767
Forest and meadow in Vranovici	3.131	2,724
Land in Kotor	3.362	5,429
Land and fish factory (buildings) in Rijeka Crnojevica (Cetinje)	50.455	87,865
Apartment in Niksic	65	2,361
Urbanized plot in Herceg Novi	300	1,369
Urbanized plot in Risan	425	4,061
Forests, fields and pastures in Bar	12.501	9,986
2 Business premises in Petrovac	173	24,183
Business premises Hoti - Podgorica	45	-
TOTAL		**255,595**

During the year 2018 there were sales of five properties held for sale.

In 2018, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 8,823 thousand.

The Bank's management continues to pursue the sale procedure for all assets that have not been sold in the past year.

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31. OTHER ASSETS

Other assets consist of:

	In thousands of RSD December 31 2018	December 31 2017
In RSD		
Fee receivables per other assets	107,852	102,745
Inventories	148,886	158,202
Assets acquired in lieu of debt collection	3,379,717	3,412,873
Prepaid expenses	141,317	120,459
Equity investments	1,747,405	1,572,140
Other RSD receivables	3,220,716	3,003,211
	8,745,893	**8,369,630**
Impairment allowance of:		
Fee receivables per other assets	(68,497)	(44,251)
Assets acquired in lieu of debt collection	(1,599,828)	(1,507,288)
Equity investments	(446,661)	(504,732)
Other RSD receivables	(859,572)	(944,035)
	(2,974,558)	**(3,000,306)**
In foreign currencies		
Fee receivables per other assets	807	2,104
Other receivables from operations	984,859	813,355
Receivables in settlement	381,548	1,379,082
Other foreign currency receivables	226,552	157,975
	1,593,766	**2,352,516**
Impairment allowance of		
Other receivables from operations	(133,562)	(163,542)
Receivables in settlement	(77,875)	(77,922)
	(211,437)	**(241,464)**
Total	**7,153,664**	**7,480,376**

On the basis of the performed annual inventory, the parent bank has made a write-off of the material expenses in the total amount of RSD 22 thousand.

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31. OTHER ASSETS (continued)

Changes in the allowance account for other assets and active time delimits during the year are shown in the following table:

Individual impairment allowance

In thousands of RSD

	December 31 2018	December 31 2017
Balance at 1 January	892,037	1,235,731
Corrected opening balance		
IFRS 9 – correction of the result in the capital	13,573	-
Corrected opening balance as at January 1st, 2018	**905,610**	**-**
Impairment in the current year:		
Increase (Note 13)	24,983	197,905
Effects of change in exchange rate (Note 13)	(1,598)	(35,144)
Release during the year (Note 13)	10,592	(20,151)
Permanent write-off	(4,226)	(16,865)
Other	(8,574)	(469,439)
Total individual correction	**926,787**	**892,037**

Group impairment

In thousands of RSD

	December 31 2018	December 31 2017
Balance at 1 January	2,248,880	2,340,680
Corrected opening balance		
IFRS 9 – correction of the result in the capital	(439,405)	
Corrected opening balance as at January 1st, 2018	**1,809,475**	-
Impairment in the current year:		
Increase (Note 13)	217,543	451,171
Effects of change in exchange rate (Note 13)	102	(9,994)
Release during the year (Note 13)	(301,878)	(122,050)
Permanent write-off	(6,559)	(9,781)
Other	(7,771)	(401,146)
Total group impairment allowance	**1,710,912**	**2,248,880**
Balance at December 31 (without small inventory)	**2,637,699**	**3,140,917**
Impairment allowance of inventory (not subject to credit risk)	101,635	100,851
Balance at December 31 (with small inventory)	**2,739,334**	**3,241,770**

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31. OTHER ASSETS (continued)

a) Equity participation

Within the position of other assets, equity participation of legal entities is recognized according to the table:

	2018	2017
Participation in the capital of banks and financial organizations	80,270	80,270
Participation in the capital of enterprises and other legal entities	410,760	464,902
Participation in the capital of foreign persons abroad	1,256,375	1,026,968
	1,747,405	**1,572,140**
impairment allowance based on:		
Participation in the capital of banks and financial organizations	(80,270)	(80,270)
Equity participation of enterprises and other legal entities	(366,391)	(424,462)
	(446,661)	**(504,732)**

Participation in the capital of banks and financial organizations relates to: Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, Union Bank a.d. in the amount of RSD 1,874 thousand and Univerzal banka a.d. Belgrade (in bankruptcy) in the amount of RSD 9 thousand.

The company's equity shares mostly relate to: October 14th, Krusevac in the amount of RSD 324,874 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand, the Company Dunav osiguranje a.d.o. Belgrade in the amount of RSD 32,759 thousand and Politika a.d. Belgrade RSD 1,899 thousand.

Participation in the capital of foreign entities abroad relates to the company VISA INC in the amount of RSD 1,020,797 thousand and MASTER Card International in the amount of RSD 235,223 thousand and Montenegro Stock Exchange Podgorica in the amount of RSD 355 thousand.

The impairment of the equity participation in the amount of RSD 446,661 thousand relates to the impairment of the purchase value for those shares that do not have market value, the largest amount of which is related to: October 14, Krusevac in the amount of RSD 324,874 thousand, Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, RTV Politika doo, Belgrade in the amount of RSD 37,633 thousand, Politika a.d., Belgrade and PPD Dobricevo Cuprija in the amount of RSD 2,563 thousand.

b) Other receivables and receivables in the calculation

Other receivables in RSD mostly relate to receivables arising from the purchase of foreign currency on the foreign exchange market in the amount of 709,270 thousand, operating receivables in the amount of RSD 250,989 thousand, receivables based on material values received by collection of receivables in the amount of RSD 2,268,696 thousand (Impairment allowance in the amount of RSD 949,729 thousand), receivables arising from advances granted for working capital in the amount of RSD 28,391 thousand, receivables on lease RSD 368,981 thousand, receivables for default interest on the basis of stocks s assets in the amount of 204,498 thousand, receivables on the overpaid taxes and contributions in the amount of RSD 1,606 thousand and receivables in the calculation according to the court judgment in the amount of RSD 209,085 thousand (allowance for the full amount of 100%).

Within the position of Other receivables in foreign currency settlement of the total amount of RSD 381,548 thousand, the most significant amount of RSD 227,052 thousand refers to receivables based on spot transactions.

31. OTHER ASSETS (continued)

c) Foreclosed assets

Foreclosed assets totalling RSD 3,379,717 thousand, less recorded impairment allowance of RSD 1,599,828 thousand, with the net carrying value of RSD 1,779,889 thousand relate to members of the group:

Parent Bank

I Assets foreclosed before December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

Description	*Area in m^2*	*Value*	*Date of acquisition*
Novi Pazar, Kej Skopskih zrtava,44 local	82.95	2,128	27.09.2006.
Gnjilica, field VII class	2.638	56	15.04.2008.
Cacak, Hotel "Prezident", Bulevar oslobodjenja bb	2.278.92	98,456	21.01.2009.
Tivat, Mrcevac-apartment building, auxiliary building	277	4,834	23.12.2009.
Budva, Montenegro, forest, IV class	8.292	88	12.10.2010.
Buce, forest, IV class	974	3,875	27.05.2011.
Prijevor, forest IV class	1.995	4,559	27.05.2011.
Belgrade, 14 Miajla Avramovic, building	925.35	164,228	21.11.2011.
Krusevac, Kosevi, production and office building I.C.P.	12.836	45,433	08.06.2012.
Mladenovac, Sopot-Nemenikuce, field III class	16.633	258	25.06.2012.
Obrenovac, Mislodjin, field III class	10.017	1,016	11.07.2012.
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,547	24.07.2012.
Majur, Tabanovacka, field	14.452	1,575	10.08.2012.
Mali Pozarevac, large field, field III and IV classes	21.915	309	27.09.2012.
Cuprija, Aleksa Santic 2/24, apartment	72.40	811	15.01.2013.
NIS, Ivana Milutinovica 30, business office	438.39	4,924	23.04.2013.
NIS, Triglavska 3/1, flat	79.80	3,165	04.06.2013.
Mladenovac, field-lug III class	1.142	405	18.07.2013.
NIS, Bulevar 12. februar, outhouse-storage	2.062	39,112	30.07.2013.
Kula,Zeleznicka bb,business office,land	7.959	21,990	01.10.2013.
Prijepolje, Karosevina, sawmill	450	839	08.11.2013.
Total I		**401,608**	

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31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

***II** Assets foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision*

Description	Area in m2	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132.450	552	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3.823	46,813	08.05.2014.
Subotica, Magnetic fields, 17, production hall and warehouse	2.492	44,612	18.07.2014.
Mokra Gora, land, forests, fields, houses	58.400	3,985	31.01.2014.
Kopaonik, House with land	337	3,936	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 6/3	29	2,970	31.01.2014.
Novi Sad, Bulevar oslobodjenja 30 and commercial property 7/3	44	4,506	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 8/3	35	3,584	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 9/3	34	3,482	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 10/3	39	3,994	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/22	226	16,430	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	19,463	31.01.2014.
Novi Sad, Tihomira Ostojic, 4, Office 7	134	5,530	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office 8	81	4,769	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office 9	79	4,651	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office space 10	408	24,703	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9.144	33,601	14.08.2014.
Budva, Rezevici, Montenegro, rocks, forest	1.363.20	19,469	22.07.2014.
Budva, Rezevici, Montenegro, forest V class	5.638.54	79,502	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	4,360	17.04.2013.
Mladenovac, Americ, field IV class	7.768	245	03.10.2014.
Valjevo, Radjevo selo, warehouse	394	423	11.06.2014.
Bela Crkva, Kajtasovo, forest	4.187	68	03.10.2014.
Mladenovac, fields, orchards	25.136	519	03.10.2014.
Valjevo, Vojvode Misica 17, family building	106	1,651	25.09.2014.
NIS, Cajnicka bb, residential buildings with additional building	825.74	10,369	14.03.2013.
NIS, Sjenicka 1, commercial buildings, warehouses, workshops	1.452.73	12,767	14.03.2013.
Belgrade, Zemun, Cara Dusana 130, factory complex	6.876	96,957	16.06.2014.
NIS, Sumadijska 1, Office space	504.60	1,746	04.12.2014.
Valjevo, Worker 6, place	69	2,684	28.05.2014.
Prokuplje, field III class	12.347	554	28.08.2015.
Mionica, Prote Zarko Tomovica bb, House	107	1,678	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	270	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417.908	5,312	31.07.2012.
Sokobanja, production hall with land	5.042	22,825	31.07.2012.
Sokobanja, space with land	2.005	656	31.07.2012.
Sokobanja, House with land	4.194	3,547	31.07.2012.
Belgrade, Pivljanina 83, residential buildings	278.52	58,577	23.08.2012.
Divcibare, meadows V class	8.012	4,114	02.12.2015.
Lebane, Branka Radicevica 17, residential and commercial building	768.42	5,507	27.08.2015.
Loznica, Lipnica, Karadjordjeva, residential and commercial building with land	146	1,997	15.10.2015.
Vrhpolje, lodging hospitality	1.334	2,283	16.05.2013.
Krusevac, century village, a concrete base with land	100.560	131,163	11.03.2016.
Zrenjanin, Bagljas, pasture II class	230	48	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10.462	29,667	26.02.2016.
Aleksandrovo, Merosina, building with land	8.527	14,135	23.12.2015.
Cacak, Suvo polje, buildings 1 and 2 with land	1.225	11,564	05.05.2016.
Bojnik, Mirosevce, fields, pasture, vineyard	29.550	224	31.03.2016.
Valjevo, Bobove, field VI and VII class	20.599	307	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	20,622	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,860	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,860	22.12.2016.
Total II		**895,111**	

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

***III** Assets foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision (continued)*

Description	Value	In RSD thousand Acquisition Date
Krusevac, movables (machinery, furniture, equipment)	6,799	08.06.2012.
Nis and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	6,101	31.07.2012.
Paracin, coffee roasting line	2,512	31.12.2012.
Vranic, equipment, production line	4,318	09.07.2013.
Total III	**19,730**	

***IV** Foreclosed equipment in periods prior December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision*

Description	In RSD thousand Value	Acquisition Date
Movable property, agricultural machinery and tools	59	03.06.2015.
Equipment, supply of secondary raw materials	1,523	18.07.2014.
Movables, installation materials	672	13.05.2014.
Other	264	
Total IV	**2,518**	
TOTAL (Net carrying value) I + II+ III+ IV	**1,318,967**	

The effect of the impairment of assets acquired through the collection of debts in 2018 is shown in the table:

In RSD 000

Effects of property impairment	83,099
Effects of equipment impairment	13,439
TOTAL	**96,538**

Total negative effect amounted to RSD 96,538 thousand and it was recognized as expense of a period as follows (note 13):

- For properties RSD 57,525 thousand based on lower appraisal market value and RSD 26,151 thousand according to internal act due to Bank's inability to sell the property in the period longer than 12 months, even though the appraisal value is higher than book value
- For equipment RSD 13,439 thousand based on lower appraisal market value and according to internal act.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

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31. OTHER ASSETS (Continued)

b) Foreclosed assets (continued)

G1.1. Appraisal value of foreclosed properties

Property	Area in m²	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, Mihaila Avramovica 14a,building	925.35	184,285	1,559	164,228	(20,057)
Krusevac, St. selo, a concrete base with land	100,560	136,062	1,151	131,163	(4,899)
Cacak, Hotel "Prezident", Bulevar oslobodjenja BB	2,278.92	100,608	851	98,456	(2,152)
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	100,578	851	96,957	(3,621)
Budva, Rezevici, Montenegro, forest V class	5,638.54	81,042	686	79,502	(1,540)
Kotor, Montenegro, Office space, building No. 1 PD 4	345	69,626	589	60,860	(8,766)
Kotor, Montenegro, Office space, building No. 1 PD6	345	69,626	589	60,860	(8,766)
Belgrade, Pivljanina 83, Office building	278.52	60,764	514	58,577	(2,187)
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	54,292	459	46,813	(7,479)
Subotica,Magnetna polja 17, production hall and warehouse	2,492	46,278	392	44,612	(1,666)
Krusevac, Kosevi bb, production and office building I.C.P.	12,836	45,475	385	45,433	(42)
NIS, Bulevar 12. Februara bb, extra building-warehouse	2,062	40,573	343	39,112	(1,461)
Sokobanja, link, port, with land, Orchard, House, field IV kl.	429,149	38,957	330	32,340	(6,617)
Zerenjanin,Bagljas,Novosadski put 4,building,pump,land, pasture	9,374	34,904	295	33,649	(1,255)
Svilajnac, Kodublje, partner, buildings, halls and land	10,462	32,672	276	29,667	(3,005)
Novi Sad, Polgar Andrasa 40/a, pressing business. Space 10	408	24,857	210	24,703	(154)
Kula, Zeleznicka bb, commercial property, land	7,959	22,811	193	21,990	(821)
Kotor, Montenegro, Office space, building No. 1 PD2	106	21,393	181	20,622	(771)
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	20,189	171	19,463	(726)
Budva,Rezevici, Montenegro,forest	1,363.20	19,846	168	19,469	(377)
Novi Sad, Bulevar oslobodjenja 88 , business space 22	226	17,044	144	16,430	(614)
Aleksandrovo, Merosina, administration building with land	8,527	14,663	124	14,135	(528)
Nis, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	13,244	112	12,767	(477)
Cacak, Suvo polje,building 1 и 2 with land	1,225	11,996	101	11,564	(432)
Nis, Cajnicka BB, building	825.74	10,756	91	10,369	(387)
Novi Sad, Tihomira Ostojica 4, business office 7	134	5,736	49	5,530	(206)
Lebane, Branka Radicevica 17, residential and commercial building	768.42	5,714	48	5,507	(207)
NIS, Ivana Milutinovica 30, business space	438.39	5,107	43	4,924	(183)
Novi Sad, Polgar Andrasa 40/a, , business space 8	81	4,922	42	4,769	(153)
Novi Sad, Polgar Andrasa 40/a, , business space 9	79	4,801	41	4,651	(150)
Novi Sad, Bulevar Oslobodjenja 30a, business space (5 local)	181	19,227	163	18,536	(691)
Prijevor, forest 4 class	1,995	4,647	39	4,559	(88)
NIS, Ivana Gorana Kovacica 31, residential area	434.58	4,523	38	4,360	(163)
Divcibare, meadows V class	8,012	4,193	35	4,114	(79)
Mokra Gora, houses and meadows	58,400	4,134	35	3,985	(149)
Kopaonik, House with land	337	4,083	35	3,936	(147)
Budva, forest IV class	974	3,950	33	3,875	(75)
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,648	31	3,547	(101)
Other (27 properties)	-	32,201	272	30,294	(1,907)
TOTAL		**1,379,427**		**1,296,328**	**(83,099)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

G1.2. Appraisals of foreclosed equipment

Description	Book value before the appraisal	Net carrying value in RSD	Difference in value
Movables	21,262	13,618	7,644
Equipment, inventory and secondary raw materials	6,303	1,846	4,457
Other	8,169	6,831	1,338
TOTAL	**35,734**	**22,249**	**(13,439)**

For three movables object worth in total RSD 96 thousand Parent bank does not have ownership documents (objects recorded on off-balance). The Parent bank's management is taking all necessary measures in order to sell the acquired assets.

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Komercijalna banka ad, Podgorica

Tangible assets acquired through collection of receivables in previous period:

Description	Area in m^2	Value in RSD thousand	Acquisition Date
Danilovgrad – land and buildings	13.395	-	09.10.2007.
Sutomore – hotel and land	1.590	88,376	31.01.2009.
Podgorica – grassland and three family buidings	1.105	15,934	17.12.2009.
Petrovac – residential building and business premises	80	11,179	17.12.2009.
Podgorica – factory and land	8.214	36,041	28.12.2009.
Podgorica – business premises and land	5.209	37,436	28.12.2009.
Cetinje – garage and land	439	1,437	25.05.2010.
Podgorica– house and yard	883	25,519	31.07.2010.
Zemljiste, two ancillary buildings and house /kafana - Danilovgrad	1.892	4,175	31.10.2011.
Podgorica – hotel	551	40,991	31.12.2011.
Podgorica – land and house	484	5,624	31.12.2011.
Bar – land, house and two ancillary buildings	1.507	3,747	28.02.2013.
Niksic – meadow and unclassified roads	977	981	28.02.2013.
Budva – Perezica Do – land, business premises,three garages, four apartments	5.315	78,622	25.01.2014.
Budva – Buljarice land and business premises	9.791	25,530	25.01.2014.
Kotor – land, two family residential buildings and ancillary buildings	396	1,674	12.08.2014.
Podgorica land and building under construction	412	4,733	22.12.2014.
Bar – forest	3.569	56,760	29.12.2014.
Bar – business premises	385	22,163	24.03.2015.
TOTAL KB Podgorica (present value)		**460,922**	

For 20 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not entered into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered into possession as at 31 December 2018, amount to 460,922 thousand (EUR 3,899 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

The Bank has hired licensed external appraisers who conducted a reappraisal of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of 11,395 thousand. Also, due to the inability to sell the acquired assets within a year, and whose estimated value is higher than the book value, the recognition of the impairment in the amount of RSD 2,000 thousand was made.

Estimated value of property acquired through collection of receivables:

Name of the property	Area in m2	Book value before revaluation In RSD thousand	Estimated value In EUR thousand	Estimated value In RSD thousand	Value difference in RSD thousand
Zemljiste, business premises, 3 garages and 4 apartments - Perazica Do	5.315	78,858	665	78,622	(236)
Land and business premises - Buljarice – Podgorica	9.791	26,440	216	25,530	(910)
Yard and a house Podgorici	883	25,519	216	25,519	-
Land and hotel- Sutomoru	1.590	88,376	748	88,376	-
Apartment and business premises- Petrovac	80	11,495	95	11,179	(316)
Grassland and three family residential buildings - Podgorica	1.105	16,231	135	15,934	(297)
Land and factory - Podgorica	8.214	37,061	305	36,041	(1,020)
Land and two business premises - Podgorica	5.209	37,436	317	37,436	-
Land and ancillary buildings - Danilovgrad	13.395	40	-	-	(40)
Land and garage - Cetinje	439	1,451	12	1,437	(14)
Land,two ancillary buildings and house/pub – Danilovgrad	1.892	4,175	35	4,175	-
Hotel - Podgorica	551	40,991	347	40,991	-
Land and house - Podgorica	484	6,288	48	5,624	(664)
Meadow and unclassified roads – Niksic	977	1,033	8	981	(52)
Land, house and two i ancillary buildings – Bar	1.507	3,785	32	3,747	(38)
Land, two family residential buildings and ancillary buildings - Kotor	396	2,065	14	1,674	(391)
Land and building under construction - Podgorica	412	4,867	40	4,733	(134)
Forest - Bar	3.569	56,760	480	56,760	-
Business premises - Bar	385	22,790	187	22,163	(627)
TOTAL		**465,661**	**3,900**	**460,922**	**(4,739)**

32. LIABILITIES UNDER DERIVATIVES

In RSD thousand

	December 31, 2018	December 31, 2017
Liabilities based on changes in fair value - SWAP	-	7,845
TOTAL	**-**	**7,845**

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

Liabilities to banks and financial organizations are consist of:

In RSD thousand

	December 31, 2018	December 31, 2017
Demand deposits	2,401,291	2,440,548
Term deposits	5,096,550	1,494,226
Borrowings	709,168	2,203,592
Expenses deferred at the effective interest rate (deductible item)	(2,990)	(20,681)
Other	24,265	20,091
Balance at December 31	**8,228,284**	**6,137,776**

During 2018 deposits in RSD were placed at interest rate of 2.10% to 2.55% whereas in deposits in foreign currency were placed by banks at interest rate from 0.05% to 0,15%for CHF, and 0.05% to 0.10% for EUR and for other currencies from 0.3% to 2.6%.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

In RSD thousand

	December 31, 2018	December 31, 2017
EBRD	709,168	2,132,509
Balance at December 31	**709,168**	**2,132,509**

In 2018, the Bank has repaid the EBRD credit line in the amount of EUR 12,000 thousand, which resulted in a decrease in the balance at the end of the year compared to 2017 in the amount of RSD 1,423,341 thousand.

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

Breakdown of long-term borrowings of Komercijalna Banka a.d. Banja Luka included within the line item Liabilities due to banks:

In RSD thousand

	December 31, 2018	December 31, 2017
EFSE fund	-	71,083
Balance as at December 31	**-**	**71,083**

34. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS

Deposits and other financial liabilities to clients comprise:

In RSD thousand

	December 31, 2018	December 31, 2017
Corporate customers		
Demand deposits	72,491,064	62,522,169
Callable deposits	30,820	-
Overnight and other deposits	18,589,984	10,673,102
Borrowings	4,205,963	6,560,037
Special purpose deposits	2,104,808	1,616,883
Deposits for loans approved	710,420	691,317
Interest payable, accrued interest liabilities and other financial liabilities	500,933	456,241
Retail customers		
Demand deposits	36,114,872	30,083,520
Callable deposits	34,962	31,717
Savings deposits	207,149,245	197,121,547
Special purpose deposits	4,668,630	4,198,663
Deposits for loans approved	2,430,396	2,197,246
Interest payable, accrued interest liabilities and other financial liabilities	930,104	943,804
Other deposits	705,955	481,502
Corporate customers	-	-
Balance at December 31	**350,668,156**	**317,577,748**

Corporate customer's deposit

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2018, these deposits are interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Banja Luka's interest rate ranges from 0.30% to 0.62% annually.

34. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Podgorica's interest rate ranges from 0.00% to 0.01% annually.

Non-resident deposits in foreign currency in Parent Bank are non-interest bearing deposits, except for specific business arrangements.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Podgorica is non-exhaustive.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Banja Luka ranges from 0.0% to 0.62%.

During 2018, short-term deposits of enterprises in RSD were deposited at an interest rate ranging from: reference interest rates minus 2.50 percentage points on deposits from three to fourteen days to the reference interest rate annually minus 1.00 percentage points for a period of up to one year limit of minimum 300 thousand dinars. Short-term deposits of entrepreneurs were deposited at an interest rate ranging from 0.25% to 2.20% annually with a minimum of RSD 300 thousand.
Short-term deposits of companies and entrepreneurs in foreign currency are deposited at an interest rate ranging from 0.0% to 1.50% annually for EUR or from 0.0% to 1.00% for USD, and for other currencies ranging from 0.0% to 0.85%.
Long-term corporate deposits in RSD were deposited with an interest rate determined by the reference interest rate of the National Bank of Serbia annually reduced by 0.50 percentage points to 0.20 percentage points, and in foreign currency from 0.50% to 2.00% annually for EUR and from 1.30% up to 1.40% annually for USD, from 0.00% to 3.70% annually for other foreign currencies.

Retail Customer Deposits
A vista retail savings deposits in local and foreign currencies in the Parent Bank during 2018 were non-interest bearing.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Banja Luka during 2018 were interest bearing ranging from -0.30% to 0.47% annually.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Podgorica during 2018 were interest bearing ranging from 0.00% to 0.01% annually.

Short-term retail deposits in RSD were deposited with interest rates ranging from 1.50% to 3.50% annually, and in foreign currency from 0.05% to 1.60% for EUR, and for other currencies ranging from -0.45% to 2.90% per annum.

Long-term retail deposits in RSD were deposited with interest rates ranging from 3.75% to 4.00% annually, and in foreign currency from 0.65% to 2.00% for EUR, and for other currencies ranging from -1.00% to 5.20% per annum.

In the framework of loan commitments, total liabilities are recognized for foreign-credit lines to foreign legal entities that are defined as clients for the needs of the balance sheet.

34. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Breakdown of long-term and short-term borrowings of Parent bank included within the line item of liabilities due to customers is presented below:

In RSD thousand

	December 31, 2018	December 31, 2017
Long-term loans		
LEDIB 1 and 2 (Kingdom of Denmark)	-	3,982
Republic of Italy Government	103,104	249,272
European Investment Bank (EIB)	1,955,882	3,635,120
European Agency for Reconstruction (EAR)	52,836	98,674
Short-term loans		
KfW	-	1,292,430
Balance at December 31	**2,111,822**	**5,279,478**

The above presented long-term and short-term borrowings mature in the period from 2019 to 2030.

The loan facility agreements agreed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by loan facility agreements differs from the method for calculating those same ratios in accordance with the regulations of the National Bank of Serbia in part relating to the calculation of capital and includes items eligible for determining open credit exposure.

During 2018, the Parent Bank made an early repayment of the credit line on the basis of contracts concluded with the German Development Bank (KfW), as well as the regular repayment of the LEDIB 1 and 2 credit line, which were paid off as a whole. Also, part of the credit line of the European Investment Bank (EIB) in the amount of EUR 7,065 thousand and the Italian Government line of credit in the amount of EUR 333 thousand were early repaid.

Breakdown of long-term borrowings of Komercijalna banka a.d. Podgorica included within the line item of liabilities due to customers is presented below:

In RSD thousand

	December 31, 2018	December 31, 2017
European Investment Bank (EIB)	196,287	291,950
Government of Montenegro - Project 1000+	46,728	50,441
Development Fund of Montenegro	378,782	123,681
Balance at December 31	**621,797**	**466,072**

The above presented long-term and short-term borrowings mature in the period from 2018 to 2031.

Komercijalna Banka a.d. Podgorica is not obligated to meet any financial ratios due to abovementioned loans.

34. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Breakdown of long-term borrowings of Komercijalna banka a.d. Banja Luka included within the line item of liabilities due to customers is presented below:

	December 31, 2018	In RSD thousand December 31, 2017
Investment-Development Bank	1,472,344	814,487
Balance at December 31	**1,472,344**	**814,487**

The above presented long-term and short-term borrowings mature in the period from 2018 to 2044.

35. PROVISIONS

Provisions relate to:

	December 31, 2018	In RSD thousand December 31, 2017
Provisions for off-balance sheet items (Note 15)	309,211	171,582
Provisions for litigations (Note 38.4)	988,557	876,374
Provisions for employee benefits in accordance with IAS 19	511,085	503,927
Balance at December 31	**1,808,853**	**1,551,883**

35. PROVISIONS (continued)

Movements on the accounts of provisions are provided below:

	2018				2017			
	Provisions for Off- Balance Sheet Items (Note 13)	Provisions for Litigations (Note 37.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off- Balance Sheet Items (Note 13)	Provisions for Litigations (Note 37.4)	Provisions for Employee Benefits (IAS 19)	Total
Balance January 1	171,582	876,374	503,927	1,551,883	493,492	1,042,094	485,921	2,021,507
Correction of opening balance – IFRS9	85,303	-	-	85,303	-	-	-	-
Corrected opening balance January 1st, 2018	256,885	876,374	503,927	1,637,186	-	-	-	-
Increase	383,333	276,540	81,701	741,574	338,553	191,029	34,144	563,726
Provisions against actuarial gains within equity	-	-	(53,596)	(53,596)	-	-	(25,699)	(25,699)
Release	-	(29,186)	(7,475)	(36,661)	(260,686)	(323,540)	(14,568)	(598,794)
Reversal of provision	(330,916)	(134,354)	-	(465,270)	(397,562)	(29,089)	(1,538)	(428,189)
Foreign exchange differences	(91)	(187)	(107)	(385)	(2,215)	(4,120)	(2,013)	(8,348)
Other	-	(630)	(13,365)	(13,995)	-	-	27,680	27,680
Balance at December 31	**309,211**	**988,557**	**511,085**	**1,808,853**	**171,582**	**876,374**	**503,927**	**1,551,883**

a) Provisions for litigations of Parent Bank

A provision was done on the basis of estimates of future outflows in the amount of damage receivables including interest and costs. Total amount of provisions for 1.725 disputes as at December 31, 2018 amount to RSD 900,153 thousand.

Compared to 31 December, 2017 there was a change in the total level of provisions in the net amount of RSD 181,171 thousand. Of this, the change related to the net provisioning provision for legal liabilities amounts to RSD 136,861 thousand recognized in the income statement position, while the decrease in the provision in the amount of RSD 28,690 thousand relates to the use of provisions for payments and cancellation under the adopted court judgments.

Majority of disputes mainly relate to loan approval fee, receivables for damages and labour disputes.

b) Provisions for employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments.

35. PROVISIONS (continued)

b) Provisions for employee benefits (continued)

The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2018	December 31, 2017
Parent Bank		
Discount rate	4.75%	4.50%
Salary growth rate within the Bank	2.00%	4.00%
Employee turnover	4.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

Komercijalna Banka a.d., Podgorica

	December 31, 2018	December 31, 2017
Discount rate	3.00%	3.00%
Salary growth rate within the Bank	3.00%	5.00%
Employee turnover	8.00%	6.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

	December 31, 2018	December 31, 2017
Discount rate	4.00%	4.00%
Salary growth rate within the Bank	2.00%	1.00%
Employee turnover	5.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on ten-year bonds issued by the Government of the Republic of Srpska was used to determine the discount rate.

KomBank INVEST a.d., Beograd

	December 31, 2018	December 31, 2017
Discount rate	4.75%	4.50%
Salary growth rate within the Bank	7.00%	8.00%
Employee turnover	5.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

36. OTHER LIABILITIES

Other liabilities include:

	December 31, 2018	In RSD thousand December 31, 2017
Accounts payable	559,770	435,448
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	77,450	76,450
Advances received	129,635	89,167
Accrued interest, fees and commissions	170,378	163,311
Accrued liabilities and other accruals	380,493	551,441
Liabilities in settlement	2,277,235	3,077,788
Dividend payment liabilities	5,442,133	2,507,577
Taxes and contributions payable	30,842	30,125
Other liabilities	265,958	798,243
Balance as at December 31	**9,333,894**	**7,729,550**

Liabilities in settlement totalling RSD 2,277,235 thousand mostly relate to the liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 709,168 thousand, liabilities related to buying and selling foreign currencies in the amount of RSD 708,910 thousand, foreign currency liabilities for spot transactions in the amount of RSD 277,056 thousand and liabilities based on payment card receivables in the amount of RSD 322,546 thousand.

Liabilities from Parent's Bank profit in the amount of RSD 5,442,133 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 86,497 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 4,456,758 thousand and
- liabilities from profit to employees in the amount of RSD 898,877 thousand.

With the Decision of the Bank 6380/3 of April 26, 2018, a part of prior year's retained earnings was distributed for dividends on ordinary share in the amount of RSD 2,522,693 thousand and preferred shares in the amount of RSD 13,222 thousand with a payout limit of fulfilment of the requirements stated in the Article 25 of the Banking Act, The Republic of Serbia.

During 2018, the Bank did not carry out payments based on the distribution of profits for 2014, 2015, 2016 and 2017 because of the abovementioned limitation.

37. EQUITY

37.1 Equity is comprised of:

	December 31 2018	In RSD '000 December 31 2017
Share capital	17,191,526	17,191,527
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	17,503,846	14,439,525
Revaluation reserves	6,187,537	5,934,564
Retained earnings	9,277,759	8,357,094
Loss for the period	(1,481,701)	(1,665,678)
Balance as at December 31	**71,522,051**	**67,100,116**

37. EQUITY (continued)

Capital structure **In RSD '000**

	December 31, 2018			December 31, 2017		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	Total
Share capital	17,191,466	60	17,191,526	17,191,466	61	17,191,527
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**60**	**40,034,610**	**40,034,550**	**61**	**40,034,611**
Retained earnings	**9,277,755**	**4**	**9,277,759**	**8,357,092**	**2**	**8,357,094**
Loss for the period	**(1,481,701)**	**-**	**(1,481,701)**	**(1,665,678)**	**-**	**(1,665,678)**
Reserves from profit and other reserves (credit balance)	17,503,844	2	17,503,846	14,439,523	2	14,439,525
Revaluation reserves	4,539,643	-	4,539,643	4,385,025	-	4,385,025
Revaluation reserves (debit balance)	(257)	-	(257)	(109,194)	-	(109,194)
Translational reserves (Note 37.3)	1,648,151	-	1,648,151	1,658,733	-	1,658,733
Reserves	**23,691,381**	**2**	**23,691,383**	**20,374,087**	**2**	**20,374,089**
Capital	**71,521,985**	**66**	**71,522,051**	**67,100,051**	**65**	**67,100,116**

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank, as well as to participate in profit distribution. As of December 31, 2018 the Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

37. EQUITY (continued)

The first-time effect of IFRS 9 in the consolidated financial statements of the Group reduced by the effect of internal relations of the members and shown in the following tables:

Effect of first application of IFRS 9 correction 01/01/2018 reduced by the effect of internal relations

Parent Bank

In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities through the other comprehensive income	The total effect of the first application of IFRS 9 recognized through correction of the results of the previous year
943,486	211,947	1,155,433

KB Podgorica

In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities	The total effect of the first application of IFRS 9 recognized through correction of the capital
22,765	23,585	46,350

KB Banja Luka

In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities	The total effect of the first application of IFRS 9 recognized through correction of the capital
78,415	22,409	100,824

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37. EQUITY (continued)

37.1 Equity is comprised of (continued)

Structure of the Parent Bank's shares is provided in the table below:

Share Type	December 31 2018	Number of shares December 31 2017
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	**17,191,466**	**17,191,466**

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2018 was as follows:

Shareholder	Number of shares	% share
Republic of Serbia	7,022,166	41.75
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
BDD M&V INVESTMENTS AD BEOGRAD	320,000	1.90
Kompanija Dunav osiguranje a.d., Beograd	290,214	1.73
East Capital (lux)-Balkan Fund	195,656	1.16
Global Marco Capital Opportun	130,558	0.78
Stankom co. d.o.o., Beograd	117,535	0.70
Global Marco ABSOLUTE RETURN	91,575	0.54
SOCIETE GENERAL BANKA SRBIJA (*castody* account)	81,651	0.49
FRONT MARK OPPORTUN.MASTER	68,404	0.41
Others (1,154 shareholders)	1,203,077	7.15
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at December 31, 2018 was as follows:

Shareholder	Number of shares	% share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (614 shareholders)	270,280	72.37
	373,510	**100.00**

37. EQUITY (continued)

37.1 Equity is comprised of (continued)

Revaluation reserves totalling RSD 6,187,537 thousand (2017: RSD 5,934,564 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,027,040 thousand, revaluation reserves based on valuation of equity securities in the amount of RSD 1,077,886 thousand, revaluation reserve based on the valuation of debt securities in the amount of RSD 2,299,326 thousand and actuarial gains in the amount of RSD 135,134 thousand. The stated values also include the tax effects of revaluation reserves

37.2. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period:

	2018	2017
Profit minus preferred dividends (in RSD thousand)	8,132,109	8,104,145
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	**484**	**482**

The basic earnings per share for 2018 is RSD 484 or 48.35% at the nominal value of ordinary shares; for 2017, earnings per share amounted to RSD 482 or 48.19% at the nominal value of ordinary shares; for 2016, the loss per share was RSD 480 or 48.04% of the nominal value of ordinary shares.

37.3. Cumulative foreign exchange losses and gains on foreign transactions

In RSD '000

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total
Balance as at January 1, previous year	**1,827,754**	**44,300**	**55,634**	**1,927,688**
Increase	(290,273)	25,015	(3,697)	(268,955)
Balance as at December 31, previous year	1,537,481	69,315	51,937	1,658,733
Increase	(16,147)	5,743	(178)	(10,582)
Balance as at December 31, previous year	**1,521,335**	**75,058**	**51,758**	**1,648,151**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In RSD '000

	December 31, 2018	December 31, 2017
Operations on behalf and for the account of third parties	4,278,176	4,278,704
Taken-over future liabilities	47,477,824	37,815,096
Derivatives intended for trading under the contract currency	1,772,919	592,364
Other off-balance sheet items	443,254,125	464,659,832
Total	**496,783,044**	**507,345,996**

From the assumed future liabilities, the internal relationship with Komercijalna banka ad, Banja Luka, based on undisbursed loans in the amount of RSD 1,181,946 thousand (EUR 10 million) was eliminated as well as an unused part of the approved limit for KomBank INVEST cards amounting to RSD 200 thousand.

From other off-balance sheet positions, internal relations were eliminated by Komercijalna banka a.d. Banja Luka and KomBank INVEST have with Komercijalna banka a.d. Beograd.

38.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

In RSD '000

	December 31, 2018	December 31, 2017
Payment guarantees	3,897,871	4,021,866
Performance guarantees	3,630,897	4,802,696
Letters of credit	214,361	104,330
Balance as at December 31	**7,743,129**	**8,928,892**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

38.2 Structure of commitments is provided below:

In RSD '000

	December 31, 2018	December 31, 2017
Unused portion of approved payment and credit card loan facilities and overdrafts	11,082,318	10,191,351
Irrevocable commitments for undrawn loans	26,336,746	17,539,762
Other irrevocable commitments	2,315,630	1,155,091
Balance as at December 31	**39,734,694**	**28,886,204**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

38.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Operations on behalf and for the account of third parties in the total amount of RSD 4,278,176 thousand consist mostly of funds from the commission credits for the repayment of housing loans in the amount of RSD 3,524,405 thousand, loans for the purchase of social apartments of budget institutions in the amount of RSD 291,695 thousand (loans taken from Beobanka in bankruptcy), while other funds mostly refer to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets in the amount of RSD 443,254,125 thousand, the Group discloses, among other things, the received financial assets for collateral and receivables in the amount of RSD 210,154,497 thousand, the nominal value of custody securities for clients of the Group in the amount of RSD 58,545,369 thousand, the nominal value of securities of the value in the Group's portfolio in the amount of RSD 126,513,591 thousand, repo placements in government securities in the amount of RSD 1,500,000 thousand, the amount of the permanent write-off of balance sheet items - loans and placements by transfer into the off-balance sheet in the amount of RSD 28,336,005 thousand and the amount of the accounting write-off of credit receivables under the NBS Decision on accounting write-off balance assets in the amount of RSD 4,609,712 thousand.

The parent bank, in accordance with the issued license for performing custodial transactions, also keeps the financial instruments of the clients on the securities accounts, for which the off-balance sheet is kept. Based on these activities, the Parent banka does not bear the credit risk.

Also, in the position of other off-balance sheet assets, in accordance with the legislation, the Parent bank also presents the value of received financial assets for securing placements: residential, business and other security facilities in the amount of RSD 178,731,833 thousand.

38.4 Litigations

Based on the expert assessment of the Legal Department and attorneys representing the Group's members, in all disputes against members of the Group, in 2018, the management made provisions for potential losses in litigations in the amount of RSD 988,557 thousand (Note 35).

As at 31 December 2018, contingent liabilities - the basis of the receivable against the members of the Group, were estimated at the amount of RSD 2,854,176 thousand (for 2,165 active items).

In addition, members of the Group conduct disputes against third parties, the most significant part of which is RSD 39,684,043 thousand (for 1,337 items of the highest individual value). The Group's management expects positive outcomes in most of the disputes.

38.5 Commitments for operating lease liabilities are provided below:

	In thousands of RSD	
	December 31 2018	December 31 2017
Commitments due within one year	477,010	449,654
Commitments due in the period from 1 to 5 years	1,150,541	1,058,330
Commitments due in the period longer than 5 years	91,020	123,179
Total	**1,718,571**	**1,631,163**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

38.6 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are in the process of continuous revision and modification. In different circumstances, tax authorities may have different approaches to certain issues and may determine additional tax liabilities together with subsequent default interest and penalties. The Group's management believes that tax liabilities recorded in the financial statements are correctly stated.

During 2018, Parent banka, Komercijalna banka a.d. Podgorica and Kombank INVEST a.d. Belgrade did not have tax controls.

In the course of 2018, there was one tax control of Komercijalna Banka a.d. Banja Luka.

39. RELATED PARTY DISCLOSURES

The Republic of Serbia owns 41.75% of the ordinary shares of the Home Bank and EBRD, London, which owns 24.43% of the ordinary shares of the Parent Bank. The parent bank has three subsidiaries: Komercijalna banka ad, Podgorica, Komercijalna banka ad, Banja Luka and KomBank Invest ad, Belgrade.

Legal entities and individuals are regarded as related parties if one person has control, joint control or significant influence on the adoption of financial and business decisions of another legal entity. Related parties are also those persons who are under joint control of the same parent legal entity.

Within the Group's regular business operations, a number of banking transactions with related parties are performed. These include loans, deposits, investments in equity securities and derivative instruments, payment transactions and other banking transactions.

Consolidated transactions with dependent entities are shown in Note 6.1.

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39. RELATED PARTY DISCLOSURES (continued)

39.1 Loans and receivables from related parties

In thousands of RSD

	2018			2017		
Placement	**On-balance**	**Off-balance**	**Total**	**On-balance**	**Off-balance**	**Total**
Bolero ZR	1	-	1	-	-	-
PMC Inzenjering	1	-	1	-	-	-
Cedens company	-	-	-	29	63	92
Private individuals	173,920	15,859	189,779	155,978	14,338	170,316
Total	**173,922**	**15,859**	**189,781**	**156,007**	**14,401**	**170,408**
Liabilities	**Deposits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**Total**
PMC Inzenjering	207	-	207	-	-	-
Arhitektonski biro studio 3	1	-	1	-	-	-
JP Jugoimport	29	-	29	-	-	-
Anfibija d.o.o Cacak	239	-	239	189	-	189
EBRD (note 33)	-	710,563	710,563	-	2,145,943	2,145,943
International Finance Corporation	9	-	9	-	-	-
Reprezent doo	12	-	12	12	-	12
Bolero ZR	11	-	11	8	-	8
Cedens company	-	-	-	2,364	-	2,364
Private individuals	179,554	-	179,554	113,841	-	113,841
Total	**180,062**	**710,563**	**890,625**	**116,414**	**2,145,943**	**2,262,357**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

39. RELATED PARTY DISCLOSURES (continued)

39.2 Income and expenses from related parties

	2018		
	Interests	Fees	Total
Income			
PMC Inzenjering	-	12	12
Anfibija d.o.o Cacak	-	7	7
Arhitektonski biro studio 3	-	12	12
Bolero ZR	-	18	18
Private individuals	8,452	1,134	9,586
Total Income	**8,452**	**1,183**	**9,635**
Expenses			
EBRD	40,813	-	40,813
Private individuals	1,427	736	2,163
Total Expenses	**42,240**	**736**	**42,976**
Net Expenses	**(33,788)**	**447**	**(33,341)**

	2017		
	Interests	Fees	Total
Income			
Bolero ZR	-	18	18
Cedens company	10	144	154
Anfibija d.o.o Cacak	-	8	8
Private individuals	7,628	1,540	9,168
Total Income	**7,638**	**1,710**	**9,348**
Expenses			
EBRD	100,446	5,106	105,552
International Finance Corporation	284,025	3	284,028
Cedens company	3	23	26
Private individuals	394	512	906
Total Expenses	**384,868**	**5,644**	**390,512**
Net Expenses	**(377,230)**	**(3,934)**	**(381,164)**

39. RELATED PARTY DISCLOSURES (continued)

39.3 Gross and net remunerations

Gross and net remunerations paid to the members of the Group members' Executive Board, Board of Directors and Audit Committee were as follows:

In thousands of RSD

	December 31 2018	December 31 2017
Gross remunerations		
Executive Board	125,437	143,026
Net remunerations		
Executive Board	91,459	109,096
Gross remunerations		
Board of Directors and Audit Committee	44,490	39,724
Net remunerations		
Board of Directors and Audit Committee	27,856	24,457

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Unreconciled Outstanding Item Statements

Based on the analysis of the regular annual census conducted on December 31, 2018, the Parent Bank has non-compliant statements of open items for 10 clients with the stated reason for the dispute.

Non-compliant statements for 3 clients relate to clients who challenge the amount of receivables for given advances, receivables based on issued invoices, receivables on the basis of a rent in the total amount of RSD 282 thousand.

For one client, the non-compliant amounts relate to off-balance sheet item of guarantee because of the different date of the Client's and Bank's records in the total amount of RSD 4,137 thousand.

Six clients disputed the amounts: receivables from domestic and foreign payment fees, unreported amount from bankruptcy for clearing checks, fees for the activities of the issuing agent in RSD in the total amount of RSD 80 thousand.

The amount of impairment allowance for receivables that are disputed (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.

The parent bank is in a continuous process of harmonization of the disputed items.

KomBank INVEST AD, Belgrade has no mismatch of open items.

Komercijalna banka ad, Banja Luka has five non-compliant statements of open items in the amount of RSD 45 thousand.

Komercijalna banka ad, Podgorica has two non-compliant statements of open items in the amount of RSD 77 thousand.

41. EVENTS AFTER THE REPORTING PERIOD

In accordance with the provisions of the valid pre-prepared reorganization plan, by executing a contract between two clients, on February 12th, 2019 the Parent Bank has collected the amount of RSD 442,089 thousand (EUR 3,740 thousand) from the client whose placement was completely impaired and as such was classified as off-balance sheet item, based on the purchase of warehouse space over which the Parent Bank had the mortgage. The total amount of RSD 442,089 thousand is recognized in the income statement on the basis of collection of written-off receivables.

Other than those events described above, there were no significant events after the balance sheet date that would be necessary to be disclosed in the financial statements.

42. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in dinars on December 31, 2018 and 2017 for certain major currencies are:

	NBS official exchange rate		NBS average exchange rate	
	2018	2017	2018	2017
USD	103.3893	99.1155	-	-
EUR	118.1946	118.4727	118.2752	121.4027
CHF	104.9779	101.2847	-	-
BAM	60.4319	60.5741	60.4731	62.0722

In Belgrade, March 12, 2019

Signed on behalf of Komercijalna banka a.d., Beograd:

Miroslav Perić, PhD
Member of the Executive Board

Vladimir Medan, PhD
Chief Executive Officer

KOMERCIJALNA BANKA A.D., BEOGRAD

Consolidated Financial Statements
Year Ended December 31, 2018 and
Independent Auditors' Report

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Ernst & Young d.o.o. Beograd
Antifašističke borbe 13A
11070 Beograd, Srbija

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

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

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Komercijalna banka a.d. Beograd and its subsidiaries (hereinafter: the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing as applicable in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

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Opinion

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

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Group. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual consolidated financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual consolidated financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the consolidated financial statements of the Group for the year ended 31 December 2018.

Belgrade, 12 March 2019

PREDUZEĆE ZA REVIZIJU Ernst & Young d.o.o. BEOGRAD

Dušan Tomić
Authorised Auditor
Ernst & Young d.o.o. Beograd

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2018
(Thousands of RSD)

	Note	2018	2017
Interest income	8	15,092,523	15,358,399
Interest expenses	8	(1,145,879)	(1,841,161)
Net interest gains		13,946,644	13,517,238
Income from fees and commissions	9	7,653,028	7,159,507
Expenses on fees and commissions	9	(2,112,581)	(1,745,906)
Net gains from fees and commissions		5,540,447	5,413,601
Net gains from changes in fair value of financial instruments	10	48,572	61,620
Net gains from derecognition of the financial instruments measured at fair value	11	247,084	102,523
Net exchange rate losses and losses on agreed currency clause	12	(1,532)	(77,402)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	13	51,681	36,342
Net gains from derecognition of the financial instruments measured at amortised cost	14	526,547	-
Net gains from derecognition of investments in associated companies and joint ventures	15	-	306
Other operating income	16	174,795	201,359
TOTAL NET OPERATING INCOME		20,534,238	19,255,587
Salaries, salary compensations and other personal expenses	17	(5,043,937)	(5,130,812)
Depreciation costs	18	(629,754)	(625,680)
Other income	19	375,392	778,982
Other expenses	20	(6,854,773)	(6,961,694)
PROFIT BEFORE TAX		8,381,166	7,316,383
Profit tax	21	(18,376)	(9,381)
Gains from deferred taxes	21	702,775	1,366,704
Losses on deferred taxes	21	(685,231)	(405,710)
PROFIT AFTER TAX		8,380,334	8,267,996
Profit belonging to a parent entity		8,380,332	8,267,995
Profit belonging to non-controlling owners		2	1
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	37.2	484	482
Diluted earnings per share (in dinars, without paras)	37.2	484	482

The accompanying notes on the following pages form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.

Signed on behalf of Komercijalna banka a.d., Beograd by:

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Miroslav Perić, PhD
Member of the Executive Board

Vladimir Medan, PhD
Chief Executive Officer

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2018
(Thousands of RSD)

	Note	2018	2017
PROFIT FOR THE PERIOD		8,380,334	8,267,996
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss:			
Actuarial gains	35; 37	53,844	25,985
Actuarial losses	35; 37	(248)	(286)
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	37	230,026	190,723
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	37	17,976	70,977
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	37	(218,660)	(448,975)
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	37	(10,582)	(268,955)
Tax gains relating to other comprehensive income for the period	37	34,091	68,146
Tax losses relating to other comprehensive income for the period	37	(55,421)	(115,013)
Total positive / (negative) other comprehensive income		51,026	(477,398)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		8,431,360	7,790,598
Total positive comprehensive income for the period attributable to the parent entity		8,431,358	7,790,597
Total positive comprehensive income for the period attributable to non-controlling owners		2	1

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

CONSOLIDATED BALANCE SHEET
As of December 31, 2018
(Thousands of RSD)

	Note	31.12.2018	31.12.2017
ASSETS			
Cash and assets held with the central bank	22	73,992,039	56,076,748
Receivables under derivatives	23	4,070	-
Securities	24	137,514,720	121,522,580
Loans and receivables from banks and other financial organisations	25	21,037,537	30,233,555
Loans and receivables from clients	26	191,448,642	174,242,139
Intangible investments	27	627,468	498,387
Property, plant and equipment	28	6,047,384	6,017,200
Investment property	29	2,259,815	2,380,564
Current tax assets	21	1,650	5,622
Deferred tax assets	21	840,967	863,527
Non-current assets held for sale and discontinued operations	30	659,003	787,618
Other assets	31	7,153,664	7,480,376
TOTAL ASSETS		441,586,959	400,108,316
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities under derivatives	32	-	7,845
Deposits and other liabilities to banks, other financial organisations and central bank	33	8,228,284	6,137,776
Deposits and other financial liabilities to clients	34	350,668,156	317,577,748
Provisions	35	1,808,853	1,551,883
Current tax liabilities	21	11,044	1,751
Deferred tax liabilities	21	14,677	1,647
Other liabilities	36	9,333,894	7,729,550
TOTAL LIABILITIES		370,064,908	333,008,200
Share capital	37	40,034,550	40,034,550
Profit	37	9,277,755	8,357,092
Loss	37	1,481,701	1,665,678
Reserves	37	23,691,381	20,374,087
Non-controlling participation	37	66	65
TOTAL EQUITY		71,522,051	67,100,116
TOTAL LIABILITIES AND EQUITY		441,586,959	400,108,316

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2018 to December 31, 2018
(Thousands of RSD)

	Share capital and other equity (Note 37)	Premium on issue of shares (Note 37)	Reserves from profit and other reserves (Note 37)	Revaluation reserves (Note 37)	Retained earnings (Note 37)	Total attibutable to equity holders of the parent (Note 37)	Non-controlling participation (Note 37)	Total (Note 37)
Opening balance as at 1 January 2018	17,191,466	22,843,084	14,439,523	5,934,564	6,691,414	67,100,051	65	67,100,116
Effects of the first implementation of new IFRS	-	-	(100,823)	226,149	(1,201,783)	(1,076,457)	-	(1,076,457)
Adjusted opening balance as at 1 January 2018	17,191,466	22,843,084	14,338,700	6,160,713	5,489,631	66,023,594	65	66,023,659
Profit for the current year	-	-	-	-	8,380,332	8,380,332	2	8,380,334
Other comprehensive income after tax								
Positive effects of change in value of debt instruments measured at fair value through other comprehensive income and FX difference on intercompany transactions	-	-	-	18,760	-	18,760	-	18,760
Actuarial gains / (losses)	-	-	-	53,596	-	53,596	-	53,596
Tax effects relating to other comprehensive income for the period	-	-	-	(21,330)	-	(21,330)	-	(21,330)
Other comprehensive income after tax	-	-	-	51,026	-	51,026	-	51,026
Total result for the period	-	-	-	51,026	8,380,332	8,431,358	2	8,431,360
Distribution of profit	-	-	3,166,101	-	(3,166,101)	-	-	-
Dividend payments	-	-	-	-	(2,535,916)	(2,535,916)	-	(2,535,916)
Gains realized from the revaluation reserves (effect of depreciation)	-	-	-	(24,202)	23,509	(693)	-	(693)
Other increase / (decrease)	-	-	(957)	-	(395,401)	(396,358)	(1)	(396,359)
Total transactions with owners	-	-	3,165,144	(24,202)	(6,073,909)	(2,932,967)	(1)	(2,932,968)
Balance as at 31 December 2018	17,191,466	22,843,084	17,503,844	6,187,537	7,796,054	71,521,985	66	71,522,051

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2017 to December 31, 2017
(Thousands of RSD)

	Share capital and other equity (Note 37)	Premium on issue of shares (Note 37)	Reserves from profit and other reserves (Note 37)	Revaluation reserves (Note 37)	Retained earnings (Note 37)	Total attibutable to equity holders of the parent (Note 37)	Non-controlling participation (Note 37)	Total (Note 37)
Opening balance as at 1 January 2017	17,191,466	22,843,084	19,320,508	6,439,985	(6,502,689)	59,292,354	66	59,292,420
Profit for the current year	-	-	-	-	8,267,995	8,267,995	1	8,267,996
Other comprehenisve income after tax								
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income and FX difference on intercompany transactions	-	-	-	(456,230)	-	(456,230)	-	(456,230)
Actuarial gains / (losses)	-	-	-	25,699	-	25,699	-	25,699
Tax effectts relating to other comprehensive income for the period	-	-	-	(46,867)	-	(46,867)	-	(46,867)
Other comprehenisve income after tax	-	-	-	(477,398)	-	(477,398)	-	(477,398)
Total result for the period	-	-	-	(477,398)	8,267,995	7,790,597	1	7,790,598
Coverage of losses from reserves from profit	-	-	(4,859,578)	-	4,859,576	(2)	(2)	(4)
Dividend payments	-	-	-	-	(16,808)	(16,808)	-	(16,808)
Gains realized from the revaluation reserves (effect of depreciation)	-	-	-	(28,023)	19,881	(8,142)	-	(8,142)
Other increase / (decrease)	-	-	(21,407)	-	63,459	42,052	-	42,052
Total transactions with owners	-	-	(4,880,985)	(28,023)	4,926,108	17,100	(2)	17,098
Balance as at 31 December 2017	17,191,466	22,843,084	14,439,523	5,934,564	6,691,414	67,100,051	65	67,100,116

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2018 to December 31, 2018
(Thousands of RSD)

	2018	2017
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	24,165,499	25,477,618
Interest	15,259,607	16,831,503
Fees	7,658,142	7,130,230
Other operating income	1,239,225	1,506,720
Dividends and profit sharing	8,525	9,165
Cash outflow from operating activities	(14,498,061)	(16,078,175)
Interest	(1,149,108)	(2,330,310)
Fees	(2,082,570)	(1,732,233)
Gross salaries, salary compensations and other personal expenses	(4,950,310)	(5,319,334)
Taxes, contributions and other duties charged to income	(950,252)	(952,230)
Other operating expenses	(5,365,821)	(5,744,068)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	9,667,438	9,399,443
Decrease in financial assets and increase in financial liabilities	38,820,086	9,116,184
Decrease in receivables under securities and other financial assets not intended for investment	918,426	9,116,184
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	37,901,660	-
Increase in financial assets and decrease in financial liabilities	(12,279,151)	(19,762,558)
Increase in loans and receivables from banks, other financial organisations, central bank and clients	(12,279,151)	(9,158,441)
Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	-	(10,604,117)
Net cash inflow / (outflow) from operating activities before profit tax	36,208,373	(1,246,931)
Profit tax paid	(5,126)	(15,211)
Net cash inflow / (outflow) from operating activities	36,203,247	(1,262,142)

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2018 to December 31, 2018
(Thousands of RSD)

	2018	2017
B. CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	42,486,574	55,015,287
Investment in investment securities	42,419,693	54,892,983
Sale of intangible investments, property, plant and equipment	3,447	3,422
Sale of investment property	63,434	118,882
Cash outflow from investing activities	(59,249,571)	(52,116,437)
Investment into investment securities	(58,607,653)	(51,604,856)
Purchase of intangible investments, property, plant and equipment	(611,512)	(511,581)
Purchase of investment property	(27,098)	-
Other outflow from investing activities	(3,308)	-
Net cash inflow / (outflow) from investing activities	(16,762,997)	2,898,850
C. CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	87,230,198	88,053,291
Loans taken	87,230,198	88,053,291
Cash outflow from financing activities	(91,165,062)	(99,385,677)
Subordinated liabilities	-	(5,923,635)
Loans taken	(91,165,062)	(93,462,042)
Net cash (outflow) from financing activities	(3,934,864)	(11,332,386)
TOTAL CASH INFLOW	192,702,357	177,662,380
TOTAL CASH OUTFLOW	(177,196,971)	(187,358,058)
NET INCREASE / (DECREASE) IN CASH	15,505,386	(9,695,678)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	28,957,649	39,661,743
EXCHANGE RATE GAINS	777,270	843,573
EXCHANGE RATE LOSSES	(710,170)	(1,851,989)
CASH AND CASH EQUIVALENTS AT END-PERIOD	44,530,135	28,957,649

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 12, 2019.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

Komercijalna banka ad, Belgrade (hereinafter "The Parent Bank") was established on December 1, 1970, and was transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered in the Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991. The tax identification number of the Parent Bank is 100001931.

The largest share in the controlling activities of the parent banks is:

Republic of Serbia	41.75%
EBRD, London	24.43%

The parent bank has three dependent legal entities with ownership:

- 100% - Komercijalna banka ad, Podgorica, Montenegro
- 100% - Investment Management Company KomBank INVEST ad, Belgrade, Serbia
- 99.998% - Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina.

The minority owner in Komercijalna banka ad, Banja Luka, with 0.002% is the Agency for Export, Insurance and Financing of the Republic of Serbia.

Consolidated financial statements and notes to the consolidated financial statements are the data of the Parent Bank, Komercijalna Banka AD, Podgorica, Komercijalna Banka ad, Banja Luka and KomBank INVEST ad Investment Company, Belgrade (in further text: "Group").

Komercijalna banka ad, Podgorica was founded in November 2002 as an affiliate of Komercijalna banka ad, Belgrade and registered in the central registry of the Commercial Court in Podgorica on March 6, 2003. The registration number of Komercijalna banka ad, Podgorica is 02373262. In July 2018 Komercijalna banka a.d. Budva has changed the name and registered headquarter from Komercijalna banka a.d. Budva to Komercijalna banka a.d. Podgorica with headquarters in Podgorica.

Komercijalna banka AD, Banja Luka was established in September 2006 and on September 15, 2006 it was registered in the court register by the Decision of the Basic Court in Banja Luka. The registration number of Komercijalna banka ad, Banja Luka is 11009778.

Investment Management Company KomBank INVEST ad, Belgrade was established in December 2007 and registered on February 5, 2008. The Company's registration number is 20379758.

The Group's activities include credit, deposit and guarantee operations and payment transactions in the country and abroad in accordance with the Banking Law, as well as investment fund management activities. The Group is obliged to operate according to the principles of liquidity, safety and profitability.

On December 31, 2018, the Group consists of: the head office and the headquarters of the Home Bank in Belgrade, at St. Sava Street no. 14; the headquarters of Komercijalna banka ad, Podgorica in Podgorica – Cetinjska 11, Business Centre Capital Plaza; headquarters of Komercijalna banka ad, Banja Luka in Banja Luka - Jevrejska street no. 69; the head office of the Investment Management Company KomBank INVEST AD, Belgrade, Belgrade, Kralja Petra br.19; 6 business centres, 19 branches and 211 branches in the territory of Serbia, Montenegro and Bosnia and Herzegovina (2017: 11 business centres, 13 branches and 220 branches).

As at 31 December 2018, the Group had 3,076 employees, and on 31 December 2017 had 3,106 employees.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for compiling and presenting consolidated financial statements

The Group's consolidated financial statements for 2018 were compiled in accordance with International Financial Reporting Standards (IFRS).

The attached consolidated financial statements are presented in the format prescribed by the Decision on the Forms and Contents of Positions in the Forms of the Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 101/2017, 38/2018, 103/2018).

Consolidated financial statements have been prepared in accordance with the historical cost principle, unless otherwise stated in the accounting policies set out below.

In preparing these financial statements, the parent bank applied the accounting policies set out in Note 3.

During 2018, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The individual financial statements have been audited by external auditors, in accordance with local regulations.

For the purpose of preparing consolidated financial statements, individual financial statements of subsidiary banks have been adapted to the presentation of financial statements based on the accounting regulations of the Republic of Serbia.

The consolidated financial statements of the Group are expressed in thousands of RSD. Dinar represents the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are quoted in RSD and rounded up in thousands.

Functional currencies of the EUR from the financial statements of Komercijalna banka AD, Podgorica and BAM from the financial statements of Komercijalna banka ad, Banja Luka are converted into the reporting currency, i.e. the functional currency of the Parent bank - dinar (RSD) on the basis of the official published rates in the Republic of Serbia.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2018:

- IFRS 9 Financial Instruments

  The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. For detailed information on the effects and disclosures please see the Notes 4.1 and 4.1.1.

- IFRS 15 Revenue from Contracts with Customers

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

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

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

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

  The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- IAS 40: Transfers to Investment Property (Amendments)

  The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2. Changes in accounting policy and disclosures (continued)

- IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration
  The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. It is not expected that the requirements of this interpretation will have significant effect on Group's financial statements.

  The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. It is not expected that the requirements of these improvements will have significant effect on Group's financial statements.

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

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

- IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

IFRS 16 is released in January 2016. year and replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases-Incentives and SIC-27 evaluation of the substance of transactions involving the legal form of rent. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leasing and requires tenants to calculated all leases within one model similar to the accounting for financial leasing according to IAS 17. Standard includes two exemptions from recognition for leasees – leases of "low-value assets" (e.g. Personal computers) and short term leases (i.e. leases with lease term of 12 months or less). On the start date of the lease, the lessee will acknowledge the obligation for payment of leases (i.e. the obligation for leasing) and asset is the right to use the asset over the life of the lease (i.e. the right to use the funds). The lessee will be required to separately recognised cost interest on obligation of leasing and the cost at which the right to the use of the funds.

Accounting for leasors under IFRS 16 has remained essentially unchanged in comparison to the accounting under IAS 17. Leasors will continue to classify all contracts using the same principle as a classification according to IAS 17 and distinguish between two kinds of leases: operating and financial leasing.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requests more detailed disclosures from the lessee and the leasor than IAS17 requested.

Transition to IFRS16

The Group has made the transition to IFRS 16 in accordance with the modified retrospective approach. Comparative data from previous years are not corrected.

The Group has chosen to use exceptions, which are the proposed by the standard for the contracts for which the lease ends within 12 months from the date of the initial application, as well as the contracts for which the underlying asset can be considered a low-value assets. The Group has agreements to lease certain office equipment, printing and photocopying devices which are classified as low-value assets.

The following categories of leases have been identified as a result of transition to IFRS 16 from 1 January 2019, that were previously recognized as an operating lease, leases now qualify as defined per standard: real estate, technical equipment and vehicles. At the first-time adoption, right of use of leased assets is generally measured using average incremental borrowing rate that varies from 0.3324% to 2.4310% for EUR and 2.8660% to 4.1253% for RSD contracts. The first time adoption resulted in recognition of lease liabilities in Parent Bank accounting records in total of RSD 1,349,455 thousand and, accordingly, right of use of assets in balance sheet as of 1 January 2019 in the preliminary amount of RSD 1,349,455 thousand.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

- IFRS 9: Prepayment features with negative compensation (Amendment)

  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be ‘negative compensation’), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that these amendments will have significant effect on Group’s financial statements.

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

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

- IFRIC INTERPETATION 23: Uncertainty over Profit tax Treatments

  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for Profit taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that this interpretation will have significant effect on Group’s financial statements.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

- IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that these amendments will have significant effect on Group's financial statements.

- Conceptual Framework in IFRS standards

  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- IFRS 3: Business Combinations (Amendments)

  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. It is not expected that these amendments will have significant effect on Group's financial statements.

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

  The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that these amendments will have significant effect on Group's financial statements.

2. BASIS FOR CONSTRUCTION AND EXPRESSION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

In the preparation and presentation of the financial statements for the period January-December 2018, the implementation of IFRS 9 amended the NBS regulatory framework, according to which the banks were obliged to apply new forms of financial statements with validity starting from January 1st 2018.

According to the amended regulations, the banks were obliged to adapt the data from the pre-calendar year to the new structure without modifying the financial data.

During the preparation of the financial statements for 2018, the Group applied new accounting policies in the part of financial instruments and enabled the allocation of credit losses to all accounting periods in which the benefits from the assets inflow to the entity, which is a prerequisite for determining the correct result.

(a) Consolidation

The parent bank has control over the following legal entities, the consolidation of which has been made in these financial statements:

Legal entity	Share in entity's capital
Komercijalna banka ad, Podgorica, Montenegro	100%
Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina	99.99%
Investment Management Company KomBank INVEST a.d., Belgrade	100%

The Consolidated Income Statement and the Consolidated Cash Flow Statement have been reclassified using the average exchange rate in the Republic of Serbia for 2018 of 118.2752 for one EUR and 60.4731 for one BAM and other consolidated financial statements (balance sheet, other comprehensive income and statement of changes in equity) by applying the closing exchange rate on the balance sheet date of 118.1946 for one EUR or 60.4319 for one BAM.

(b) Conversion of foreign exchange amounts

Business changes in foreign currency are translated into RSD at the middle exchange rate of the currency that was valid on the day of the business change.

Monetary positions in foreign currency assets and liabilities, which are measured at cost, are translated into RSD according to the middle exchange rate prevailing at the balance sheet date. Foreign exchange differences arising from the translation of foreign exchange positions are presented in the income statement. Non-monetary positions of assets that are measured at cost in foreign currency are translated into RSD according to the average exchange rate of the currency that was valid on the day of the business change.

The most important currencies used in the conversion of balance sheet items denominated in foreign currency, as determined by the National Bank of Serbia, were the following:

In RSD

	2018	2017
USD	103.3893	99.1155
EUR	118.1946	118.4727
CHF	104.9779	101.2847
BAM	60.4319	60.5741

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense is recognized in the income statement using the effective interest rate method. An effective interest rate is the rate at which future cash flows are discounted over the expected period of financial assets or liabilities (or, if necessary, for a shorter period) to its present value.

When calculating the effective interest rate, Group members estimate future cash flows taking into account all contractual terms relating to a financial instrument, but not future losses that may arise.

The calculation of the effective interest rate includes all paid or received fees and charges, which are an integral part of the effective interest rate – loan approval fees as well as annexation fees.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability.

Recognition of interest income on impaired loans is done by net principle, by reducing the gross accrued interest for the amount of the impairment, or for the amount that is certain that it will not be charged.

Recognition of interest income on impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes significantly impaired, from the moment of initial recognition, it becomes Stage 3, and interest income is calculated using an alternative concept of unwinding - IRC method by reducing the accrued interest income associated with it with the allowance for impairment losses recognized in the current year, whereby interest receivable is recognized at gross principle.

Interest income and expense for all assets and liabilities traded is considered to be incidental to the trading activities of the Group's members and are presented together with all other changes in the fair value of assets and liabilities traded under net trading income.

(d) Fees and commissions

Income from fees and commissions and expense, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate.

Other income from fees and commissions is recorded at the moment of services provided. Income from fees and commissions includes revenues from international and domestic payment services, issuance and use of payment cards, issuance of guarantees, letters of credit and other banking services.

Other fees and commissions are mainly related to fees based on transactions and services performed and are recorded at the moment of receiving the service.

(e) Net gains based on the fair value of financial instruments measured

Net gain based on the fair value of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net gains on the derecognition of financial instruments at fair value

Net gains on derecognition of financial instruments at fair value refer to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

(g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are shown in the position of other income.

(h) Operational and financial leasing

All payments made during the year under operating lease are recorded as an expense in the income statement equally straightforward over the lease term. Approved leasing incentives are recognized within the total cost of leasing during the lease period.

The minimum lease rate for a financial lease is allocated between the financial costs and the reduction of the remaining amount of the financial lease liability. Financial expenses are divided into all periods during the lease period, giving a uniform periodic interest rate for the remaining amount of the lease obligation.

(i) Tax expense

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the income statement except to the extent that they relate to items that are recognized directly within the capital or within the other comprehensive income.

(I) Current Profit tax

Current tax represents the expected liability or profit tax receivable for the accounting period, using tax rates applicable or effective at the reporting date, with appropriate tax adjustments from the previous year.

(II) Deferred taxes

Deferred taxes are determined in relation to temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the value of assets and liabilities for tax purposes. When defining deferred taxes, the tax rates that are expected to be applied at the time of occurrence of temporary differences are used and based on the legal regulations that were applied at the reporting date.

Deferred tax assets and deferred tax liabilities are netted if there is a legal right to net current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected the amount of deferred tax liabilities or assets.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and tax credits that can be transferred to subsequent fiscal periods to the extent that there is likely to be a taxable profit from which tax loss is transferred and loans can be reduced. Deferred tax assets are subject to an analysis at the end of each reporting period and are adjusted to the extent that it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(III) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, the Group members pay different taxes and contributions, value added tax, capital gains tax and earnings contributions. These expenditures are included in "Other Expenses".

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

A financial asset is any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right to receive cash or another financial asset from another entity; or
- a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments

Financial liability

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity; or
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

Principles of valuation of financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

The Group assesses the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the way in which business operations are managed and the manner in which management reports.

The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

The business model determines whether cash flows arises from the collection of contracted cash flows, the sale of a financial asset or both. A business model for the classification of financial assets is determined at the appropriate level of aggregation.

Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist solely of principal and interest payments on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets measured at amortized cost (AC)
- financial assets measured at fair value through profit and loss account (FVTPL)
- financial assets measured at fair value through other comprehensive income through the income statement - "recycling" (FVOCI)
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Group categorizes all placements from its portfolio relating to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Group does not intend to sell in the short term
- Securities that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):
    - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
    - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
    - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- Financial derivatives that include forward and swap transactions.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

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

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

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

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

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

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

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

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

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

The Group has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

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

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other comprehensive income.

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

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Stage 1

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

Stage 2

All financial instruments in which significant increase in credit risk has been realized are classified in stage 2, and impairment allowance are calculated on the basis of expected losses for the entire lifetime of the instrument.
The Group is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be days past due of 31 to 90 days of repayment, customer restructuring, and client being on the watch list.

Stage 3

As in accordance with IAS 39, financial instruments are included in stage 3, where there is objective evidence of impairment. There is no change in the treatment of loans classified in that stage, apart from the fact that multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Group also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Group has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

The effect of the first time adoption of IFRS 9 as of 1 January 2018 is recorded through the retained earnings. The Group will not restate comparative data for previous years on the basis of changes relating to classification and valuation as well as impairment. The Group will recognize differences in the carrying amounts of financial assets that arise from the application of IFRS 9 within equity as at 1 January 2018.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(III) Derecognition

Members of the Group cease to recognize a financial asset when the contractual rights over cash flows associated with an asset expire, or when a member of the Group transfers the transaction with all essential rights and benefits related to the ownership of a financial asset or if it does not transfer or retain all substantive property rights, but does not retain control over a financial asset. All ownership of a transferred financial asset that meets the criteria for termination of recognition that a Group member has created or retained is recognized as a separate asset or liability in the balance sheet. Upon derecognition of a financial asset, the difference between the carrying amount (or the carrying amount of the part of the asset transferred), and collect the received remuneration (including new assets acquired less for new assumed liabilities), as well as the aggregate gains or losses previously recognized in the report on the total result are recognized in the income statement.

A member of the Group carries out transactions by which it transfers the assets recognized in his balance sheet, although he reserves all or substantially, all the risks and benefits or part of the transferred assets. If all or substantially all risks and benefits are retained, then there is no cessation of recognition of the asset. The transfer of funds by retaining all or substantially all risks and benefits includes, for example, re-purchase transactions.

In the case of transactions in which a member of the Group neither holds, nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, a member of the Group continues to recognize the asset to the extent that its relationship with the asset continues, which is determined on based on its exposure to changes in the value of the transferred asset. A member of the Group shall execute the obligation when the obligation is settled, terminated or transferred to another.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(IV) Netting

Financial assets and liabilities are netted and the net amount is disclosed in the statement of financial position only when the Group has the legal right to net recognized amounts and when it intends to settle liabilities on a net basis or at the same time realize the asset and settle the obligation.

Income and expense is disclosed by net principle only when permitted by IFRS or for income and expenses arising from a group of similar transactions, such as transactions held by the Group's members in trading.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with a maturity shorter than 3 months, low risk of change in value, used by the members of the Short-Term Liquidity Management Group.

Cash is measured at amortized cost in the balance sheet.

(l) Property and equipment

(I) Recognition and measurement

Initial measurement of property and equipment is done at cost or at purchase price.

The cost includes expenses directly attributable to the acquisition of the asset. Purchased software, which is an integral part of the software necessary for the functional usability of the equipment, is capitalized as part of this equipment.

After initial recognition, the equipment is measured at cost less accumulated amortization and total accumulated losses due to the decrease in value.

After initial recognition, the property is valued at the revaluation amount, which represents their fair value at the revaluation date less the subsequent accumulated amortization and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis in order to ensure that the carrying amount does not differ significantly from the value that would have been achieved using fair value at the end of the reporting period.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(I) Property and equipment (continued)

When parts of the property or equipment have different useful lives, they are kept as separate items (main components) of the equipment.

Gains or losses arising from the disposal of property and equipment are determined as the difference between the value of their sale and their carrying amount and are recorded in other income or expenses.

(II) Subsequent costs

The cost of replacing an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Group member and if the cost of the cost of that part can be reliably measured. The carrying amount of the replacement part is written off. The cost of regular servicing of property and equipment is recognized in the income statement when it arises.

(III) Depreciation

Depreciation is recognized in the income statement in equal annual amounts over the estimated useful lives of a given item of real estate, plant and equipment, since this way best reflects the expected consumption of the useful economic value contained in the asset. Leased assets are depreciated during the lease period or useful life of the asset, depending on the period of time it is shorter.

The applied depreciation rates in the current and previous accounting period are:

Description	Estimated useful life (in years)	%
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 - 15	6.70% - 50.00%
Investments in other fixed assets	1 - 23.5	4.25% - 86.20%

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.
Maintenance costs are recognized in the income statement for the period in which they are incurred.

(m) Intangible assets

Intangible assets are valued at cost or purchase price less depreciation and impairment losses.

Subsequent costs from investing in intangible assets can only be capitalized in the event of increased future economic benefits from the assets to which they relate. All other costs represent the expense of the period in which they were incurred.

Depreciation is presented in the income statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of non-material investments is 3 to 10 years, i.e. depreciation rates range from 10.00% to 33.34%.
The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(n) Investment property

Investment properties represent real estate held to earn rental income or capital appreciation for both purposes and not for sale in a regular course of business or for use in the production or purchase of goods or services or for administrative purposes.

Initial valuation of investment property is carried out at cost, ie price cost. The purchase value of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

For the subsequent evaluation of investment property, the Group members use the cost model, ie investment property is measured at cost less accumulated amortization and impairment losses.

Estimated lifetime of investment property is 40 years, and depreciation is calculated at a rate of 2.50%. Depreciation is presented in the income statement in equal annual amounts during the estimated useful lives of the given real estate item, since this way best reflects the expected consumption of the useful economic value contained in the asset.

(o) Leasing

In 2018, members of the Group classified lease contracts for real estate and equipment according to the rules of IFRS 17, which has been effective as of December 31, 2018. The classification rules of the Standard will be applied from January 2019. IFRS 16 defines the initial recognition, measurement and disclosure of leases for both parties to the contract, or for the recipient and the lessor. More detailed in Note 2.3: Standards that were issued, but have not yet entered into force and have not been adopted before.

Under the leasing agreement, the members of the Group appear as a leasing user. Members of the Group classify leasing as financial in the case when the contract regulates that all risks and benefits on the basis of ownership of the leased object are transferred to the leasing user. All other leasing contracts are classified as operating lease contracts.

Leasing contracts relating to the lease of business premises in which the branches are located are mainly related to operational leasing. All payments made during the year under operating lease are recorded as the cost in the statement of the total result equally straightforward over the lease term.

Funds held under a finance lease are recognized as assets of the Group's members at their fair value or, if that value is lower, at the present value of the minimum lease payments determined at the beginning of the lease term. An appropriate obligation to the lessor is included in the financial position statement as a financial lease liability. The leasing rate is divided into the portion referring to the financial cost and the part that reduces the obligation on the basis of financial leasing, so that a constant interest rate on the remaining part of the obligation is achieved. The financial cost is expressed directly as the expense of the period.

(p) Impairment of non-financial assets

The carrying amount of non-financial assets is analysed at the end of each reporting period in order to determine whether there are indicators indicating that their impairment has occurred. In case it is determined that there are certain indicators of impairment, the recoverable amount of the assets is determined. An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(p) Impairment of non-financial assets (continued)

The recoverable amount of an asset is determined as a value that is greater than the asset's fair value and fair value. For the purposes of determining the use value, estimated future cash inflows from the asset are discounted to their present value, using a pre-tax discount rate, reflecting the current market estimate of the time value of money as well as asset-specific risks.

An impairment loss is recognized in the case where the carrying amount of an asset is greater than its recoverable amount. An impairment loss is recognized within the results of the period.

Impairment losses from previous periods are estimated at the end of each reporting period in order to determine whether loss reductions have occurred or that they no longer exist. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount of the asset. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, less amortization, in the event that there was no recognition of the impairment loss.

(q) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities are the main source of financing for the Group.

The Group members classifies financial instruments as financial liabilities or as equity in accordance with the substance of the contractual terms for a specific instrument.

Deposits, debt securities, loans and subordinated liabilities are initially valued at fair value plus all direct transaction costs, while their subsequent valuation is carried at amortized cost using the effective interest rate method.

(r) Provisions

Provision is recognized when a Group expects, as a result of past events, to have a present legal or enforceable obligation that can be reliably identified and whose settlement is expected to result in an outflow of resources representing economic benefits to the Group. The provision is determined by discounting the expected future cash outflows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where appropriate, the risks specific to the obligation.

(s) Benefits of employees

In accordance with regulations, members of the Group are obliged to pay liabilities to state funds to ensure the social security of employees. These obligations include employee contributions at the expense of the employer in amounts calculated according to the rates laid down by relevant legal regulations. Members of the Group are also obliged to suspend contributions from employees' gross salaries and to pay them on behalf of employees. Contributions made at the expense of the employer and contributions made at the expense of the employee shall be credited to the expense of the period to which they relate.

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at 31 December 2018, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in note 35.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(t) Financial guarantees

Financial guarantees are contracts that a Group member is obligated to make to their customers for losses incurred due to default of a particular debtor by default, and in accordance with the terms of the debt instrument.

Liabilities for financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the term of the financial guarantee. The liability under the guarantee is subsequently measured in the amount that is greater than the amortized value and the present value of the expected future payment (when the payment on the basis of the guarantee is likely). Financial guarantees are recorded under off-balance sheet items.

(u) Capital and reserves

The Group's capital includes founding shares, future issuance shares, emission premium, reserves, fair value reserves, accumulated results and the result of the current year.

The Group's capital was formed from the investments made by the founders of the Parent bank and the minority founder of Komercijalna banka ad, Banja Luka in cash and non-cash form. The founder may not withdraw funds invested in the Group's capital.

(v) Earnings per share

The parent bank displays basic and reduced earnings per share for its own ordinary shares. The basic earnings per share is calculated by dividing the gain or loss attributable to the owners of ordinary shares of the Parent Bank weighted average of the number of ordinary shares in circulation during the period.

The reduced earnings per share is calculated by dividing the adjusted gain or loss attributable to ordinary shareholders for the effects of preferential, convertible shares, weighted average of the number of ordinary shares in circulation during the period.

(w) Segment reporting

The business segment is part of the Group - a member of the Group, which independently deals with business activities from which revenues can be generated and incurred, including revenues and expenses arising from transactions with other members of the Group, whose business result is regularly controlled by the parent bank's management (as the main operational decision maker), to make decisions about resource allocation by segments and evaluate their results. Separate audited financial statements are available for business segments of the Group

In accordance with the International Financial Reporting Standard 8 - Business Segments, the Group also discloses information about the operation of operational segments, thus providing information users with additional information on revenues and expenditures arising from key business activities (Note 6.2).

When determining the operational segments, the following were used:

a) Different products and services that segments offer;
b) Separate Segment Management and
c) Structure of internal reporting

4. RISK MANAGEMENT

The banking group recognized the risk management process as a key element of business management, since exposure to risks stems from all business activities, as an inseparable part of banking operations, managed through identification, measurement, evaluation, monitoring, control and mitigation, or the establishment of risk limits , as well as reporting in accordance with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment.

The risk management process includes clearly defining and documenting the risk profile, as well as its alignment with the Group's preference for risk and risk tolerance, in accordance with adopted strategies and policies.

Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Group is exposed, maintaining the required level of capital adequacy, maintaining the participation NPL in total loans to acceptable level for the Group, the highest acceptable level of non-performing loans, maintenance of indicators of liquid assets coverage above the level and regulated by regulations and internal limits, the development of the Group's activities in accordance with the business strategy and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

In view of the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, adequate changes were made in the internal acts regulating risk management. By amending the Strategy and the Risk Management Policy, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of non-performing receivables.

At the beginning of 2018, the Group performed the harmonization of internal acts (methodologies and procedures) in accordance with the amendments of the regulations of the National Bank of Serbia in the area of accounting and financial reporting, introducing the obligation to apply the International Financial Reporting Standard 9 in banks (IFRS 9). The aforementioned amendments prescribe the obligation for banks to, from January 1, 2018 calculate the credit losses in accordance with this Standard. In accordance with IFRS 9, the Group has adopted a new Methodology for assessing the impairment of balance sheet assets and probable loss on off-balance sheet items, which is applicable from January 1, 2019.

Risk Management System

The risk management system is defined by the following acts:

- Risk Management Strategy and Strategy and Capital Management Plan;
- Risk management policies;
- Risk management procedures;
- Methodologies for managing individual risks;
- Other acts.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The risk management strategy defines:

• Long-term goals, determined by the Bank's business policy and strategy, as well as the risk and risk tolerance set in line with those goals;
• Basic principles of risk transfer and management;
• Basic principles of the internal assessment of the Group's capital adequacy;
• Overview and definitions of all risks to which the Group is or may be exposed.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Group.

The Banking Group has identified the basic principles of risk management in order to fulfil its long-term goals:

• Organization of the business of a separate organizational unit for risk management;
• Functional and organizational separation of risk management activities from the Group's regular business activities;
• Comprehensive risk management;
• Effectiveness of risk management;
• Cyclical risk management;
• Developing risk management as a strategic commitment;
• Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

• Active risk management;
• Preventive measures and activities aimed at minimizing further deterioration in asset quality;
• Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
• Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
• Assessment of the borrower's financial condition;
• A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
• Segregation of bad assets;
• Principle of materiality in defining possible measures;
• Increased frequency of monitoring the value of collateral and the funds obtained from collection;
• Organizational separation of the Sector for Prevention and Management of Risk Placements;
• Transparent reporting.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

Management policies for certain types of risk define in more detail:

• The way of organizing the banking risk management process of the Banking Group and the clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
• The method of assessing the risk profile of the banking group and the methodology for identifying and measuring, or risk assessment;
• Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the banking Group uses and their structure;
• The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
• Measures to mitigate risks and rules for the implementation of these measures;
• Method and methodology for implementing the process of internal capital adequacy assessment of the banking group;
• Principles of functioning of the internal control system;
• The framework and frequency of stress testing, as well as handling in cases of adverse stress test results.

Risk Management Procedures the Group details the risk management process and the responsibilities and responsibilities of all organizational parts of the parent Bank and members of the banking group in the risk management system.

The individual methodologies of the Group members set out in more detail the methods and approaches used in the risk management system.

Jurisdictions

The Board of Directors is in charge and responsible for the adoption of the strategy and policies for risk management and capital management strategy, establishing a system of internal controls and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementing the process internal capital adequacy assessments, and others.

The Executive Board is responsible and accountable for the implementation of the risk management strategy and strategy and the capital management strategy by adopting risk management procedures, i.e. identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Board of Directors in relation to those activities. Also, the Executive Board analyses the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Group's exposure to a person related to the Group and shall notify the Management Board accordingly.

4. RISK MANAGEMENT (continued)

Jurisdiction (continued)

The Audit Committee (Business Monitoring Committee) is responsible and accountable for the analysis and supervision of the application and adequate implementation of the adopted strategies and policies for risk management and internal control systems of the parent Bank and the Group. At least once a month, the Board of Directors reports on its activities and irregularities and proposes the way in which they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the exposure to risks arising from the structure of balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk. Each member of the Group has an Asset and Liability Management Committee.

The Credit Committee decides on credit requirements within the framework of the Bank's founding regulations, analyses the exposure of the parent Bank to credit, interest and currency risk, analyses the loan portfolio, and also proposes measures to the Executive Board of the parent Bank. Each member of the Group has a credit committee which decides within its competencies and limits.

The Risk management function of the parent Bank defines and proposes to adopt the strategy, policies, procedures and methodology of risk management, identifies, measures, mitigates, monitors and controls and reports on the risks to which the parent Bank and the Group are exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the banking group.

The Bank's Asset Management Division is responsible for managing assets and liquidity, as well as managing Assets and Liabilities at the Group level. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The Internal audit function is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit on its findings and recommendations is reported by the Audit Committee and the Steering Committee.

The Compliance function is obliged to identify and assess at least annually the risks of compliance of the operations of the parent Bank, as well as the Group member, and propose risk management plans, on which it draws up a report that is submitted to the Executive Board and the Board for monitoring the operations of the parent Bank.

Risk management process

At the banking group level, the risks identified in the business are assessed regularly. Measurement implies the application of qualitative and quantitative methods and measurement models that allow for the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, their significance is determined based on a comprehensive risk assessment that is characteristic of particular business, products, activities and processes of the banking group.

Risk mitigation involves diversification, transfer, reduction and / or risk avoidance, in line with risk profile, risk pricing and risk tolerance for the banking group.

4. RISK MANAGEMENT (continued)

Risk management process (continued)

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established, which depend on the business strategy and market environment, as well as on the level of risk that the Group is ready to accept.

The Group has established a regular risk and risk profile reporting system that enables relevant employees at all levels in the Group to provide timely, accurate and sufficiently detailed information needed to make business decisions and efficient risk management, that is, secure and stable operations.

Types of risk

The Banking Group is particularly exposed in the business to the following types of risks: credit and related risks, liquidity risk, market risk, operational risk, investment risk, concentration risk, exposure and country risk, as well as all other risks that may arise in the ordinary course of business member of the Group.

4.1. Credit risk

Credit risk is the risk of the possibility of adverse effects on the Group's financial result and capital due to non-performance of the debtor's obligations towards members of the Group.

Members of the Group have defined criteria for granting loans, changing conditions, extending the deadline and restructuring the receivables, which are prescribed by procedures and methodologies for placement approval and risk management.

Prior to the approval of placements, the Group members assess the creditworthiness of the borrower as the primary source of repayment of placements based on internally defined criteria and the collateral offered as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the financial condition and creditworthiness of the debtor, as well as the value and legal security of credit protection and other relevant factors) and independent risk assessment, competent persons, committees and member bodies of the Group, in accordance with the defined decision system Decision on placement approval.

The Group defined the decision on the exposure to credit risk through the decision-making system, depending on the type of clients and the level of exposure. Credit decision makers are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

When making decisions, the principle of dual control of the so-called. A "four eyes principle", which ensures that there is always a proposed party and a party that approves a particular placement.

The organizational model of the Group's credit risk management system ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the function of independent risk management and support activities on the one hand, from risk-taking activities, competencies and responsibilities. Members of the Group have established an adequate information system that includes full information of persons involved in the credit risk management system.

In accordance with the scope, type and complexity of the operations it performs, the Group has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The acceptable level of exposure to the Group's credit risk is in line with the defined risk management strategy and depends on the structure of the Group's portfolio, which limits the potential impact of negative effects on the financial result and capital adequacy.

The basic principles of credit risk management are:

• Credit risk management at the level of individual placements and at the level of the Group's entire portfolio;
• Maintaining the level of credit risk that minimizes the negative impact on the financial result and equity;
• Ranking of placements according to their risk;
• Performance in accordance with good practices for approving loans;
• Providing adequate controls for credit risk management.

With a view to managing credit risk, the Group's members strive to deal with clients with good creditworthiness and obtain appropriate payment security instruments. Members of the Group assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

All members of the Group perform quantitative and / or qualitative measurement, i.e. an assessment of the identified credit risk. The process of measuring credit risk is based on measuring the risk level of individual placements based on the internal rating system.

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement.

In order to adequately and efficiently manage the risks they are exposed to in their operations, the parent Bank and Group members also respect the principles prescribed by the regulations of their Central Banks, which require the classification of each placements on the basis of the prescribed framework and the calculation of the reserve for estimated losses.

Credit risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile, or maintaining an acceptable level of quality of the Group's loan portfolio.

The basic techniques of credit risk mitigation are:

• Exposure Limits - concentration risk,
• Diversification of investments,
• Security instruments.

Exposure limits based on a single borrower are based on an assessment of the borrower's creditworthiness, and exposure limits at the portfolio level are focused on the concentration limit of exposure in the portfolio. Members of the Group continuously control the movement of credit risk within a defined risk profile.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Group), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

The Group monitors exposure to defined limits with the same or similar risk factors and, depending on the general economic trends, trends in particular activities and geographical areas, the values set forth in the Business Plan of the Group, regularly reviews the defined limits and proposes redefinition of these in the event of a change in risk factors.

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1, 2019 banks were obliged to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to retail sector of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring of quality of placements at the individual borrower level is primarily based on providing up-to-date information on the financial condition and creditworthiness of the borrower and the market value of collateral, while monitoring credit risk at the portfolio level is done by identifying changes at the level of client groups of a certain level of risk, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of assets.

Credit risk control implies the process of continuous monitoring of operations with a defined system of limits, especially when exposure to credit risk tends to the upper limit of the defined risk profile, especially when introducing new business products and activities.

In order to protect against the risk of non-fulfilment of obligations in dealing with clients, the Group members take the following measures for regulating receivables: extension of the deadline, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures.

If the measures taken to regulate the placements, i.e. the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, a proposal for the permanent write-off of the remaining receivables or transfer from the balance sheet to the off-balance sheet is initiated.

A group, besides credit exposure, also has an off-balance sheet exposure (payable and performance guarantees, guarantees, letters of credit) on the basis of which it has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposure, the Group members use the same control processes and procedures that are used for credit risk.

The credit risk reporting includes the internal and external reporting system, which is implemented according to the established dynamics in accordance with the defined reporting system:

- Members of the Group report to the parent Bank on a monthly basis;
- The parent bank reports on a consolidated basis, semi-annually and annually.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

IFRS 9 Financial instruments

Starting from January 1, 2018, The Group applies IFRS 9 that replaced the IAS 39. In accordance with IFRS 9, the financial assets can be classified and measured as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI criterion;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

The Group's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Group has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income, with a reclassification of profit and loss through the income statement.

Also, by applying IFRS 9, the Group calculates impairment for credit placements given to the countries and Central Banks of the Group's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

Identification of problematic and restructured receivables

Members of the Group monitor the quality of the portfolio based on identifying and analysing early warning signals from clients. Warning signals are monitored on a regular basis and on the basis of their analysis, clients are classified as Standard, Potentially risky (Watch List) and NPL clients (clients with problematic receivables).

In accordance with the application of IFRS 9, starting from January 1, 2018, The Group also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients rank as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Clients located in stages 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfilment of the criteria of material significance, are impaired individually. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios.

Restructured unproblematic clients are classified as potentially risky clients, that is, to stage 2 of impairment, while restructured problematic are classified as problematic clients, and are categorized into stage 3 impairment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic receivables without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements, ie mitigating and reducing credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have days past due more than 90 days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the borrower will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. Problematic receivables are all receivables from the debtor, if one receivable is classified as problematic receivable.

Restructuring of receivable is the approval, due to the financial difficulties of the borrower, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favourable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice 'forbearance'. In addition, the category of restructured receivables also includes receivables in which:

- changes in the contractual conditions for repayment of problematic receivables or which, in the absence of the above mentioned changes, would be classified as problematic receivables,
- a change in the contractual conditions for the repayment of receivables leading to total or partial write-off in a material amount,
- the Group members activated the contractual restructuring clauses on the basis of which the terms of repayment change due to occurrence of certain events (embedded clauses) against the debtor from which the receivable has already been classified into a group of problematic receivables or would have been so classified if those clauses were not activated,
- if the debtor, at the same time as the new receivable was approved (or in the short period before or after that approval), paid on the basis of another receivable of the Group (or other legal entity under which the receivable was transferred to that debtor), which has been classified or fulfilled conditions to be classified in a group of problematic ones or, in the absence of a new receivable, would be classified in the said group, that is, fulfil those conditions.

In accordance with the application of IFRS 9, any restructuring of receivables due to financial difficulties is considered as a modified or altered financial asset.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Modifications that result in the derecognition of the old financial asset and the initial recognition of the new one, which were motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as "POCI" purchased or originated credit-impaired, initially valued at fair value. At the time of initial recognition, they have no impairment, but it is necessary to include the expected credit losses over the life of the asset in the calculation of the effective interest rate.

Consequently, the Group includes initial expected credit losses in the assessment of cash flows when calculating the credit-adjusted effective interest rate of a financial asset that is deemed to have been impaired at the time of initial recognition. Also, for the purpose of calculating impairment, these assets will remain at stage 3 for the entire period of time.

IFRS 9 in the event of a significant modification of a financial instrument, indicates the need to derecognise an old financial asset and recognise the new one at fair value at the date of recognition.

Derecognition leads to a permanent gain or loss recognized in the income statement and is equal to the difference between the amortized cost of an old financial asset and the fair value of a new financial asset deducted for the amount of expected credit losses recognized as impairment on a new financial asset.

Members of the Group regularly follow the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

Restructured receivable classified in the group of problematic receivable of a member of the Group after one year from the date of its restructuring are classified into a group of receivables that are not considered problematic if the following conditions are met:

- the amount of impairment for restructured receivable has not been determined and the status of default has not occurred;
- in the last 12 months, payments were made in due time or with a delay not exceeding 30 days, in accordance with the changed terms of repayment;
- Based on the analysis of the financial condition, ie the creditworthiness of the borrower, it was estimated that the borrower will be able to settle the liabilities in full in accordance with the changed terms of repayment.

Risk of asset quality change - asset delinquency

The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 17 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of loans.

The Group uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Group (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitors (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4d, 4dd, and 5). Risk Category 4 is divided into three sub-categories: 4 - Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Group protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

Risk of asset value change - asset delinquency

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the real loan will be settled from these assets.

The Group members assess the impairment of receivables on a group and on a single basis.

Individual and Group Assessment at Level 3

Group members estimate impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), i.e. placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfilment of the client's obligations towards the members of the Group, a new assessment of the impairment of the placements is made.

The materiality threshold of a member of the Group is determined on the basis of an analysis of the value structure of the portfolio by types of clients and products.
An impairment loss on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watch process, information on the increased level of risk of the borrower.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9, which is applicable from January 1, 2018. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables that are located at stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of future expected credit loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 - Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Group calculates the impairment charge based on the 12-month expected credit losses;

- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Group calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Group's members and other exposures with a credit risk weight of 0, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses amount to 0.

All financial instruments in which significant increase in credit risk has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument.

The Group considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like).

The Group calculates the cost of impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

For retail and corporate sector, the Group calculates the expected credit losses (impairment) in the following way:

$$\boldsymbol{ECL} = \sum_{t=1}^{T} (\boldsymbol{EAD_t} * \boldsymbol{MPD_t} * \boldsymbol{LGD_t} * \boldsymbol{DF_t})$$

ECL	Expected credit loss
EAD	Exposure at default
MPD	Marginal Probability of default
LGD	Loss given default
DF	EIR based discount factor

This formula is used to calculate the expected credit losses (impairments) at stages 1 and 2, along with respect to the time horizon.
EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

For the calculation of EAD for stage 1, the Group assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-fulfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Group is still exposed. Based on historical data, the group calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Group includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

To calculate impairment for Stage 1, the Group uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Group uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, ie the probability of default for the entire life of the financial instrument.

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31. December.

LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Group, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Group applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Group takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - DF for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Group. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Group uses a different method of calculating impairment. The Group does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure of financial.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Instruments of the state, its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\ rate*t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the borrower is classified at stage 3. Also, for stages 1 and 2, the Group establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Group reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Group calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the Group uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Group's members. For unused commitments for which the Group has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Group does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Group members use, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Group members provide contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For retail loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the parent Bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

When assessing real estate or mortgages on movable property, members of the Group require a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Group, and the policies are vinculated for the benefit of the Group.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Group protects against potential losses due to inability to collect collateral.

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the Group pay attention to the regular valuation of collaterals. For non-risk placements (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - stage 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Group (realized sales, supply and demand) by the regions specified in the collateral catalogue, using the statistical model, etc. For all business real estate, the Group conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

The value of collateral and the trend of movement is monitored and updated by the members of the Group in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The total exposure to credit risk as at 31 December 2018 and 2017 is shown in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD

	31.12.2018		31.12.2017	
	Gross	Net	Gross	Net
I. Assets	468,202,521	441,586,959	430,849,698	400,108,315
Cash and balances with the central bank	73,992,038	73,992,039	56,076,748	56,076,748
Loans and advances to banks and other financial institutions	21,265,408	21,037,537	30,436,134	30,233,555
Loans and receivables from customers	206,358,685	191,448,642	193,015,753	174,242,139
Financial assets (securities and derivatives)	137,520,384	137,518,790	121,522,584	121,522,580
Other assets	9,892,999	7,153,663	10,722,146	7,480,376
Assets	19,173,007	10,436,287	19,076,333	10,552,917
II. Off-balance sheet items	45,669,661	45,360,450	37,158,398	36,986,816
Payable guarantees	3,899,996	3,807,747	4,017,215	3,965,934
Performance guarantees	3,628,533	3,580,265	4,807,375	4,765,328
Irrevocable liabilities	37,774,785	37,632,128	28,036,262	27,981,989
Other	366,347	340,310	297,546	273,565
Total (I+II)	513,872,182	486,947,408	468,008,096	437,095,131

Starting from January 1, 2018 The Group applies IFRS 9 that replaced the IAS 39. Data for 2017 are presented in accordance with the then-applicable IAS 39, and are not comparable with information published for 2018. The differences arising from the application of IFRS 9 are directly recognized through retained earnings as at January 1st, 2018. In accordance with the aforementioned, the effects of the first application of IFRS 9 are detailed as at January 1st, 2018.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Total exposure to credit risk – transition to IFRS 9

	IAS 39 31.12.2017			IFRS 9 01.01.2018				
	Category	Gross	Net	Reclassified	Impairment allowance	Gross	Net	Category
I Assets		309,327,114	278,585,735	-	(957,556)	309,327,115	277,628,179	
Cash and balances with the central bank	L&R[1]	56,076,748	56,076,748	-	-	56,076,748	56,076,748	AC[2]
Loans and advances to banks and other financial institutions	L&R	30,436,134	30,233,555	-	(18,976)	30,436,134	30,214,579	AC
Loans and receivables from customers	L&R	193,015,753	174,242,139	-	(863,391)	193,015,753	173,378,748	AC
Financial assets (securities and derivatives)	L&R	10,722,146	7,480,376	-	(75,190)	10,722,146	7,405,186	AC
Other assets	-	19,076,333	10,552,917	-	-	19,076,333	10,552,917	-
II Off-balance sheet items		37,158,398	36,986,816	-	(85,281)	37,158,398	36,901,535	
Payable guarantees	L&R	4,017,215	3,965,934	-	(58,749)	4,017,215	3,907,185	AC
Performance guarantees	L&R	4,807,375	4,765,328	-	9,414	4,807,375	4,774,742	AC
Irrevocable liabilities	L&R	28,036,262	27,981,989	-	(39,501)	28,036,262	27,942,488	AC
Other	L&R	297,546	273,565	-	3,555	297,546	277,120	AC
III Financial assets available for sale	AFS[3]	116,252,874	116,252,871	(116,252,871)	(259,769)			-
Reclassified in: Financial assets at fair value through other comprehensive income[6]	-	-	-	116,252,871	(259,769)	116,252,874	115,993,101	FVOCI[4]
IV Financial assets at fair value through profit and loss held for trading	FVPL[5]	5,269,709	5,269,709	(5,269,709)	-			-
Reclassified in: Financial assets at fair value through profit and loss	-	-	-	5,269,709	-	5,269,709	5,269,709	FVPL
Total (I+II+III+IV)		468,008,095	437,095,131	121,522,580	(1,302,606)	468,008,095	435,792,524	

L&R[1]– loans and receivables according to the classification of IAS 39
AC[2] – amortised cost according to the classification of IFRS9
AFS[3] – items available for sale according to the classification of IAS 39
FVOCI[4] – items that are valued at fair value through other comprehensive income according to the classification of IFRS9
FVPL[5]– items that are valued at fair value through profit and loss held for trading according to the classification of IAS 39, that is items that are valued at fair value through profit and loss according to the classification of IFRS9
[6]Note: net values of financial assets that are valued at fair value through other comprehensive income are deducted for the amount of credit risk impairment even though they are not a deductible item of the gross amount of the assets

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

First adoption of IFRS 9 – effect of impairment allowance

	Impairment allowance		
	31.12.2017	IFRS	01.01.2018
I. Assets	30,741,383	1,217,326	31,958,709
Cash and balances with the central bank	-	-	-
Loans and advances to banks and other financial institutions	202,579	18,975	221,554
Loans and receivables from customers	18,773,614	863,392	19,637,006
Financial assets (securities and derivatives)	4	259,769	259,773
Other assets	3,241,770	75,190	3,316,960
Assets	8,523,416	-	8,523,416
II. Off-balance sheet items			
Payable guarantees	171,582	85,280	256,863
Performance guarantees	51,281	58,749	110,030
Irrevocable liabilities	42,047	(9,414)	32,633
Other	54,273	39,501	93,774
Total (I+II)	23,981	(3,555)	20,426
I. Assets	30,912,965	1,302,606	32,215,572

[1]Note: net values of financial assets that are valued at fair value through other comprehensive income are deducted for the amount of credit risk impairment even though they are not a deductible item of the gross amount of the assets

All financial assets are in stage 1 and relate mostly to Securities issued by the Republic of Serbia, as well as to currency swaps transactions.

Changes in loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018	159,531,739	6,424,780	27,059,234	193,015,753
New receivables	37,258,159	413,743	17,053	37,688,954
Decrease/collection of receivables	(16,354,377)	(2,263,349)	(6,255,588)	(24,873,314)
Transfer to stage 1	-	(1,490,757)	(210,040)	(1,700,797)
Transfer to stage 2	(2,645,448)	-	(59,968)	(2,705,416)
Transfer to stage 3	(1,314,711)	(285,587)	-	(1,600,298)
Transfer from other stages	1,700,797	2,705,416	1,600,298	6,006,511
Other changes	2,759,759	(510,157)	(1,722,310)	527,292
31.12.2018	180,935,918	4,994,088	20,428,679	206,358,685

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in impairment allowance of loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018	1,454,694	177,363	18,004,948	19,637,006
New receivables	393,272	11,862	11,970	417,104
Decrease/collection of receivables	(392,675)	(37,198)	(4,829,250)	(5,259,123)
Transfer to stage 1	-	(30,954)	(110,391)	(141,345)
Transfer to stage 2	(33,174)	-	(30,649)	(63,823)
Transfer to stage 3	(27,284)	(18,223)	-	(45,507)
Transfer from other stages	141,345	63,823	45,507	250,675
Other changes	(291,080)	138,750	267,387	115,057
31.12.2018	1,245,099	305,423	13,359,522	14,910,044

During 2018, transitions of exposures by stages are consequence of regular business changes:

- transition to Stage 1 from Stages 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2017, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1 is a consequence of an increase in credit risk in a certain number of clients;
- Transition to Stage 3 from Stages 1 and 2 is a consequence of an increase in credit risk (account blockage longer than 60 days, and an increase in over 90 days in most cases). During the year, stage 1 receivables were at Stage 2 before they went into Stage 3. Reduction of Stage 3 receivables is due to the regulation of risk claims (collection from collateral and regular business operations of clients).

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	41,169,671	1,128,707	1,649,460	43,947,838	37,690	21,066	766,147	824,902	43,122,935
Cash Loans	32,134,316	403,332	282,914	32,820,561	123,542	17,172	192,578	333,293	32,487,269
Agricultural Loans	8,403,020	102,421	265,238	8,770,680	61,768	4,247	140,095	206,111	8,564,569
Other Loans	5,467,471	128,473	195,775	5,791,720	36,706	2,655	175,980	215,341	5,576,379
Micro Business	10,966,226	410,455	945,043	12,321,724	155,377	9,868	451,632	616,877	11,704,847
Total retail	98,140,704	2,173,388	3,338,430	103,652,523	415,084	55,008	1,726,433	2,196,524	101,455,999
Large corporate clients	36,875,197	2,076,200	11,595,741	50,547,139	331,352	237,377	7,901,653	8,470,382	42,076,757
Middle corporate clients	10,275,020	323,692	1,990,077	12,588,790	128,244	5,554	1,322,112	1,455,910	11,132,879
Small corporate clients	5,530,375	288,722	1,595,043	7,414,139	66,100	2,614	864,980	933,694	6,480,445
State owned clients	14,973,115	132,086	503,850	15,609,052	109,603	4,870	139,219	253,692	15,355,359
Other	15,141,506	-	1,405,537	16,547,043	194,716	-	1,405,126	1,599,842	14,947,202
Total corporate	82,795,214	2,820,700	17,090,248	102,706,163	830,015	250,415	11,633,089	12,713,520	89,992,643
Total	180,935,918	4,994,088	20,428,679	206,358,685	1,245,099	305,423	13,359,522	14,910,044	191,448,642
Due from banks	21,054,117	-	211,292	21,265,409	16,579	-	211,292	227,871	21,037,538

Note: According to the internal segmentation, the retail sector includes individuals, farmers and microbusiness (entrepreneurs and micro clients).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

01.01.2018.	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	38,103,826	1,251,707	1,735,814	41,091,347	38,147	29,954	888,853	956,955	40,134,392
Cash Loans	25,878,192	338,620	350,588	26,567,400	110,124	20,621	275,801	406,546	26,160,854
Agricultural Loans	7,112,350	116,032	206,502	7,434,885	65,474	7,634	108,925	182,033	7,252,852
Other Loans	5,720,091	60,290	395,984	6,176,365	34,778	2,970	383,652	421,401	5,754,964
Micro Business	9,176,000	230,132	1,105,531	10,511,663	135,253	8,468	453,778	597,499	9,914,164
Total retail	85,990,459	1,996,781	3,794,419	91,781,660	383,776	69,648	2,111,009	2,564,434	89,217,226
Large corporate clients	35,902,260	2,593,317	16,958,551	55,454,128	654,859	88,670	12,015,848	12,759,377	42,694,751
Middle corporate clients	11,059,466	996,948	2,090,406	14,146,820	118,659	7,785	1,342,478	1,468,923	12,677,897
Small corporate clients	5,397,370	475,859	1,781,079	7,654,308	59,675	6,389	926,483	992,546	6,661,762
State owned clients	10,499,848	361,875	997,190	11,858,914	90,131	4,871	170,041	265,043	11,593,871
Other	10,682,335	-	1,437,589	12,119,925	147,594	-	1,439,090	1,586,684	10,533,241
Total corporate	73,541,280	4,427,999	23,264,815	101,234,094	1,070,918	107,714	15,893,939	17,072,572	84,161,522
Total	159,531,739	6,424,780	27,059,234	193,015,753	1,454,694	177,363	18,004,948	19,637,006	173,378,748
Due from banks	30,233,576	-	202,558	30,436,134	18,996	-	202,558	221,554	30,214,580

Note: According to the internal segmentation, the retail sector includes individuals, farmers and microbusiness (entrepreneurs and micro clients).

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Loans and receivables from customers, banks and other financial organizations

31.12.2017	Non-problematic receivables	Non-performing receivables	Total	Impairment of Non-problematic receivables	Impairment of non-performing receivables	Total Impairment	Net
Housing Loans	39,355,533	1,735,814	41,091,347	96,490	594,165	690,629	40,400,692
Cash Loans	26,216,812	350,588	26,567,400	216,115	262,960	479,075	26,088,326
Agricultural Loans	7,228,382	206,502	7,434,885	62,967	100,167	163,133	7,271,751
Other Loans	5,780,381	395,984	6,176,365	81,840	376,724	458,564	5,717,801
Micro Business	9,406,132	1,105,531	10,511,663	134,612	476,179	610,790	9,900,872
Total Retail	87,987,240	3,794,419	91,781,660	592,023	1,810,194	2,402,217	89,379,443
Large corporate clients	38,495,577	16,958,551	55,454,128	333,797	11,881,648	12,215,445	43,238,683
Middle corporate clients	12,056,414	2,090,406	14,146,820	82,748	1,389,311	1,472,059	12,674,761
Small corporate clients	5,873,229	1,781,079	7,654,308	79,221	910,951	990,172	6,664,136
State owned clients	10,861,724	997,190	11,858,914	89,843	166,416	256,259	11,602,655
Other	10,682,335	1,437,589	12,119,925	308	1,437,155	1,437,463	10,682,462
Total Corporate	77,969,279	23,264,815	101,234,094	585,916	15,785,481	16,371,397	84,862,696
Total	165,956,519	27,059,234	193,015,753	1,177,939	17,595,675	18,773,614	174,242,139
Due from banks	30,233,576	202,558	30,436,134	21	202,558	202,579	30,233,555

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairment allowance of receivables in the Balance Sheet

	31.12.2017	01.01.2018	Increase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2018
Total retail	2,401,401	163,033	1,701,713	(1,635,822)	(433,800)	2,196,524
Total corporate	16,372,213	700,359	3,858,506	(3,695,578)	(4,521,981)	12,713,520
Total	18,773,614	863,392	5,560,219	(5,331,400)	(4,955,780)	14.910.044
Due from banks	202,579	18,975	67,961	(76,584)	14,940	227,871

* Other changes relate to the carry-over of entirely impaired receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

Problematic loans and receivables are those loans and receivables for which the Group has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk category 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – stages 1 and 2

For non-problematic receivables (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group level (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

The impairment assessment on a group basis is based on the probability of the occurrence of debtor's probability of default (PD) calculated on the basis of migration into the status of default, by type of client or product. By appreciating the specifics in dealing with clients, migrations for corporate sector, retail sector by types of products, banks and entrepreneurs are specially determined.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivables by days past due – non-problematic receivables, stage 1 and 2

31.12.2018	Stage 1						Stage 2					
	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	40,790,027	379,643	-	-	-	41,169,671	786,365	94,658	134,976	112,708	-	1,128,707
Cash Loans	29,749,339	2,384,977	-	-	-	32,134,316	97,540	83,776	170,356	51,659	-	403,332
Agricultural Loans	8,249,595	153,425	-	-	-	8,403,020	33,764	4,604	47,628	16,426	-	102,421
Other Loans	5,123,965	343,506	-	-	-	5,467,471	69,361	18,165	28,755	12,193	-	128,473
Micro Businesses	9,865,744	1,100,482	-	-	-	10,966,226	235,535	101,374	61,516	12,030	-	410,455
Retail clients	93,778,670	4,362,034	-	-	-	98,140,704	1,222,564	302,577	443,230	205,017	-	2,173,388
Large corporate clients	36,462,226	412,971	-	-	-	36,875,197	1,558,103	196,700	321,397	-	-	2,076,200
Middle corporate clients	9,951,646	323,374	-	-	-	10,275,020	187,209	93,527	42,955	-	-	323,692
Small corporate clients	5,342,188	188,187	-	-	-	5,530,375	227,567	61,146	9	-	-	288,722
State owned clients	14,964,539	8,576	-	-	-	14,973,115	100,167	31,754	165	-	-	132,086
Other	15,061,289	80,217	-	-	-	15,141,506	-	-	-	-	-	-
Corporate clients	81,781,889	1,013,325	-	-	-	82,795,214	2,073,046	383,128	364,527	-	-	2,820,700
Total	175,560,559	5,375,359	-	-	-	180,935,918	3,295,610	685,705	807,756	205,017	-	4,994,088
Out of which: restructured	1,142,686	214,745	-	-	-	1,357,431	632,639	34,643	17,921	19,881	-	705,085
Due from banks	21,054,117	-	-	-	-	21,054,117	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivables by days past due

In RSD thousands

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	38,420,681	559,412	153,873	221,566	-	39,355,533
Cash Loans	24,291,275	1,702,682	166,024	56,831	-	26,216,812
Agricultural Loans	6,953,492	182,300	71,846	20,745	-	7,228,382
Other Loans	5,410,478	312,882	45,446	11,575	-	5,780,381
Micro Businesses	8,080,813	1,226,765	77,073	21,481	-	9,406,132
Retail clients	83,156,739	3,984,040	514,263	332,198	-	87,987,240
Large corporate clients	38,038,591	148,686	308,300	-	-	38,495,577
Middle corporate clients	11,005,501	946,232	94,118	10,563	-	12,056,414
Small corporate clients	5,473,967	310,776	56,863	31,623	-	5,873,229
State owned clients	10,743,288	118,436	-	-	-	10,861,724
Other	10,548,614	133,614	107	-	-	10,682,335
Corporate clients	75,809,960	1,657,745	459,388	42,186	-	77,969,279
Total	158,966,699	5,641,785	973,651	374,384	-	165,956,519
Out of which: restructured	2,062,044	410,268	178,344	4,755	-	2,655,411
Due from banks	26,210,359	4,023,218	-	-	-	30,233,576

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due – stage 3

In RSD thousands

31.12.2018	Stage 3 Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	316,657	69,763	48,503	60,150	1,154,388	1,649,460
Cash Loans	63,363	29,025	15,718	32,189	142,618	282,914
Agricultural Loans	18,824	6,326	3,129	824	236,136	265,238
Other Loans	12,458	2,193	843	1,487	178,794	195,775
Micro Businesses	97,967	33,701	5,536	27,535	780,304	945,043
Retail clients	509,268	141,008	73,729	122,185	2,492,241	3,338,430
Large corporate clients	1,850,211	7,008	258,670	372,861	9,106,992	11,595,741
Middle corporate clients	74,482	-	-	-	1,915,595	1,990,077
Small corporate clients	39,097	326,954	13,413	-	1,215,579	1,595,043
State owned clients	324,552	8,458	-	-	170,839	503,850
Other	1,404,715	-	-	-	822	1,405,537
Corporate clients	3,693,058	342,420	272,083	372,861	12,409,827	17,090,248
Total	4,202,326	483,428	345,812	495,046	14,902,068	20,428,679
Out of which: restructured	2,148,552	26,553	40,609	26,846	11,387,669	13,630,228
Due from banks	211,292	-	-	-	-	211,292

Receivables with a delay of less than 90 days in Stage 3 relate to clients who have financial difficulties and the Bank has estimated that there is a risk of default by the end of the loan repayment, given that when considering the same, a set of different criteria is used.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due

In RSD thousands

31.12.2017	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	213,931	65,588	18,498	48,523	1,389,275	1,735,814
Cash Loans	53,274	19,848	10,750	18,205	248,512	350,588
Agricultural Loans	20,079	5,777	9,331	8,440	162,875	206,502
Other Loans	14,691	2,471	832	219	377,771	395,984
Micro Businesses	70,524	15,459	14,779	56,066	948,704	1,105,531
Retail clients	372,497	109,143	54,190	131,452	3,127,137	3,794,419
Large corporate clients	2,262,581	-	-	-	14,695,970	16,958,551
Middle corporate clients	93,394	22,138	-	58,566	1,916,308	2,090,406
Small corporate clients	88,111	373,012	36,677	2,860	1,280,419	1,781,079
State owned clients	741,052	23,022	-	-	233,116	997,190
Other	1,436,767	-	-	-	822	1,437,589
Corporate clients	4,621,904	418,172	36,677	61,426	18,126,636	23,264,815
Total	4,994,401	527,315	90,867	192,878	21,253,773	27,059,234
Out of which: restructured	2,562,976	78,371	54,310	99,769	16,484,893	19,280,319
Due from banks	202,558	-	-	-	-	202,558

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans

In RSD thousands

31.12.2018	Gross exposure	Impairment allowance of gross amount	Stage3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	103,652,523	2,196,524	3,338,430	994,393	1,726,433	3,22%	3,021,353
Housing Loans	43,947,838	824,902	1,649,460	484,505	766,147	3.75%	1,634,862
Cash Loans	32,820,561	333,293	282,914	41,846	192,578	0.86%	146,273
Agricultural Loans	8,770,680	206,111	265,238	16,409	140,095	3.02%	239,149
Other	5,791,720	215,341	195,775	4,320	175,980	3.38%	10,936
Micro Businesses	12,321,724	616,877	945,043	447,313	451,632	7.67%	990,134
Corporate clients	102,706,163	12,713,520	17,090,248	12,635,835	11,633,089	16.64%	15,423,523
Agriculture	5,504,088	115,265	222,617	13,411	85,212	4.04%	222,785
Manufacturing Industry	15,786,292	2,449,957	4,180,027	3,830,527	2,333,590	26.48%	4,186,056
Electric Energy	1,064,602	3,105	27,298	-	19	2.56%	27,298
Construction	9,037,935	1,336,673	1,738,493	978,193	1,119,397	19.24%	1,738,866
Wholesale and Retail	26,627,325	1,086,664	2,151,168	1,849,888	786,641	8.08%	2,163,875
Service Activities	9,673,368	1,296,356	1,494,901	1,477,865	1,187,702	15.45%	1,494,901
Real Estate Activities	4.770.586	729,500	1,323,324	983,040	704,066	27,74%	1,323,799
Other	30,241,966	5,695,999	5,952,421	3,502,911	5,416,462	19.68%	4,265,943
Total	206,358,685	14,910,044	20,428,679	13,630,228	13,359,522	9.90%	18,444,876
Due from banks	21,265,409	227,871	211,292	-	211,292	0.99%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, stage 3 in total loans

01.01.2018	Gross exposure	Impairment allowance of gross amount	Stage3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	91,781,660	2,564,434	3,794,419	969,008	2,111,009	4.13%	3,397,441
Housing Loans	41,091,347	956,955	1,735,814	485,860	888,853	4.22%	1,740,307
Cash Loans	26,567,400	406,546	350,588	38,522	275,801	1.32%	254,354
Agricultural Loans	7,434,885	182,033	206,502	19,626	108,925	2.78%	199,458
Other	6,176,365	421,401	395,984	-	383,652	6.41%	22,181
Micro Businesses	10,511,663	597,499	1,105,531	424,999	453,778	10.52%	1,181,140
Corporate clients	101,234,094	17,072,572	23,264,815	18,267,962	15,893,939	22.98%	21,511,472
Agriculture	6,221,355	142,952	253,050	28,243	106,767	4.07%	252,908
Manufacturing Industry	23,673,580	5,943,798	9,161,404	8,191,755	5,772,695	38.70%	6,607,183
Electric Energy	1,135,657	4,039	67,005	-	174	5.90%	67,005
Construction	6,474,022	1,100,973	1,083,592	959,452	1,013,704	16.74%	1,297,761
Wholesale and Retail	24,616,833	2,197,571	3,959,953	3,102,644	1,859,944	16.09%	4,048,004
Service Activities	14,773,783	1,511,831	1,438,756	1,411,506	1,155,730	9.74%	1,465,235
Real Estate Activities	1,582,823	681,398	1,345,149	960,907	679,338	84,98%	1,370,156
Other	22,756,041	5,490,010	5,955,907	3,613,454	5,305,587	26.17%	6,403,219
Total	193,015,753	19,637,006	27,059,234	19,236,969	18,004,948	14.02%	24,908,913
Due from banks	30,436,134	221,554	202,558	-	202,558	0.67%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, stage 3 in total loans

31.12.2017	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	91,781,660	2,402,217	3,794,419	1,011,772	1,810,194	4.13%	3,372,392
Housing Loans	41,091,347	690,655	1,735,814	485,979	594,165	4.22%	1,740,307
Cash Loans	26,567,400	479,074	350,588	45,244	262,960	1.32%	242,993
Agricultural Loans	7,434,885	163,133	206,502	19,626	100,167	2.78%	196,094
Other	6,176,365	458,564	395,984	-	376,724	6.41%	11,857
Micro Businesses	10,511,663	610,790	1,105,531	460,924	476,179	10.52%	1,181,140
Corporate	101,234,094	16,371,397	23,264,815	18,268,546	15,785,481	22.98%	21,511,491
Agriculture	6,221,355	161,647	253,050	28,243	113,994	4.07%	252,908
Manufacturing Industry	23,673,580	5,963,135	9,161,447	8,191,755	5,735,338	38.70%	6,607,183
Electric Energy	1,135,657	28,197	67,005	-	174	5.90%	67,005
Construction	6,474,022	1,016,800	1,083,331	959,938	1,007,179	16.73%	1,297,761
Wholesale and Retail	24,616,833	2,014,256	3,960,147	3,102,743	1,887,183	16.09%	4,048,023
Service Activities	14,773,783	1,222,929	1,438,775	1,411,506	1,089,580	9.74%	1,465,235
Real Estate Activities	1,582,823	693,244	1,345,149	960,907	691,123	84.98%	1,370,156
Other	22,756,041	5,271,189	5,955,911	3,613,454	5,260,909	26.17%	6,403,219
Total	193,015,753	18,773,614	27,059,234	19,280,319	17,595,675	14.02%	24,883,882
Due from banks	30,436,134	202,579	202,558	-	202,558	0.67%	407,543

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables

	Gross 31.12.2017	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross 31.12.2018	Net 31.12.2018
Housing Loans	1,744,523	249,026	(277,341)	20,210	(86,957)	1,649,460	883,314
Cash Loans	347,970	176,190	(217,706)	(52)	(23,490)	282,914	90,335
Agricultural Loans	206,500	135,833	(60,430)	(369)	(16,296)	265,238	125,143
Other Loans	420,532	97,047	(320,234)	(10)	(1,560)	195,775	19,795
Micro Businesses	1,071,727	137,681	(225,571)	(1,466)	(37,327)	945,043	493,411
Retail	3,791,253	795,776	(1,101,282)	18,314	(165,631)	3,338,430	1,611,998
Large corporate clients	16,958,508	637,060	(5,297,666)	(29,428)	(672,732)	11,595,741	3,694,089
Middle corporate clients	2,090,247	30,154	(76,529)	(4,362)	(49,433)	1,990,077	667,965
Small corporate clients	1,779,793	20,894	(96,302)	(2,445)	(106,898)	1,595,043	730,063
State owned clients	997,190	-	(1,055)	(1,913)	(490,372)	503,850	364,631
Other	1,437,561	-	-	(2,701)	(29,322)	1,405,537	412
Corporate Clients	23,263,299	688,108	(5,471,552)	(40,849)	(1,348,758)	17,090,248	5,457,159
Total	27,054,552	1,483,885	(6,572,834)	(22,535)	(1,514,388)	20,428,679	7,069,157
Due from banks	202,558	-	-	-	8,734	211,292	-

The decrease of problematic receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the Parent Bank.

Other changes relate to a partial increase/decrease in the amount of receivables within one lot during the year and mostly to the partial collection at parent Bank.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Non-problematic receivables

	31.12.2018				31.12.2017			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	42,123,365	175,013	42,298,378	42,030,683	39,084,856	270,676	39,355,533	39,001,059
Cash Loans	32,204,582	333,066	32,537,648	7,006,684	26,144,252	72,560	26,216,812	11,970,041
Agricultural Loans	8,475,549	29,893	8,505,441	6,667,316	7,200,380	28,002	7,228,382	6,065,831
Other Loans	5,557,274	38,671	5,595,945	280,321	5,756,521	23,860	5,780,381	156,647
Micro Businesses	10,798,757	577,924	11,376,681	11,081,615	8,799,696	606,436	9,406,132	9,523,078
Retail	99,159,526	1,154,567	100,314,093	67,066,619	86,985,706	1,001,535	87,987,240	66,716,656
Large corporate clients	33,479,142	5,472,256	38,951,398	33,648,145	37,281,395	1,214,182	38,495,577	36,547,962
Middle corporate clients	10,491,602	107,110	10,598,712	9,402,845	11,844,621	211,792	12,056,414	11,429,111
Small corporate clients	5,744,738	74,359	5,819,096	5,300,314	5,663,004	210,225	5,873,229	5,812,991
State owned clients	12,910,092	2,195,210	15,105,302	10,906,404	9,042,905	1,818,819	10,861,724	6,158,448
Other	14,001,791	1,139,615	15,141,406	9,354,027	5,580,295	5,102,041	10,682,335	4,513,126
Corporate Clients	76,627,365	8,988,550	85,615,914	68,611,735	69,412,221	8,557,058	77,969,279	64,461,639
Total	175,786,891	10,143,116	185,930,007	135,678,355	156,397,927	9,558,593	165,956,519	131,178,295
Due from banks	21,054,117	-	21,054,117	14,262	30,233,464	112	30,233,576	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

31.12.2018	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables – Stage 2	Impairment of restructured receivables – Stage 2	Resturctured receivables – Stage 3	Impairment of restructured receivables – Stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	103,652,523	2,196,524	2,062,902	410,451	287,479	10,716	994,393	390,900	1.99%	1,820,561
Housing Loans	43,947,838	824,902	1,028,436	206,236	244,146	7,577	484,505	198,529	2.34%	1,028,238
Cash Loans	32,820,561	333,293	437,955	24,854	18,782	731	41,846	20,354	1.33%	202,531
Agricultural Loans	8,770,680	206,111	17,857	5,531	1,448	-	16,409	5,531	0.20%	17,630
Other	5,791,720	215,341	4,748	304	429	19	4,320	285	0.08%	4,034
Micro Businesses	12,321,724	616,877	573,906	173,525	22,675	2,390	447,313	166,200	4.66%	568,129
Corporate Clients	102,706,163	12,713,520	13,629,841	8,986,728	417,606	50,089	12,635,835	8,929,910	13.27%	13,602,036
Agriculture	5,504,088	115,265	80,289	-	-	-	13,411	-	1.46%	80,289
Manufacturing Industry	15,786,292	2,449,957	3,830,527	2,311,289	-	-	3,830,527	2,311,289	24.26%	3,824,668
Electric Energy	1,064,602	3,105	-	-	-	-	-	-	0.00%	-
Construction	9,037,935	1,336,673	978,193	931,745	-	-	978,193	931,745	10.82%	978,193
Wholesale and Retail	26,627,325	1,086,664	2,254,045	670,629	104,299	15,253	1,849,888	648,648	8.47%	2,232,099
Service Activities	9,673,368	1,296,356	1,780,738	1,222,452	302,874	34,836	1,477,865	1,187,615	18.41%	1,780,738
Real Estate Activities	4.770.586	729,500	993,473	683,104	10,433	-	983,040	683,104	20,82%	993.473
Other	30,241,966	5,695,999	3,712,575	3,167,509	-	-	3,502,911	3,167,509	12.28%	3,712,575
Total	206,358,685	14,910,044	15,692,744	9,397,178	705,085	60,806	13,630,228	9,320,810	7.60%	15,422,597
Due from banks	21,265,409	227,871	-	-	-	-	-	-	0.00%	-

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

31.12.2017	Gross exposure	Impairment of gross exposure	Restructured receivables	Restructured non-performing receivables	Impairment of restructured receivables	Percentage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Retail	91,781,660	2,402,217	1,839,065	1,011,772	377,743	2.00%	1,569,799
Housing Loans	41,091,347	690,655	985,645	485,979	186,128	2.40%	983,744
Cash Loans	26,567,400	479,074	256,425	45,244	24,538	0.97%	55,818
Agricultural Loans	7,434,885	163,133	19,711	19,626	5,399	0.27%	18,746
Other	6,176,365	458,564	5,815	-	11	0.09%	6,793
Micro Businesses	10,511,663	610,790	571,469	460,924	161,666	5.44%	504,697
Corporate Clients	101,234,094	16,371,397	20,096,664	18,268,546	12,935,446	19.85%	19,483,092
Agriculture	6,221,355	161,647	149,589	28,243	16,594	2.40%	149,589
Manufacturing Industry	23,673,580	5,963,135	8,970,181	8,191,755	5,660,335	37.89%	8,591,732
Electric Energy	1,135,657	28,197	-	-	-	0.00%	-
Construction	6,474,022	1,016,800	988,884	959,938	911,027	15.27%	980,283
Wholesale and Retail	24,616,833	2,014,256	3,396,861	3,102,743	1,319,589	13.80%	3,170,340
Service Activities	14,773,783	1,222,929	1,734,740	1,411,506	1,107,568	11.74%	1,734,740
Real Estate Activities	1,582,823	693,244	960,907	960,907	673,604	60.71%	960,907
Other	22,756,041	5,271,189	3,895,502	3,613,454	3,246,730	17.12%	3,895,502
Total	193,015,753	18,773,614	21,935,730	19,280,319	13,313,189	11.36%	21,052,891
Due from banks	30,436,134	202,579	-	-	-	0.00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	Gross 31.12.2017	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	Gross 31.12.2018	Net 31.12.2018
Housing Loans	982,456	87,289	(17,214)	13,472	(37,567)	1,028,436	822,200
Cash Loans	255,665	210,035	(24,935)	(34)	(2,777)	437,955	413,100
Agricultural Loans	19,711	1,448	(716)	(45)	(2,542)	17,857	12,326
Other Loans	4,932	286	(184)	-	(286)	4,748	4,444
Micro Businesses	570,853	45,122	(34,774)	(860)	(6,435)	573,906	400,382
Retail	1,833,619	344,181	(77,823)	12,533	(49,607)	2,062,902	1,652,452
Large corporate clients	17,514,538	-	(5,479,533)	(28,635)	(675,267)	11,331,103	3,563,244
Middle corporate clients	1,344,790	106,007	(179,906)	(2,891)	(10,716)	1,257,285	512,858
Small corporate clients	950,937	51,043	(136,417)	(1,132)	(32,643)	831,789	357,347
State owned clients	1,055	-	(1,055)	(2)	2	-	-
Other	281,899	-	(72,234)	-	-	209,664	209,664
Corporate Clients	20,093,220	157,051	(5,869,145)	(32,661)	(718,623)	13,629,841	4,643,113
Total	21,926,838	501,231	(5,946,967)	(20,128)	(768,230)	15,692,743	6,295,565
Due from banks	-	-	-	-	-	-	-

The decrease of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the parent Bank. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

Members of the Group implement different restructuring measures depending on the needs of clients, respecting the Group's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Group members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period,
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of receivables is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Group (collateral or financial approval of favourable repayment terms),
- Partial write-offs - in the past period, the Group members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

The Group manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio.

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

31.12.2018.	Stages 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Retail	90,888,589	5,253,961	4,171,542	-	-	2,848,318	282,282	207,831	-	-
Housing Loans	38,051,990	2,397,779	1,848,609	-	-	1,521,937	105,355	22,168	-	-
Cash Loans	30,328,202	1,342,620	866,826	-	-	226,782	39,524	16,607	-	-
Agricultural Loans	8,449,046	5,661	50,734	-	-	263,341	252	1,645	-	-
Other	5,249,338	28,314	318,293	-	-	179,373	2,761	13,642	-	-
Micro Businesses	8,810,013	1,479,588	1,087,081	-	-	656,884	134,391	153,768	-	-
Corporate Clients	59,521,054	7,052,300	19,042,560	-	-	16,648,632	245,749	195,867	-	-
Agriculture	5,146,080	111,151	24,241	-	-	222,617	-	-	-	-
Manufacturing Industry	10,444,552	43,008	1,118,705	-	-	4,160,130	12,108	7,789	-	-
Electric Energy	72,008	-	965,296	-	-	27,298	-	-	-	-
Construction	6,188,277	202,276	908,889	-	-	1,592,833	145,661	-	-	-
Wholesale and Retail	21,801,978	1,484,572	1,189,607	-	-	1,875,109	87,981	188,078	-	-
Service Activities	5,785,984	1,092,256	1,300,226	-	-	1,494,901	-	-	-	-
Real Estate Activities	3.376.422	69,562	1,279	-	-	1,323,324	-	-	-	-
Other	6,705,753	4,049,474	13,534,318	-	-	5,952,421	-	-	-	-
Total	150,409,643	12,306,261	23,214,103	-	-	19,496,950	528,032	403,697	-	-
Due from banks	6,475,642	3,792	912,089	11,075,238	2,587,355	-	-	-	-	211,292

Depending on general economic trends and developments in individual industrial sectors, the Group members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

31.12.2017	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other	Serbia	Montenegro	Bosnia and Herzegovina	EU	Other
Retail	80,443,626	4,025,430	3,518,184	-	-	3,122,801	343,401	328,217	-	-
Housing Loans	35,946,088	1,816,173	1,593,272	-	-	1,532,194	167,780	35,840	-	-
Cash Loans	24,286,208	1,222,315	708,289	-	-	302,978	38,768	8,841	-	-
Agricultural Loans	7,153,549	6,728	68,106	-	-	205,882	64	556	-	-
Other	5,353,083	54,526	372,772	-	-	383,880	3,615	8,489	-	-
Micro Businesses	7,704,698	925,689	775,745	-	-	697,866	133,174	274,491	-	-
Corporate Clients	58,769,024	7,041,714	12,158,541	-	-	22,791,567	242,462	230,786	-	-
Agriculture	5,813,795	121,360	33,150	-	-	253,050	-	-	-	-
Manufacturing Industry	13,235,355	105,722	1,171,056	-	-	9,145,453	15,994	-	-	-
Electric Energy	82,030	3	986,619	-	-	67,005	-	-	-	-
Construction	4,747,909	210,783	431,998	-	-	934,013	149,319	-	-	-
Wholesale and Retail	18,359,633	1,044,963	1,252,091	-	-	3,652,235	77,126	230,786	-	-
Service Activities	11,743,285	881,824	709,899	-	-	1,438,755	19	-	-	-
Real Estate Activities	167,366	54,032	16,276	-	-	1,345,149	-	-	-	-
Other	4,619,651	4,623,026	7,557,453	-	-	5,955,907	4	-	-	-
Total	139,212,649	11,067,144	15,676,726	-	-	25,914,368	585,863	559,003	-	-
Due from banks	7,883,218	4,122	604,369	5,234,504	16,507,363	-	-	-	-	202,558

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

	31.12.2018		31.12.2017	
	Gross	Net	Gross	Net
Financial assets:	-	-	-	-
– at fair value through profit and loss	4,956,659	4,956,659	-	-
– at fair value through other comprehensive income	132,563,725	132,562,131	-	-
– at amortised cost	-	-	-	-
- at fair value through profit and loss held for trading	-	-	5,424,642	5,424,642
- available for sale	- -	-	116,097,941	116,097,938
- held to maturity	-	-	-	-
Total	137,520,384	137,518,790	121,522,583	121,522,580

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market, as well as securities of the Republic of Serbia, which are assessed according to the methodology of internally developed models (mark to model) , as well as swap transactions and bonds of the Republic of Serbia, which are held at fair value through the other comprehensive income, or on the basis of market prices for securities traded on the stock market (mark to market).

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska, the Republic of Montenegro, municipality bonds and bonds of other banks. Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

Loans and receivables from customers covered by collateral

31.12.2018	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,805,655	29,309	-	3,064,373	40,899,337	1,099,674	13,157	-	18,516	1,131,346
Cash Loans	594,117	570,097	-	5,650,432	6,814,647	66,690	15,445	-	109,902	192,038
Agricultural Loans	3,140,795	127,429	21,059	3,285,027	6,574,310	59,772	27	3,363	29,844	93,006
Other	123,135	4,576	-	92,355	220,066	59,388	647	-	220	60,255
Micro Businesses	2,861,209	674,733	81,707	7,049,261	10,666,910	200,345	76,362	3,022	134,976	414,705
Total Retail	44,524,911	1,406,144	102,767	19,141,448	65,175,270	1,485,870	105,637	6,384	293,459	1,891,349
Large Corporate Clients	21,629,141	393,087	101,803	9,477,508	31,601,539	554,800	-	-	1,491,806	2,046,606
Middle Corporate Clients	3,323,924	280,297	-	5,474,932	9,079,153	180,036	-	21,718	121,939	323,692
Small Corporate Clients	2,028,365	210,265	21,377	2,732,970	4,992,976	200,390	54,796	-	52,151	307,338
State	614,943	1,182	2,426,895	7,731,818	10,774,837	-	-	-	131,567	131,567
Other	84,330	-	129,717	9,139,981	9,354,027	-	-	-	-	-
Corporate Clients	27,680,702	884,832	2,679,792	34,557,208	65,802,533	935,226	54,796	21,718	1,797,463	2,809,202
Total	72,205,613	2,290,976	2,782,559	53,698,656	130,977,803	2,421,095	160,433	28,102	2,090,922	4,700,552
Of which: restructured	647,930	-	129,717	360,058	1,137,705	329,321	-	-	347,427	676,747
Due from banks	-	14,262	-	-	14,262	-	-	-	-	-

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

31.12.2018.	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	1,559,454	-	-	75,408	1,634,862
Cash Loans	22,856	1,887	-	121,530	146,273
Agricultural Loans	173,236	-	192	65,721	239,149
Other	8,119	-	-	2,817	10,936
Micro Businesses	795,477	5,157	2,855	186,645	990,134
Total Retail	2,559,141	7,044	3,047	452,121	3,021,353
Large Corporate Clients	9,904,778	-	-	1,686,932	11,591,710
Middle Corporate Clients	1,572,673	-	4,100	321,250	1,898,022
Small Corporate Clients	1,485,758	-	-	116,175	1,601,933
State	7,306	-	297,254	27,298	331,859
Other	-	-	-	-	-
Corporate Clients	12,970,515	-	301,354	2,151,655	15,423,523
Total	15,529,656	7,044	304,401	2,603,776	18,444,876
Of which: restructured	12,026,732	-	-	1,581,413	13,608,145
Due from banks	-	-	-	-	-

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

31.12.2017	Non-problematic receivables					Problematic receivables				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,584,525	26,826	-	1,389,709	39,001,059	1,638,134	3,069	-	99,104	1,740,307
Cash Loans	459,863	458,565	-	11,051,613	11,970,041	19,763	7,157	-	216,073	242,993
Agricultural Loans	3,060,954	29,580	31,127	2,944,170	6,065,831	145,561	-	12	50,521	196,094
Other	32,706	6,202	-	117,740	156,647	8,968	4	-	2,884	11,857
Micro Businesses	2,124,368	556,769	-	6,841,941	9,523,078	690,071	9,368	-	481,701	1,181,140
Total Retail	43,262,416	1,077,941	31,127	22,345,172	66,716,656	2,502,498	19,599	12	850,283	3,372,392
Large Corporate Clients	16,904,885	321,177	6,161,689	13,160,211	36,547,962	14,634,237	-	-	2,301,515	16,935,752
Middle Corporate Clients	5,117,639	450,957	-	5,860,515	11,429,111	1,808,248	-	-	235,632	2,043,880
Small Corporate Clients	1,919,093	346,296	9,538	3,538,064	5,812,991	1,608,457	14	-	172,103	1,780,574
State	397,383	2,261	709,940	5,048,865	6,158,448	9,160	0	669,596	72,511	751,267
Other	139,047	-	148,486	4,225,593	4,513,126	-	18	-	-	18
Corporate Clients	24,478,048	1,120,690	7,029,652	31,833,248	64,461,639	18,060,101	32	669,596	2,781,761	21,511,491
Total	67,740,464	2,198,631	7,060,779	54,178,421	131,178,295	20,562,599	19,631	669,608	3,632,044	24,883,882
Of which: restructured	1,212,404	24,096	207,719	569,879	2,014,098	17,009,448	-	-	2,029,345	19,038,793
Due from banks	-	114,998	-	305,960	420,958	-	-	-	-	-

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan to Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	December 31, 2018	December 31, 2017
Less than 50%	29,756,845	28,945,003
50% - 70%	19,940,392	16,739,193
71% - 100%	26,117,784	22,114,046
101% - 150%	9,039,303	9,278,934
More than 150%	10,445,887	17,866,577
Total exposure	95,300,211	94,943,753
Average LTV	68,61%	67,89%

4.1.8. Foreclosed assets

Foreclosed assets by Group members are presented in the following review:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2017	577,171	2,462,522	112,900	260,281	3,412,873
Acquisition	-	88,993	4,702	-	93,695
Sale	-	(88,993)	(4,702)	-	(93,695)
Transfer to investment property	-	-	-	-	-
Transfer to assets held for sale	(151,359)	-	-	-	-
Transfer to fixed assets	-	(30,480)	-	-	(30,480)
Other	(1,179)	(1,204)	(65)	(229)	(2,676)
31.12.2018	575,992	2,430,838	112,835	260,052	3,379,717
Impairment Allowances	224,631	1,147,791	89,295	136,819	1,598,537
Net	351,361	1,283,047	23,540	123,233	1,781,180

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Group's financial result and capital due to the Group's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Group respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Group members, whose decisions may influence the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

• diversifies sources of funds, by currency and maturity;
• form and maintain sufficient level of liquidity reserves;
• manages funds;
• monitor future cash flows and liquidity on a daily basis;
• limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
• defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

• GAP analysis;
• Rational analysis;
• Stress test.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Mitigation involves maintaining the liquidity risk at an acceptable level for the Group's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Group's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month. Starting from 30.06.2017. The Group has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2018	2017	2018	2017	2018	2017
As at December 31	3.86	4.13	3.56	3.92	414%	415%
Average for the period	4.05	4.71	3.82	4.38	401%	-
Maximum for the period	4.23	5.29	4.07	4.83	414%	-
Minimum for the period	3.86	4.13	3.56	3.92	387%	-

During 2018, the liquidity indicator, the narrow liquidity indicator and the liquidity coverage ratio ranged above the defined limits.

The Group defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2018	2017
GAP up to 1 month / Total assets	Max (10%)	1.99%	1.43%
Cumulative GAP up to 3 months / Total assets	Max (20%)	1.81%	4.66%

In addition, the Group limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	73,992,039	-	-	-	-	73,992,039
Loans and receivables due from other banks and other financial institutions	17,381,560	2,290,401	240,630	1,124,946	-	21,037,537
Loans and receivables due from customers	9,542,916	9,388,245	42,203,745	81,450,663	48,863,073	191,448,642
Financial assets (securities)	11,210,413	10,552,128	17,775,934	90,150,487	7,829,828	137,518,790
Other assets	1,877,006	563,471	1,399,901	-	-	3,840,378
Total	114,003,934	22,794,245	61,620,210	172,726,096	56,692,901	427,837,386
Deposits and other liabilities due to banks, other financial institutions and central bank	3,386,160	1,846,942	491,821	2,503,361	-	8,228,284
Deposits and other liabilities due to customers	252,122,048	12,808,624	54,048,285	29,181,484	2,507,715	350,668,156
Other liabilities	2,414,912	175,398	6,173,267	19,445	-	8,783,022
Total	257,923,120	14,830,964	60,713,373	31,704,290	2,507,715	367,679,462
Net liquidity gap As of December 31, 2018	(143,919,186)	7,963,281	906,837	141,021,806	54,185,186	60,157,924

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2017

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	56,076,748	-	-	-	-	56,076,748
Loans and receivables due from other banks and other financial institutions	25,200,198	3,844,150	136,513	1,052,694	-	30,233,555
Loans and receivables due from customers	10,870,090	9,074,983	36,092,091	74,507,110	43,697,865	174,242,139
Financial assets (securities)	4,818,794	14,000,125	19,972,101	82,037,900	693,660	121,522,580
Other assets	2,064,500	1,370,393	146,640	215,961	493,178	4,290,672
Total	99,030,330	28,289,651	56,347,345	157,813,665	44,884,703	386,365,694
Deposits and other liabilities due to banks, other financial institutions and central bank	2,648,799	1,113,674	915,645	1,459,658	-	6,137,776
Deposits and other liabilities due to customers	222,453,947	13,741,808	52,687,717	26,464,168	2,230,108	317,577,748
Other liabilities	5,248,237	91,973	1,636,303	38,286	-	7,014,799
Total	230,350,983	14,947,455	55,239,665	27,962,112	2,230,108	330,730,323
Net liquidity gap As of December 31, 2017	(131,320,653)	13,342,196	1,107,680	129,851,553	42,654,595	55,635,371

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and avista deposits will be withdrawn within one month.

The Group collects deposits of corporate and retail sector, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Group's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Group manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves. The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis. The Group regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash Flows of monetary assets and monetary liabilities as at 31 December 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	73,992,038	-	-	--		73,992,038
Loans and receivables due from other banks and other financial institutions	17,388,011	2,302,500	254,799	1,137,335		21,082,645
Loans and receivables from clients	10,362,533	10,890,948	48,069,453	98,486,884	63,385,690	231,195,508
Financial assets (securities)	11,210,413	10,564,322	17,804,171	90,307,063	7,829,828	137,715,797
Other assets	1,877,009	563,471	1,399,900	-	-	3,840,380
Total	114,830,004	24,321,241	67,528,323	189,931,282	71,215,518	467,826,368
Deposits and other liabilities due to banks, other financial institutions and central bank	3,396,667	1,870,016	523,577	2,552,011	-	8,342,271
Deposits and other liabilities due to customers	252,316,922	12,885,014	54,556,906	30,491,471	2,969,792	353,220,105
Other liabilities	2,447,731	175,398	6,173,268	19,445	-	8,815,842
Total	258,161,320	14,930,428	61,253,751	33,062,927	2,969,792	370,378,218
Net liquidity gap						
As of December 31, 2018	(143,331,316)	9,390,813	6,274,572	156,868,355	68,245,726	97,448,150

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2017

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	56,076,748	-	-	-	-	56,076,748
Loans and receivables due from other banks and other financial institutions	25,209,287	3,847,610	151,359	1,058,968	-	30,267,224
Loans and receivables from clients	11,635,049	10,508,677	41,814,152	90,500,227	57,585,533	212,043,638
Financial assets (securities)	4,680,261	14,026,774	20,038,891	82,519,852	718,340	121,984,118
Other assets	2,533,852	1,370,393	146,639	215,960	493,178	4,760,022
Total	100,135,197	29,753,454	62,151,041	174,295,007	58,797,051	425,131,750
Deposits and other liabilities due to banks, other financial institutions and central bank	2,652,413	1,143,859	959,611	1,557,409	-	6,313,292
Deposits and other liabilities due to customers	222,550,508	13,880,143	53,290,370	27,404,904	2,662,841	319,788,766
Other liabilities	5,274,736	91,973	1,636,303	38,286	-	7,041,298
Total	230,477,657	15,115,975	55,886,284	29,000,599	2,662,841	333,143,356
Net liquidity gap						
As of December 31, 2017	(130,342,460)	14,637,479	6,264,757	145,294,408	56,134,210	91,988,394

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates. In the case of transaction and avista deposits that are in accordance with a conservative approach, allocated to a maturity of up to one month, undiscounted cash flows include only flows based on the debt principal.

Market risks

Market risk is the possibility of adverse effects on the Group's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Group is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Group members whose decisions may influence the Group's exposure to this risk.

4.3. Interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Group manages the following types of interest rate risk:

• Risk of time mismatch of repayment and repricing risk;
• Yield curve risk - to whom it is exposed due to change in yield curve shape;
• Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
• Optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Group manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Group particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of capital;
- Stress test.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile and implies the process of defining the Group's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Group's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Group's members on interest rate risk management.

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	2018	2017
Relative GAP	Max 15%	1.48%	2.04%
Coefficient of Disparity	0.75 – 1.25	1.02	1.02

During 2018, interest rate risk indicators moved within internally defined limits.

Compliance with internally defined limits of economic value of capital:

	2018	2017
On December 31st	4.48%	4.46%
Average for period	5.36%	4.93%
Maximum for period	6.24%	5.39%
Minimum for period	4.48%	4.46%
Limit	20%	20%

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:
Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2018

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	28,710,086	-	-	-	-	28,710,086	45,281,953	73,992,039
Loans and receivables from banks and other financial organisations	16,369,533	2,278,351	32,357	247,637	-	18,927,878	2,109,659	21,037,537
Loans and receivables from clients	51,821,705	17,835,405	53,083,130	60,706,216	7,516,746	190,963,202	485,440	191,448,642
Financial assets (securities)	11,208,649	10,552,011	17,313,063	90,148,094	7,829,710	137,051,527	467,263	137,518,790
Other assets	-	-	-	-	-	-	3,840,378	3,840,378
Total	108,109,973	30,665,767	70,428,550	151,101,947	15,346,456	375,652,693	52,184,693	427,837,386
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,388,392	1,845,725	693,519	2,300,743	-	8,228,379	(95)	8,228,284
Deposits and other financial liabilities to clients	253,469,172	13,642,671	52,730,960	27,578,599	2,229,472	349,650,874	1,017,282	350,668,156
Other liabilities	-	-	-	-	-	-	8,783,022	8,783,022
Total	256,857,564	15,488,396	53,424,479	29,879,342	2,229,472	357,879,253	9,800,209	367,679,462
Interest rate GAP -At December 31, 2018	(148,747,591)	15,177,371	17,004,071	121,222,605	13,116,984	17,773,440	42,384,484	60,157,924

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2017

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 - 12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	16,820,938	-	-	-	-	16,820,938	39,255,810	56,076,748
Loans and receivables from banks and other financial organisations	24,344,964	3,838,711	112,967	85,384	-	28,382,026	1,851,529	30,233,555
Loans and receivables from clients	51,036,588	13,982,811	41,227,020	54,787,837	12,715,701	173,749,957	492,182	174,242,139
Financial assets (securities)	4,680,160	14,000,125	19,972,102	82,037,900	693,660	121,383,947	138,633	121,522,580
Other assets	-	-	-	-	-	-	4,290,672	4,290,672
Total	96,882,650	31,821,647	61,312,089	136,911,121	13,409,361	340,336,868	46,028,826	386,365,694
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,657,555	2,654,829	196,475	626,327	22,396	6,157,582	-19,806	6,137,776
Deposits and other financial liabilities to clients	224,541,827	16,025,194	50,859,171	23,763,258	1,329,434	316,518,884	1,058,864	317,577,748
Other liabilities	-	-	-	-	-	-	7,014,799	7,014,799
Total	227,199,382	18,680,023	51,055,646	24,389,585	1,351,830	322,676,466	8,053,857	330,730,323
Interest rate GAP At December 31, 2017	(130.316.732)	13.141.624	10.256.443	112.521.536	12.057.531	17.660.402	37.974.969	55.635.371

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Group members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Group.

The Group assesses the impact that standardized interest rate shocks (parallel positive and negative interest rates on the reference yield curve of 200 basis points) could have for each significant currency individually and for all other currencies together.

In modelling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Group on the basis of historical developments and expert assessments, is specifically considered, the Group has carried out an estimate of the movement of transaction deposits, demand deposits and retail savings by applying relevant statistical models from domain analysis of time series.

Report on GAP Interest Rate Risk of the Monetary Sub-balance on December 31, 2018 (continued)

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Group's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2018		
At 31 December	442,304	(442,304)
2017		
At 31 December	346,780	(346,780)

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk

The Group is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. All positions contained in the banking book and trading book in foreign currency and gold, as well as dinar (RSD) positions indexed by currency clause are exposed to foreign exchange risk.

In order to minimize exposure to foreign exchange risk, the Group performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Group comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and foreign exchange risk indicator;
- VaR;
- Stress test;
- Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at 31 December:

	2018	2017
Total risk foreign exchange position	6,997,500	7,308,623
Foreign exchange risk indicator	12.25%	14.29%
Regulatory limit	20%	20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2018

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	36,151,062	273,785	710,028	7,127,817	44,262,692	-	-	-	29,729,347	73,992,039
Loans and receivables from banks and other financial organisations	9,084,054	2,381,279	3,071,605	2,691,227	17,228,165	-	-	-	3,809,372	21,037,537
Loans and receivables from clients	36,995,011	-	-	2,205,124	39,200,135	101,017,998	-	3,651,403	47,579,106	191,448,642
Financial assets (securities)	70,581,056	11,273,911	1,702,199	-	83,557,166	249,591	-	-	53,712,033	137,518,790
Other assets	1,178,684	95,892	63,825	22,348	1,360,749	-	-	-	2,479,629	3,840,378
Total	153,989,867	14,024,867	5,547,657	12,046,516	185,608,907	101,267,589	-	3,651,403	137,309,487	427,837,386
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,563,400	379,330	246,907	3,945,523	6,135,160	19,073	-	-	2,074,051	8,228,284
Deposits and other financial liabilities to clients	246,275,960	12,908,254	8,756,910	6,862,782	274,803,906	468,239	19,705	-	75,376,306	350,668,156
Other liabilities	812,752	122,798	108,507	183,930	1,227,987	-	-	-	7,555,035	8,783,022
Total	248,652,112	13,410,382	9,112,324	10,992,235	282,167,053	487,312	19,705	-	85,005,392	367,679,462
Net Currency Position, 31 December 2018	(94,662,245)	614,485	(3,564,667)	1,054,281	(96,558,146)	100,780,277	(19,705)	3,651,403	52,304,095	60,157,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2017

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,980,237	194,101	532,982	4,276,526	37,983,846	-	-	-	18,092,902	56,076,748
Loans and receivables from banks and other financial organisations	6,417,542	3,332,450	2,695,986	2,271,811	14,717,788	227,865	-	-	15,287,901	30,233,555
Loans and receivables from clients	18,945,728	-	-	2,838,679	21,784,407	105,852,986	-	4,011,996	42,592,750	174,242,139
Financial assets (securities)	72,837,246	9,474,357	1,782,330	164,417	84,258,350	1,947,199	-	-	35,317,031	121,522,580
Other assets	1,676,506	262,767	887	153,019	2,093,179	-	-	-	2,197,493	4,290,672
Total	132,857,259	13,263,675	5,012,185	9,704,452	160,837,571	108,028,051	-	4,011,996	113,488,077	386,365,695
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,887,061	34,162	20,137	209,334	3,150,694	2,388,808	-	-	598,274	6,137,776
Deposits and other financial liabilities to clients	224,706,977	11,783,751	8,757,887	6,447,725	251,696,340	6,666,426	18,890	-	59,196,092	317,577,748
Other liabilities	1,394,516	1,027,312	84,513	100,363	2,606,704	8,921	-	-	4,399,174	7,014,799
Total	228,988,554	12,845,225	8,862,537	6,757,422	257,453,738	9,064,155	18,890	-	64,193,540	330,730,323
Net Currency Position, 31 December 2017	(96,131,295)	418,450	(3,850,352)	2,947,030	(96,616,167)	98,963,896	(18,890)	4,011,996	49,294,537	55,635,372

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

The Group also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Group's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Group calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2018 and 2017 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2018				
Foreign currency risk	19,264	15,478	39,766	1,972
2017				
Foreign currency risk	28,582	30,447	55,893	17,137

4.6. Operational risk

The Group members monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank Group member, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank of the Group member in charge of risk management monitors and reports on operational risks.

The Group performs measurement and / or assessment of operational risk through a quantitative and / or qualitative assessment of the identified operational risk. The Group members conduct measurement of operational risk exposure through event logging, self-evaluation and stress testing of operational risk. Self-assessment involves assessing risk exposure by organizational units in accordance with the map of identified operational risks by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures. The stress test is an operational risk management technique, which assesses the potential impact of specific events and / or changes in several risk factors for exposure to operational risk.

The Group can’t eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk, the Group takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

Through reliable reporting on the implementation of measures to mitigate operational risks, the Group has established a monitoring system for activities undertaken by the Group members in order to reduce operational risks and preventive responses to emerging operational events. The Group assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Group's processes and processes, as well as limitation of losses in emergencies, the Banking Group members adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The member banks of the Group have adopted the Disaster Recovery Plan.

4.7. Risks of investment

The risk of the Group's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Group's investment in a person who is not a person in the financial sector may be up to 10% of the Group's capital, whereby this investment implies an investment by which members of the Group acquire a holding or shares of a person other than a person in the financial sector. The Group's total investments in non-entities in the financial sector and in fixed assets and investment property of the Group may be up to 60% of the Group's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.8. Risk of exposure

The Group's large exposure to a single entity or a group of related parties, including entities related to the Group, is an exposure that exceeds 10% of the Group's capital.

In its business, the Group takes care of compliance with the regulatory defined exposure limits:

• Exposure to a single client or a group of related parties must not exceed 25% of the Group's capital;
• The sum of all large Group exposures must not exceed 400% of the Group's capital.

Defined limits of exposure to one client or a group of related parties also applies to clients related to the Group.

The Group's exposure to one entity or group of related parties, as well as the exposure to clients related to the Group, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.9. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Group is exposed, or the risk of the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

• Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

• Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Group manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Group's capital, depending on the country's internal rating category. The Group performs measurement and control of the exposure of the country risk portfolio based on the grouping of receivables according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Group defines the exposure limits individually by country of origin of the debtor.

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of RSD

	31.12.2018					31.12.2017	
	Carrying value	Fair value	Level 1	Level 2	Level 3	Carrying value	Fair value
Financial Assets							
Loans and receivables from clients	191,448,642	187,064,015	7,496,770	928,892	178,683,791	174,242,139	172,486,614
Financial assets held to maturity						-	-
Financial Liabilities							
Deposits and other financial liabilities to clients	350,668,156	350,658,898			350,658,898	317,577,748	317,597,843

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to clients, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.

For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Group would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Group.

The fair value of investment securities held to maturity is estimated using market prices or by using discounted cash flow models based on current market interest rates offered for instruments of a similar product. Held-to-maturity investments are matured and book values are equal to their fair value.

4. RISK MANAGEMENT (continued)

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

Financial instruments measured at fair value

In thousands of RSD

	31.12.2018				31.12.2017			
Financial assets	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit and loss in RSD	597,571	1,197,682	-	1,795,253	-	-	-	-
Financial assets at fair value through profit and loss in foreign currency	323,293	2,838,113	-	3,161,406	-	-	-	-
Financial assets at fair value through other comprehensive income in RSD	-	51,916,780	-	51,916,780	-	-	-	-
Financial assets at fair value through other comprehensive income in foreign currency	13,656,359	66,739,402	249,590	80,645,351	-	-	-	-
Financial assets at fair value through profit and	-	-	-	-	572,576	4,852,066	-	5,424,642
Securities available for sale (in RSD)	-	-	-	-	1,888,350	33,137,523	-	35,025,872
Securities available for sale (in foreign currency)	-	-	-	-	2,190,531	78,548,757	332,778	81,072,066
Total	14,577,223	122,691,977	249,590	137,518,790	4,651,457	116,538,346	332,778	121,522,580

Level 1 comprises financial instruments with whom it can be traded on the stock exchange, while level 2 contains securities which fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (auctions).

The fair value of assets for which no direct trading information is available is assigned to level 3.

4. RISK MANAGEMENT (continued)

4.11. Capital management

The Group has established a risk management system in accordance with the scope and structure of its business activities, and the objective of capital management is the smooth realization of the Group's business objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main goals of managing the capital are:
• Preservation of the minimum regulatory requirement (EUR 10 million);
• Maintenance of individual capital buffers;
• Respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
• Maintaining confidence in security and business stability;
• Realization of business and financial plans;
• supporting the expected growth in placements;
• Enabling the optimism of future sources of funds and their use;
• achieving dividend policy.

The regulatory capital of the Group is the sum of the Tier 1 capital (consisting of the Common Equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratios represent the ratio of capital of the Group (total, Tier 1 or Common Equity Tier 1) and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks, operational risk, risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries of the banking Group shall be determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risk is calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

Capital adequacy ratios

In thousands of RSD

	31.12.2018	31.12.2017
Tier 1 capital	60,605,577	57,278,280
Common Equity Tier 1 capital	60,232,067	56,904,770
Additional Tier 1 capital	373,510	373,510
Tier 2 capital	-	-
Deductible items of capital	(3,469,604)	(6,119,492)
Capital	57,135,973	51,158,788
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	190,017,311	168,012,566
Risk exposure amount for operational risk	33,733,114	33,979,411
Risk exposure amount for market risks	2,833,830	6,349,897
Capital adequacy ratio (min. 14.02%)	25.22%	24.56%
Tier 1 capital adequacy ratio (min. 12.02%)	25.22%	24.56%
Common Equity Tier 1 capital adequacy ratio (min. 10.52%)	25.05%	24.38%

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

During 2018, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively) .

By the Capital Management Strategy and Plan, the Group ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2018, the Group calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

• Strategic goals and the period for their realization;
• A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
• Procedures for planning an adequate level of available internal capital;
• The way to reach and maintain an adequate level of available internal capital;
• Restrictions on available internal capital;
• Demonstrating and explaining the effects of stress testing on internal capital requirements;
• Allocation of capital;
• Business plan in case of occurrence of unforeseen events.

On a continuous basis, the Group conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

• is based on identification and risk measurement;
• provides a comprehensive assessment and monitoring of the risks to which the banking Group is exposed or may be exposed;
• Provides adequate available internal capital in accordance with the risk profile of the banking Group;
• is involved in the banking Group management system and decision making;
• Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the banking group level include:

• Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
• Calculation of the amount of internal capital requirements;
• Calculation of stressed internal capital requirement for individual risks;
• Determining the total internal capital requirement;
• Comparison of the following elements:
    1) capital and available internal capital;
    2) minimum capital requirements and internal capital requirements for individual risks;
    3) the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of the placement aims ensure a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

5. USE OF ASSESSMENT (continued)

The Group assesses the impairment of receivables on a group and on an individual basis.

Individual assessment

The Group assesses the impairment allowance for each individually significant placement with the default status (risky placement, sub-category risk 4D, 4DD and 5 according to the internal rating system), ie placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfilment of client's obligations towards the Bank, a new assessment of the impairment of placements is made.

The materiality threshold is determined by the Group on the basis of an analysis of the value structure of the portfolio by types of customers and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information to which the Group has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

5. USE OF ASSESSMENT (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Group also determines the probable loss for unused commitments, for which there is not unconditional and without prior notice, possible cancelation the contracted obligation. When calculating provisions based on unused commitments, the Group uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Group performs valuation of financial instruments by:

- Fair value through profit and loss

- Fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through profit and loss are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

5. USE OF ASSESSMENT (continued)

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition. With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity. The amounts shown in the other comprehensive income cannot be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensive income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.

The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.

If the Group settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

5. USE OF ASSESSMENT (continued)

The concept of fair value

When measuring fair values, the Group identifies methods/techniques that need to maximize the use of observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:
- market approach
- income approach
- cost approach

The Group determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Group performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

In the event that the market for financial instruments is not active, fair value is determined using methodology assessment. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyses, and other alternative methods. The selected assessment methodology maximizes the use of market data, is based on the least possible extent on the Group-specific estimates, and includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Group considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments, based on Politics and Strategy risk management.

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

The parent bank monitors and discloses business segments through two model reports:

- Reporting by strategic segments - members of the Group (note 6.1.) and
- Reporting by operational segments - business lines (note 6.2.).

Information about the results of each reporting segment is shown below.

The Group has four members representing strategic organizational parts:

Komercijalna banka a.d Belgrade, Serbia, Parent bank	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Podgorica, Montenegro	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
KomBank INVEST Investment fund management company a.d Belgrade, Serbia	It includes investment fund management activities

The parent bank monitors and discloses operations in strategic segments - the Group's members within its consolidated financial statements. The Group carries out most of its business on the territory of the Republic of Serbia. Dependent legal entities are not material to the individual financial report of the parent bank.

The balance sheet sum of the parent bank amounts to 90.23% of the total balance sheet sum of the consolidated balance sheet (2017: 92.9%).

The balance sheet sum of Komercijalna banka ad Podgorica, amounts to 3.48% of total consolidated assets (2017: 3.05%), Komercijalna banka ad, Banja Luka 6.26% (2017: 4.04%) and KomBank INVEST 0.03 % (2017: 0.01%).

The result of the strategic segment is used to measure business performance, since the management of the parent bank believes that this information is most relevant for evaluating the results of a particular strategic segment in comparison with other legal entities operating in the listed activities in the local market.

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation

For the purposes of consolidation, and prior to the consolidation procedure, the reclassification of positions in the individual financial statements of the members of the Group that are subject to the correction of the balance sheet and the results in the profit and loss account set out in the statutory statements is carried out, as appropriate.

Corrected financial statements represent initial balance sheet items that are subject to the consolidation.

As at December 31, 2018 the following reclassifications are made in the balance sheet and profit and loss accounts of the Group members, except for the member of KomBank INVEST, which did not have the effect of reclassification:

Balance sheet

In thousand of RSD

Balance sheet sum of Parent Bank	401,165,980
Correction for impairment allowance related to equity instrument in the subsidiary banks	2,869,029
Correction for impairment allowance that relate to placements to subsidiary banks	1,322
Corrected balance sheet sum of Parent Bank	404,036,331
Statutory balance sheet sum of KB Banja Luka	27,859,851
Deduction for the accrued income for receivables measured at amortised cost at EIR	446
Deduction for the accrued expenses for liabilities measured at amortised cost at EIR	(54,415)
Corrections for the impairment allowance that relate to the Parent Bank	(1,712)
Corrected balance sheet sum of KB Banja Luka	27,804,170

Statutory balance sheet sum of KB Podgorica	16,809,534
Deduction for the accrued expenses for liabilities measured at amortised cost at EIR	3,434
Corrections for the impairment allowance that relate to the Parent Bank	(18,540)
Corrected balance sheet sum of KB Podgorica	16,794,428

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation (continued)

Income statement

In thousand of RSD

Result of Parent Bank	8,145,182
Corrections for the effect of net change in impairment allowance of placements that are related to subsidiary banks (negative effect)	(4,937)
Corrections for the effect of net change in provisions for losses on off-balance sheet assets (positive effect)	7,262
Corrected result of Parent Bank	8,147,507

Statutory result of KB Banja Luka	122,702
Corrections for the effect of net change in impairment allowance of placements that are related to Parent bank (negative effect)	(121)
Exchange rate differences on tax on local tax and deferred taxes - effect recognized in equity (positive effect)	12
Corrected result of KB Banja Luka	122,593

Statutory result of KB Podgorica	111,092
Corrections for the effect of net change in impairment allowance of placements that are related to Parent bank (positive effect)	3,436
Exchange rate differences on tax on local tax and deferred taxes - effect recognized in equity (positive effect)	6
Corrected result of KB Podgorica	114,534

During the consolidation, the elimination of all mutual relations from the balance sheet was carried out in the amount of RSD 7,209,128 thousand (2017: RSD 7,226,876 thousand). From income statement total income in the amount of RSD 28,802 thousand (2017: RSD 68,429 thousand) and expenditures in the amount of RSD 23,059 thousand (2017: RSD 43,414 thousand).

Standalone reclassified balance sheets as at December 31, 2018:

In thousands of RSD

KB Beograd	404,036,331
KB Podgorica	16,794,428
KB Banja Luka	27,804,170
KomBank Invest	161,158
Summed reclassified unconsolidated balance sheets	448,796,087

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation (continued)

Standalone reclassified income statements (before tax) from January 1st to December 31st, 2018:

In thousands of RSD

KB Beograd	8,123,398
KB Podgorica	122,034
KB Banja Luka	139,853
KomBank INVEST	1,624
Summed reclassified unconsolidated balance sheets	8,386,909

6.1.b. Overview of intercompany transactions

Balance sheet 2018

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
448,796,087	7,209,128	441,586,959
Cash / Payables	8,848	
Placements / Liabilities	1,719,392	
Deposits / Capital	5,480,888	

Income Statement 2018

In thousands of RSD

Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	income	expense	
8,386,909	28,802	23,059	8,381,166
Interest	3,449	3,449	
Fees	8,671	8,671	
Other income/expenses	618	618	
Exchange rate differences (reclassified to equity)	16,064	10,321	

Balance sheet 2017

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
407,335,192	7,226,876	400,108,316
Cash / Payables	1,192	
Placements / Liabilities	1,744,796	
Deposits / Capital	5,480,888	

Income Statement 2017

In thousands of RSD

Collective unconsolidated profit in the Income statement (before taxes)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	income	expense	
7,341,399	68,429	43,414	7,316,383
Interest	4,061	4,061	
Fees	9,469	9,469	
Exchange rate differences (reclassified to equity)	54,899	29,884	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group

A. BALANCE SHEET - CONSOLIDATED on December 31, 2018

Below is an overview of the activities of strategic segments from the consolidated balance sheet and the consolidated income statement:

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	63,595,710	2,466,997	7,929,332	-	73,992,039
Receivables under derivatives	4,070	-	-	-	4,070
Securities	133,177,598	1,967,042	2,227,301	142,779	137,514,720
Loans and receivables from banks and other financial organisations	18,371,519	1,143,293	1,506,349	16,376	21,037,537
Loans and receivables from clients	167,545,674	8,597,573	15,305,395	-	191,448,642
Intangible assets	557,051	25,194	45,223	-	627,468
Property, plant and equipment	5,619,078	306,695	121,592	19	6,047,384
Investment property	1,896,347	94,956	268,512	-	2,259,815
Current tax assets	-	-	1,650	-	1,650
Deferred tax assets	840,967	-	-	-	840,967
Fixed assets held for sale and assets from discontinued operations	227,630	255,595	175,778	-	659,003
Other assets	6,612,032	496,610	43,046	1,976	7,153,664
TOTAL ASSETS	398,447,676	15,353,955	27,624,178	161,150	441,586,959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2018 (continued)

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
LIABILITIES AND EQUITY					
Deposits and other liabilities due to banks, other financial institutions and the Central bank	4,042,274	237,889	3,948,121	-	8,228,284
Deposits and other financial liabilities to clients	317,229,084	13,840,132	19,598,940	-	350,668,156
Provisions	1,646,400	130,585	22,732	9,136	1,808,853
Current tax liabilities	-	119	10,782	143	11,044
Deferred tax liabilities	-	9,841	4,836	-	14,677
Other liabilities	9,059,972	95,359	177,810	753	9,333,894
Total liabilities	331,977,730	14,313,925	23,763,221	10,032	370,064,908
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	8,300,982	(734,409)	218,749	10,732	7,796,054
Reserves	22,979,387	618,124	93,638	232	23,691,381
Non-controlling participation	-	-	66	-	66
Total equity	71,314,919	(116,285)	312,453	10,964	71,522,051
Total liabilities and equity	403,292,649	14,197,640	24,075,674	20,996	441,586,959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2017:

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	49,840,887	2,366,019	3,869,842	-	56,076,748
Securities	117,288,767	2,300,043	1,778,837	154,933	121,522,580
Loans and receivables from banks and other financial organisations	29,047,033	778,990	407,532	-	30,233,555
Loans and receivables from clients	153,897,367	7,104,793	13,239,979	-	174,242,139
Intangible assets	460,263	10,308	27,816	-	498,387
Property, plant and equipment	5,655,248	305,336	56,586	30	6,017,200
Investment property	1,988,608	112,256	279,700	-	2,380,564
Current tax assets	-	-	5,622	-	5,622
Deferred tax assets	857,096	6,431	-	-	863,527
Fixed assets held for sale and assets from discontinued operations	241,148	310,676	235,794	-	787,618
Other assets	6,798,285	506,853	173,478	1,760	7,480,376
TOTAL ASSETS	366,074,702	13,801,705	20,075,186	156,723	400,108,316

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2017 (continued)

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
LIABILITIES AND EQUITY					
Liabilities under derivatives	7,845	-	-	-	7,845
Deposits and other liabilities due to banks, other financial institutions and the Central bank	3,283,494	196,445	2,657,837	-	6,137,776
Deposits and other financial liabilities to clients	292,471,640	11,960,678	13,145,430	-	317,577,748
Provisions	1,368,051	162,331	15,848	5,653	1,551,883
Current tax liabilities	-	47	1,672	32	1,751
Deferred tax liabilities	-	-	1,647	-	1,647
Other liabilities	7,543,442	83,554	101,032	1,522	7,729,550
Total liabilities	304,674,472	12,403,055	15,923,466	7,207	333,008,200
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/(loss)	7,341,571	(772,527)	113,036	9,334	6,691,414
Reserves	19,645,901	586,110	141,964	112	20,374,087
Non-controlling participation	-	-	65	-	65
Total equity	67,022,022	(186,417)	255,065	9,446	67,100,116
Total liabilities and equity	371,696,494	12,216,638	16,178,531	16,653	400,108,316

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2018

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	13,741,459	558,654	791,833	577	15,092,523
Interest expenses	(910,270)	(83,003)	(152,606)	-	(1,145,879)
Net interest gains	12,831,189	475,651	639,227	577	13,946,644
Income from fees and commissions	7,200,038	188,349	241,604	23,037	7,653,028
Expenses on fees and commissions	(1,996,886)	(45,230)	(70,170)	(295)	(2,112,581)
Net gains from fees and commissions	5,203,152	143,119	171,434	22,742	5,540,447
Net gains from changes in fair value of financial instruments	44,076	-	-	4,496	48,572
Net gains from derecognition of the financial instruments measured at fair value	230,194	-	16,872	18	247,084
Net exchange rate losses and losses on agreed currency clause	2,863	(3,274)	(1,122)	1	(1,532)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	11,818	29,335	10,528	-	51,681
Net gains from derecognition of the financial instruments measured at amortised cost	526,547	-	-	-	526,547
Other operating income	155,351	7,636	11,808	-	174,795
Total operating income	19,005,190	652,467	848,747	27,834	20,534,238
Salaries, salary compensations and other personal expenses	(4,442,799)	(265,618)	(320,675)	(14,845)	(5,043,937)
Depreciation costs	(551,988)	(34,940)	(42,816)	(10)	(629,754)
Other income	280,229	58,264	36,886	13	375,392
Other expenses	(6,167,977)	(296,849)	(379,966)	(9,981)	(6,854,773)
(Loss)/Profit before taxes	8,122,655	113,324	142,176	3,011	8,381,166
Profit tax	-	(119)	(18,076)	(181)	(18,376)
Gain/(loss) on deferred taxes	24,109	(7,381)	816	-	17,544
Profit/(loss) for the year	8,146,764	105,824	124,916	2,830	8,380,334

Within the stated consolidated profit, the gain that accrues to owners without the control right is RSD 2 thousand.

6. SEGMENT REPORTING (continued)

6.1.c. Reporting by Strategic Segments - Members of the Group (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2017

In thousands of RSD

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	14,048,478	570,143	739,378	400	15,358,399
Interest expenses	(1,606,137)	(76,856)	(158,168)	-	(1,841,161)
Net interest gains	12,442,341	493,287	581,210	400	13,517,238
Income from fees and commissions	6,692,276	190,745	254,228	22,258	7,159,507
Expenses on fees and commissions	(1,616,461)	(44,896)	(84,273)	(276)	(1,745,906)
Net gains from fees and commissions	5,075,815	145,849	169,955	21,982	5,413,601
Net gains from changes in fair value of financial instruments	56,537	-	-	5,083	61,620
Net gains from derecognition of the financial instruments measured at fair value	91,584	534	10,386	19	102,523
Net income/(expense) from exchange rate differences and effects of contractual currency clause	(111,257)	24,405	9,430	20	(77,402)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	17,883	2,356	16,103	-	36,342
Net gains from derecognition of the financial instruments measured at amortised cost	306	-	-	-	306
Other operating income	183,973	6,584	10,802	-	201,359
Total operating income	17,757,182	673,015	797,886	27,504	19,255,587
Salaries, salary compensations and other personal expenses	(4,520,197)	(281,361)	(315,193)	(14,061)	(5,130,812)
Depreciation costs	(563,582)	(25,234)	(36,844)	(20)	(625,680)
Other income	753,804	15,898	9,257	23	778,982
Other expenses	(6,305,123)	(297,342)	(348,142)	(11,087)	(6,961,694)
(Loss)/Profit before taxes	7,122,084	84,976	106,964	2,359	7,316,383
Profit tax	-	(46)	(9,300)	(35)	(9,381)
Gain/(loss) on deferred taxes	930,118	29,978	898	-	960,994
Profit/(loss) for the year	8,052,202	114,908	98,562	2,324	8,267,996

Within the stated consolidated profit, the gain that accrues to owners without the control right is RSD 1 thousand.

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The parent bank has three operating segments:

- Transactions with legal entities Parent banks - Includes loans, deposits and other transactions with clients to legal entities other than banks,
- Retail banking of the parent bank - Includes loans, deposits and other transactions with clients to individuals, micro clients, entrepreneurs and farmers, and
- Investment banking and interbank banking of the parent bank - Includes transactions with securities and other financial instruments, as well as transactions with banks.

Since the dependent members of the Group operate as independent entities in their local markets and that the results thus obtained are used to measure their business performance, that the business of individual members of the Group as strategic segments is shown under note 6.1, and that the parent bank is more of 90% of the consolidated balance sheet, for reporting purposes by operational segments at the Group level, dependent members of the Group are shown under a single segment (Subsidiaries).

When looking at the profitability/outcome of each segment of the Parent bank, besides revenues and expenditures generated from client transactions, the income and expenses from internal relations between the segments of the Parent Bank are calculated by means of transfer prices determined on the basis of the respective market prices (net income/expenses from internal relations), as well as part of the net income / expenses that the parent Bank reported from the operations with subsidiaries.

Significant impact on the result in 2018 had net income from indirect write-offs amounting to RSD 51,681 thousand (of which the collected written off receivables amounted to RSD 329,451 thousand). In addition to the net income of indirect write-offs, Net gains from derecognition of the financial instruments measured at amortised cost significantly contributed to the result in 2018 in the amount of RSD 526,547 thousand as a result of several receivables sold.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is indebted to direct operational costs that relate to that segment as well as part of the indirect operating costs (the allocation of these costs to the segments is made using the appropriate keys used to allocate the cost of cost centers to profit centers).

Direct operating expenses at the Group level amount to RSD 8,264,772 thousand and account for 70% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (salaries, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of deals with the population of the Parent bank refers to the amount of RSD 5,764,006 thousand of direct costs (70% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees in the work with the population.

In accordance with the above said, the Group achieved profit before tax in the business year 2018 in the amount of RSD 8,381,166 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2018 is shown below:

31.12.2018	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6,680,346	2,461,416	4,599,696	-	1,351,065	-	15,092,523
Interest expenses	(630,059)	(178,255)	(101,956)	-	(235,609)	-	(1,145,897)
Net interest gains	6,050,287	2,283,161	4,497,740	-	1,115,456		13,946,644
Net income/expenses from related party transactions	(727,305)	(601,012)	1,331,766	-	(3,449)	-	-
Net fees	3,835,447	757,668	610,037	-	337,295	-	5,540,447
Net fees from related party transactions	-	-	6,997	-	(6,997)	-	-
Profit before impairment allowance	9,158,429	2,439,817	6,446,540	-	1,442,305	-	19,487,091
Net gains/losses from impairment allowance	(25,518)	22,453	12,558	-	36,548	5,640	51,681
Profit before operating expenses	9,132,911	2,462,270	6,459,098	-	1,478,853	5,640	19,538,772
Direct operating expenses	(5,764,006)	(1,410,121)	(179,085)	-	(911,560)	-	(8.264,772)
Net exchange rate gain/(loss)	-	-	2,863	-	(4,395)	-	(1,532)
Net exchange difference from related parties transactions	-	-	(10,321)	-	16,064	(5,743)	-
Net other income/(expenses)	(174,657)	488,433	233,641	-	68,701	-	616,118
Net other income/(expenses) from related party transactions	206	206	206	-	(618)	-	-
Profit before indirect operating expenses	3,194,454	1,540,788	6.506,402	-	647,045	(103)	11,888,586
Indirect operating expenses	(1,590,127)	(1,193,677)	(336,767)	-	(386,849)	-	(3,507,420)
Profit before taxes	1,604,327	347,111	6,169,635	-	260,196	(103)	8,381,166
Assets per segment							
Cash and cash equivalents	-	-	63,595,710	-	10,396,316	13	73,992,039
Cash from related parties transactions	-	-	-	-	8,848	(8,848)	-
Due from banks	-	-	18,370,198	-	2,662,152	5,187	21,037,537
Due from banks from related parties transactions	-	-	107,531	-	1,611,625	(1,719,156)	-
Due from customers	91,855,167	75,690,507	-	-	23,902,968	-	191,448,642
Investment securities	-	-	133,177,598	-	4,337,122	-	137,514,720
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	15,757,175	1,836,845	1	17,594,021
Other from related parties transactions	-	-	-	236	-	(236)	-
	91,855,167	75,690,507	217,862,896	15,757,411	44,755,876	(4,334,898)	441,586,959
Liabilities per segment							
Liabilities to banks	-	-	4,042,274	-	4,186,010	-	8,228,284
Liabilities to banks from related parties transactions	-	-	1,620,474	-	107,531	(1,728,005)	-
Liabilities to customers	261,120,783	49,937,553	6,170,748	-	33,439,072	-	350,668,156
Subordinated liabilities	-	-	-	-	-	-	-
Other	-	-	-	10,713,635	462,096	(7,263)	11,168,468
Other from related parties transaction	-	-	-	-	236	(236)	-
	261,120,783	49,937,553	11,833,496	10,713,635	38,194,945	(1,735,504)	370,064,908

Notes: Placements to micro clients are presented within the segment of retail business

Indirect operating costs relate to expenditures that are not under the control of business segments

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2017 is shown below:

31.12.2017	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other	Subsidiaries	Adjustments and consolidation	Total for the Group (consolidated)
Revenues and expenses							
Interest income	6,367,966	2,649,990	5,030,522	-	1,309,921	-	15,358,399
Interest expenses	(897,588)	(207,371)	(501,178)	-	(235,024)	-	(1,841,161)
Net interest gains	5,470,378	2,442,619	4,529,344	-	1,074,897		13,517,238
Net income/expenses from related party transactions	(886,255)	(768,155)	1,658,266	-	(3,856)	-	-
Net fees	3,613,223	876,021	586,570	-	337,787	-	5,413,601
Net fees from related party transactions	-	-	6,412	-	(6,412)	-	-
Profit before impairment allowance	8,197,346	2,550,485	6,780,592	-	1,402,416	-	18,930,839
Net gains/losses from impairment allowance	(310,881)	266,530	62,234	-	18,459	-	36,342
Profit before operating expenses	7,886,465	2,817,015	6,842,826	-	1,420,875	-	18,967,181
Direct operating expenses	(5,783,836)	(1,672,719)	(182,687)	-	(907,162)	-	(8.546,404)
Net exchange rate gain/(loss)	-	-	(111,257)	-	33,855	-	(77,402)
Net exchange difference from related parties transactions	-	-	54,899	-	(29,884)	(25,015)	-
Net other income/(expenses)	(82,584)	557,765	55,202	-	15,732	-	546,115
Net other income/(expenses) from related party transactions	2,020,045	1,702,061	6.658.983	-	533,416	(25,015)	10,889,490
Profit before indirect operating expenses	(1,612,287)	(1,237,636)	(343,916)	-	(379,268)	-	(3,573,107)
Profit before taxes	407,758	464,425	6,315,067	-	154,148	(25,015)	7,316,383
Assets per segment							
Cash and cash equivalents	-	-	49,840,887	-	6,235,861	-	56,076,748
Cash from related parties transactions	-	-	-	-	1,192	(1,192)	-
Due from banks	-	-	29,047,033	-	1,186,522	-	30,233,555
Due from banks from related parties transactions	-	-	496,756	-	1,247,819	(1,744,575)	-
Due from customers	81,512,171	72,385,196	-	-	20,344,772	-	174,242,139
Investment securities	-	-	117,288,767	-	4,233,813	-	121,522,580
Investments in subsidiaries	-	-	2.611.859	-	-	(2.611.859)	-
Other	-	-	-	16,000,648	2,032,646	-	18,033,294
Other from related parties transactions	-	-	-	221	-	(221)	-
	81,512,171	72,385,196	199,285,302	16,000,869	35,282,625	(4,357,847)	400,108,316
Liabilities per segment							
Liabilities to banks	-	-	3,283,494	-	2,854,282	-	6,137,776
Liabilities to banks from related parties transactions	-	-	1,249,011	-	496,756	(1,745,767)	-
Liabilities to customers	242,076,775	41,434,135	8,960,731	-	25,106,107	-	317,577,748
Subordinated liabilities	-	-	-	-	-	-	-
Other	-	-	-	8,919,338	373,338	-	9,292,676
Other from related parties transaction	-	-	-	-	221	(221)	-
	242,076,775	41,434,135	13,493,236	8,919,338	28,830,704	(1,745,988)	333,008,200

Notes: Placements to micro clients are presented within the segment of retail business
Indirect operating costs relate to expenditures that are not under the control of business segments

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUE

The methodology and assumptions used to calculate fair (fair) values for those financial assets and liabilities that are not recorded at fair value in the financial statements are as follows:

(i) The assets and liabilities in which the present value in books is approximately equal to the fair value

With financial assets and liabilities that are highly liquid and with a short-term maturity (up to one year), it is assumed that the present book value is approximately equal to fair value. This assumption is also used in demand deposits, savings deposits with no specified maturity and all financial instruments with a variable interest rate.

(ii) Instruments with a fixed interest rate

The fair value of financial assets and liabilities with fixed interest rates, carried at amortized cost, is estimated by comparing market interest rates at the moment of initial recognition with current market interest rates for financial instruments of similar characteristics. The estimated fair value of assets and liabilities with a fixed interest rate is to a large extent corresponds to the carrying amount, given that the agreed interest rates do not deviate from the market rates. Members of the Group do not have materially significant deviations on this basis.

8. NET INTEREST GAINS

Net interest gains consists of:

	In thousands of RSD For the year that ends December 31, 2018	2017
Income from:		
Banks and REPO placements	249,625	304,534
Clients	10,314,604	10,138,393
Central Bank (liquid assets and required reserves deposited)	283,703	371,056
Securities	4,244,591	4,544,416
Interest income	15,092,523	15,358,399
Liabilities to banks and other financial organizations	(121,653)	(133,890)
Liabilities to customers	(916,472)	(1,282,452)
Received loans	(107,754)	(424,819)
Interest expense	(1,145,879)	(1,841,161)
Net interest gains	13,946,644	13,517,238

Total interest income and expense accounted for using the effective interest method presented in the previous table relates to financial assets and liabilities not carried at fair value through profit and loss.

9. NET INCOME / (EXPENSES) FROM THE FEES AND COMMISSIONS

Net gains from fees and commissions / (expenses) consist of:

	In thousands of RSD For the year that ends December 31	
	2018	2017
Income in RSD		
Fees for payment services	3,577,857	3,243,428
Fees for granted loans and guarantees-retail	20,939	28,845
Fees for granted loans and guarantees-corporate	93,582	152,973
Fee for purchase of foreign currency	410,146	455,964
Fee for brokerage and custody services	29,906	36,505
Card payment fees	2,188,081	1,795,588
Fees based on inquiries in the Credit Bureau	69,291	87,771
Fees and commissions for other banking services	499,570	561,413
	6,889,372	6,362,487
Revenues in foreign currency		
Fees for payment services	354,737	344,999
Fees for granted loans and guarantees-corporate	35,991	34,376
Fee for brokerage and custody services	20,844	12,778
Card payment fees	273,557	285,881
Fees and commissions on other banking services	78,527	118,986
	763,656	797,020
	7,653,028	7,159,507
Expenses in RSD		
Fees for payment services	(135,377)	(125,732)
Fees based on the purchase of foreign currency	(32,831)	(64,340)
Card payment fees	(931,306)	(770,319)
Fees based on inquiries in the Credit Bureau	(64,462)	(78,149)
Fees and commissions from other banking services	(131,657)	(138,458)
	(1,295,633)	(1,176,998)
Expenses in foreign currency		
Fees for payment services	(103,010)	(93,909)
Card payment fees	(623,138)	(392,177)
Fees and commissions from other banking services	(90,800)	(82,822)
	(816,948)	(568,908)
	(2,112,581)	(1,745,906)
Net profit from fee and commission	5,540,447	5,413,601

10. NET GAINS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains from changes in fair value of financial instruments:

	In thousands of RSD For the year that ended December 31	
	2018	2017
Revenue from the change in fair value of derivatives intended for trading – SWAP	11,915	-
Gains on the fair value adjustment of securities – investment units	14,114	17,934
Revenue from the change in the fair value of securities – treasury bills and bonds of the Republic of Serbia and other financial institutions	22,647	51,739
Total revenues	48,676	69,673
Expenses from the change in the fair value of derivatives held for trading - SWAP	-	(7,845)
Losses on the fair value adjustment of securities – investment units	(32)	(208)
Losses on the changes in value of securities	(72)	-
Total expenses	(104)	(8,053)
Net trading gain	48,572	61,620

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gains from derecognition of the financial instruments measured at fair value:

	In thousands of RSD For the year that ends December 31	
	2018	2017
Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income	103,863	55,454
Gains arising from the derecognition of securities at fair value through income statement	162,443	47,280
Losses arising from the derecognition of financial instruments valued at fair value through other comprehensive income	(688)	-
Losses arising from the derecognition of financial instruments valued at fair value through income statement	(18,534)	(211)
Net gain	247,084	102,523

Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 103,863 thousand relate to the bonds of the Republic of Serbia and bonds of the Republic of Srpska, in the amount of RSD 50,078 thousand in the local and RSD 53,785 thousand in the foreign currency.

Gains arising from the derecognition of securities at fair value through income statement in the amount of RSD 162,443 thousand relate to bonds of the Republic of Serbia in the amount of RSD 78,148 thousand, and bonds of the Republic of Srpska in foreign currency in the amount of RSD 80,133 thousand and investment units in RSD in the amount of 4,162 thousand.

Losses arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 688 thousand relate to: bonds of the Republic of Serbia in the amount of RSD 353 thousand and bonds of the Republic of Srpska in foreign currency, in the amount of RSD 335 thousand.

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Losses arising from the derecognition of financial instruments valued at fair value through income statement in the amount of RSD 18,534 thousand relate to bonds of the Republic of Serbia in local currency in the amount of RSD 298 thousand, bonds of the Republic of Serbia in foreign currency in the amount of RSD 9,142 thousand and sale of foreign currency SWAP arrangements in the amount of RSD 9,094 thousand.

12. NET EXCHANGE RATE LOSSES AND LOSSES ON AGREED CURRENCY CLAUSE

	In thousands of RSD For the year ended December 31	
	2018	2017
Positive currency clause effects – corporate clients	639,208	1,325,087
Positive currency clause effects – value adjustment of securities	2,627	7,533
Foreign exchange gains - value adjustment of liabilities	5,503	17,989
Positive currency clause effects – retail customers	706,052	427,235
Foreign exchange gains	2,586,267	14,940,221
Total gains	3,939,657	16,718,065
Negative currency clause effects – corporate clients	(787,602)	(3,575,513)
Negative currency clause effects – value adjustment of securities	(3,357)	(24,147)
Negative currency clause effects – value adjustment of liabilities	(4,636)	(4,170)
Negative currency clause effects – retail customers	(664,949)	(2,546,402)
Foreign exchange losses	(2,480,645)	(10,645,235)
Total losses	(3,941,189)	(16,795,467)
Net loss	(1,532)	(77,402)

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net impairment charges relate to:

	In thousands of RSD For the year ended 31 December 2018	2017
Impairment allowance of financial assets measured at amortised cost	(6,290,137)	(12,703,727)
Provisions for off-balance sheet items	(383,333)	(338,553)
Impairment allowance of direct write-off of placements of loans and receivables	(3,638)	(5,951)
Impairment allowance for debt securities measured through other comprehensive income	(114,688)	-
Reversal of impairment allowance of financial assets valued at amortised cost	6,097,706	11,948,417
Reversal of provisions for off-balance sheet items	330,916	397,562
Reversal of allowance for debt securities measured through other comprehensive income	85,404	-
Income from collection of receivables previously written-off	329,451	738,594
Total	51,681	36,342

Within the position of indirect write-offs of placements of balance sheet items, the Group recorded the impairment of material values acquired through collection of receivables in the amount of RSD 109,932 thousand, based on estimation of the value of real estate and equipment by authorized appraisers and in accordance with internal acts of the Group.

During 2018, the collected receivables in the amount of RSD 329,451 thousand mostly relate to collecting receivables from the off-balance sheet for which the write-off from the balance sheet to the off-balance sheet was previously carried out, out of which RSD 134,263 thousand relate to collection of retail loan and the remainder in the amount of RSD 195,188 thousand relate collection of corporate loans.

By the end of January 2019, material collections of impaired placements were not made, which would have the effect of eliminating the allowance for impairment in accordance with the requirements of IAS 10.

Credit risk effects of debt securities in the amount of net expenses in the amount of RSD 29,284 thousand the Group recognized in the equity as losses from debt instruments (expense of debt securities at fair value through other comprehensive income in the amount of RSD 114,688 thousand and income on the same basis in the amount of RSD 85,404 thousand). These positions are exempt from the table below.

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Effect of first application of IFRS 9 correction 01/01/2018 reduced by the effect of internal relations

Parent Bank In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities through the other comprehensive income	The total effect of the first application of IFRS 9 recognized through correction of the results of the previous year
943,486	211,947	1,155,433

KB Podgorica In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities	The total effect of the first application of IFRS 9 recognized through correction of the capital
22,765	23,585	46,350

KB Banja Luka In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities	The total effect of the first application of IFRS 9 recognized through correction of the capital
78,415	22,409	100,824

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENTS ON IMPAIRMENT ALLOWANCE ACCOUNTS AND PROVISION FOR OFF-BALANCE SHEET ITEMS

	Loans and receivables due from banks (Note 25.2)	Loans and receivables from clients (Note 26.2)	Investment securities (Notes 24)	Other assets (Note 31)	Off-balance sheet liabilities (Note 35)	Total
Balance as at January 1st, 2018	202,579	18,773,614	3	3,140,917	171,582	22,288,695
Correction of the opening balance of IFRS 9 - correction of the results in equity	18,982	859,653	1,828	78,900	85,303	1,044,666
Correction of the initial balance of 100% impaired shares	-	-	-	(504,732)	-	(504,732)
Corrected balance as at January 1st, 2018	221,561	19,633,267	1,831	2,715,085	256,885	22,828,629
New impairment allowance	56,129	5,990,896	586	242,526	383,333	6,673,470
Decrease in impairment allowance	(59,817)	(5,745,785)	(818)	(291,286)	(330,916)	(6,428,622)
Foreign exchange effects	9,171	(13,667)	(5)	(1,496)	(90)	(6,087)
Write-offs	-	(5,155,182)	-	(10,785)	-	(5,165,967)
Other changes	827	200,514	-	(16,345)	-	184,996
Balance as of December 31, 2018	227,871	14,910,043	1,594	2,637,699	309,212	18,086,419

*effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2018, the Group made an increase in the net expense of impairment and provisioning in the total amount of RSD 244,848 thousand.

Of the other changes in the accounts of impairment allowance and provisions, the amount of RSD 5,165,967 thousand refers to the decrease on the basis of permanent write-off by transfer to off-balance with the Parent Bank, KB Podgorica and KB Banja Luka, based on the application of uniform accounting policies

14. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

	In thousands of RSD For the year ended 31 December	
	2018	2017
Gain on the derecognition of financial instruments that are valued at amortised cost	526,547	-
Total	526,547	-

The gain on this basis realized in 2018 in the whole refers to the one contract on the transfer of the receivables of one client on the basis which the Parent bank received the amount of EUR 12,900,000 or RSD 1,522,765 thousand. Based on the transaction, a positive effect on the income statement in the amount of RSD 526,547 thousand dinars was achieved.

15. NET GAIN FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATED ENTITIES AND JOINT VENTURES

	In thousands of RSD For the year ended 31 December	
	2018	2017
Gains on sales – participation in the capital of JUBMES banka	-	306
Net gain	-	306

16. OTHER OPERATING INCOME

	In thousands of RSD For the year ended December 31	
	2018	2017
Other income from operations	164,059	192,195
Income from dividends and equity participations	10,736	9,164
Total	174,795	201,359

Within the operating income from operations in the amount of RSD 164,059 thousand, the largest amounts relate to: fees for renting real estate in the country including received advances in the amount of RSD 80,708 thousand and income per based on the refund of communal expenses in the amount of RSD 52,510 thousand.

During 2018, the Parent Bank received dividends on the basis of shares and stocks intended for trading in the amount of RSD 10,736 thousand (2017: RSD 9,137 thousand) and form part of the position of other income, dividends from the participation in the ownership of VISA Inc. in the amount of RSD 6,154 thousand, Dunav Osiguranje ADO in the amount of RSD 3,363 thousand and MasterCard in the amount of RSD 1,219 thousand.

17. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

The costs of salaries, wages and other personal expenses consist of:

	In thousands of RSD For the year ended December 31 2018	2017
Net salaries	2,956,795	3,067,911
Net benefits	509,985	480,967
Payroll taxes	429,588	453,421
Payroll contributions	993,431	1,003,739
Considerations paid to seasonal and temporary staff	8,192	15,291
Provisions for retirement benefits – net (Note 34)	81,701	32,606
Other Salaries, salary compensations and other personal expenses	64,245	76,877
Total	5,043,937	5,130,812

18. DEPRECIATION COSTS

	In thousands of RSD For the year ended December 31 2018	2017
Amortization charge – intangible assets (Note 27.2)	161,229	162,273
Depreciation charge – property and equipment (Note 28.2)	419,447	418,137
Depreciation charge – investment property (Note 29.1)	49,078	45,270
Total	629,754	625,680

19. OTHER INCOME

	In thousands of RSD For the year ended December 31 2018	2017
Income from reversal of unused provisions for litigations and other liabilities (note 35)	147,719	29,089
Gains from the sale of equipment / real estate	3,718	11,268
Income from decrease of liabilities	41,080	68,924
Surpluses	-	3
Other income	182,875	669,698
	375,392	778,982

19. OTHER INCOME (continued)

Within the position of other income of the Parent Bank in 2018, the most significant items are income:

- Based on court disputes adjudicated in favour of the Bank or disputes in termination until the end of the previously connected procedure in the amount of RSD 134,110 thousand
- Based on the decrease in liabilities in the amount of RSD 40,650 thousand resulting from the acquisition of materially insignificant liabilities of inactive parties of current, local and foreign currency accounts of private individuals who in the course of 2018 fulfilled the conditions prescribed by the decision of the Executive Board of the Bank. In the case of a subsequent request of the client for the outgoing debtor, the same will be made against the expense of the Bank's expense.
- From the insurance company for default interest and reimbursement of expenses based on a court decision in the amount of RSD 63,405 thousand
- Based on interest from previous years – private individuals in the amount of RSD 16,260 thousand
- Based on interest from previous years – corporate clients in the amount of RSD 14,251 thousand

20. OTHER EXPENSES

Other expenses relate to:

	In thousands of RSD For the year ended December 31 2018	2017
Cost of materials	373,201	401,199
Cost of production services	2,130,158	2,282,749
Non-material costs (without taxes and contributions)	2,704,964	2,746,978
Tax expenses	164,807	146,519
Contributions expenses	780,027	792,567
Other operating cost	26,427	25,613
Other expenses	342,617	267,464
Losses on the valuation of property and equipment, investment property and intangible assets	12,405	-
Losses arising as a result of changes in value in investment properties and assets held for sale	43,627	107,576
Provisions for litigations (Note 35)	276,540	191,029
Total	6,854,773	6,961,694

a) Other expenses

Within the position of other expenses of the Parent bank in the amount of RSD 304,928 thousand among others were recorded:

- expenses arising from provisions for litigation in the amount of RSD 270,971 thousand
- expenses based on paid invoices to the insurance company for the life insurance policies of clients, in the amount of RSD 176,422 thousand, and whose payment has been done by the Bank. These policies are used as a collateral for approved loans to individuals. Also, in this position, expenses by policy for users of sets of current accounts and travel insurance of international payment cards in the amount of RSD 64,889 thousand are shown in this position, and
- Losses from write-off and write-off of fixed assets and intangible investments in the amount of RSD 13,405 thousand.

20. OTHER EXPENSES (continued)

b) Expenses arising from provisions for litigation

Expenses arising from provisions for litigation in the Parent Bank in the total amount of RSD 270,971 thousand (Note 36) refer to increase of expenses for thirty one new case and net increase expenses for active items from previous years

21. PROFIT TAX

The parent bank does not have the possibility to perform tax consolidation on the basis of valid regulations in the Republic of Serbia. The final amounts of tax liabilities for the Group members are determined by applying the tax rate to the tax base established by local tax regulations and disclosed in individual notes with their annual statutory financial statements.

Tax rates for 2018 are:

Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

The Group's profit tax components as of December 31 are as follows:

	In thousands of RSD For the year ended December 31	
	2018	2017
Current Profit tax	(18,376)	(9,381)
Gains from deferred taxes	702,775	1,366,704
Losses on deferred taxes	(685,231)	(405,710)
Total	(832)	951,613

Given the impossibility of tax consolidation, tax components are separately disclosed as follows:

21.1. The Parent Bank

21.1.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year ended December 31	
	2018	2017
Gains from deferred taxes	700,754	1,335,828
Losses on deferred taxes	(676,645)	(405,710)
Total	24,109	930,118

In 2018 and 2017, the Bank did not disclose current Profit tax on the basis of current tax regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

21. PROFIT TAX (continued)

21.1. The Parent Bank (continued)

21.1.2. The adjustment of the effective tax rate is shown in the following table:

In thousands of RSD

	2018	2018	2017	2017
Profit / (Loss) for the year before taxes		8,121,073		7,187,250
Tax calculated using the local Profit tax rate	15%	1,218,161	15%	1,078,087
Expenses not recognized for tax purposes	1.05%	85,015	-0.41%	(29,449)
Tax effects of the net capital losses	-0.01%	(621)	-0.01%	(562)
Tax effects of income reconciliation	-0.24%	(19,773)	0.03%	1,868
	-0.43%	(34,851)	-	-
Tax credit received and used in the current year	-7.80%	(632,773)	-5.13%	(368,666)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-7.57%	(615,158)	-9.48%	(681,278)
Deferred tax effect adjustments	-0.30%	(24,109)	-12.94%	(930,118)
Tax effects stated within the income statement		24,109		930,118

21.1.3. Deferred tax liabilities at 31 December are shown as follows:

In thousands of RSD
For the year that ends December 31

	2018	2017
Balance at 1 January	857,096	(23,592)
Creation and elimination of temporary differences	(16,129)	880,688
Balance at 31 December	840,967	857,096

During 2018, the Bank did not pay Profit tax, bearing in mind that when calculating Profit tax for 2017, it did not declare the obligation to pay Profit tax due to covering the tax liability by transferred tax loss.

21. PROFIT TAX (continued)

21.1. The Parent bank (continued)

21.1.4. Deferred tax assets and liabilities

21.1.4.1 Deferred tax assets and liabilities relate to:

In thousands of RSD

			2018			2017
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	69,359	-	69,359	112,277	-	112,277
Transferred tax losses	878,000	-	878,000	867,146	-	867,146
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	4,885	(570,187)	(565,302)	624	(530,171)	(529,547)
Long-term provisions for retirement benefits	49,098	-	49,098	35,322	-	35,322
Impairment of assets	295,225	-	295,225	265,532	-	265,532
Employee benefits under Article 9 paragraph 2. CIT Law	1,183	-	1,183	1,192	-	1,192
Calculated but not paid public liabilities	13	-	13	-		-
Provisions for litigation	135,023	-	135,023	118,797	-	118,797
Actuarial gains on provisions for severance payments	-	(21,632)	(21,632)	-	(13,623)	(13,623)
Total	1,432,786	(591,819)	840,967	1,400,890	(543,794)	857,096

Transferred tax losses that are not recorded in the Bank's books and on the basis of which no tax assets have been formed, and which can be used to cover the tax on profits in the following periods amount to a total of RSD 7,979,816 thousand and relate to the part of the tax loss realized in 2016.

Deferred tax assets were not formed on tax credits on the basis of investments in fixed assets in the amount of RSD 15,692 thousand nor on the basis of tax credits for intercompany dividends in the amount of RSD 13,154 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

21. PROFIT TAX (continued)

21.1. The Parent bank (continued)

21.1.4. Deferred tax assets and liabilities (continued)

21.1.4.2 Overview of tax credits on which no deferred tax assets are formed:

In thousands of RSD

Type of tax credit	Year	Amount as at 31.12.2018	Amount as at 31.12.2017	Expiration date of use
Tax losses carried forward	2014		-	2019
	2015		2,533,717	2020
	2016	7,979,816	9,719,742	2021
Total tax losses carried forward		7,979,816	12,253,459	
Impact of tax losses on future Profit tax (15%)		1,196,972	1,838,019	2019 -2021
Tax credit on the basis of investment in fixed assets	2013	15,692	15,692	2023
Tax credit on the basis of intercompany dividends	2014	13,154	13,154	2019
Total tax credits for future Profit tax liabilities		1,225,818	1,866,865	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

21. PROFIT TAX (continued)

21.1. The Parent bank (continued)

21.1.4. Deferred tax assets and liabilities (continued)

21.1.4.3. Movements under temporary differences in 2018 and 2017 are presented as follows:

In thousands of RSD

2018	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	112,277	(46,444)	3,526	-	69.359
Transferred tax losses	867,146	10,854	-	-	878,000
Securities	(529,547)	-	(35,755)	-	(565,302)
Long term provisions for employee benefits	35,322	13,776	-	-	49,098
Acturial gains	(13,623)	-	(8,009)	-	(21,632)
Impairment of assets	265,532	29,693	-	-	295,225
Employee benefits under Article 9 paragraph 2. CIT Law	1,192	(9)	-	-	1,183
Calculated but not paid public liabilities	-	13	-		13
Provisions for legal disputes	118,797	16,226	-	-	135,023
Total	857,096	24,109	(40,238)	-	840,967

In thousands of RSD

2017	As at 1 January	Through P&L	Through OCI	Directly through retained earnings	As at 31 December
Property, plant and equipment	77,473	96,720	(61,917)	-	112,277
Transferred tax losses	-	867,146	-	-	867,146
Securities	(565,549)	-	36,003	-	(529,547)
Long term provisions for employee benefits	41,978	3,237	(9,894)	-	35,322
Acturial gains	-	-	(13,623)	-	(13,623)
Impairment of assets	284,297	(18,765)	-	-	265,532
Employee benefits under Article 9 paragraph 2. CIT Law	1,134	58	-	-	1,192
Provisions for legal disputes	137,075	(18,278)	-	-	118,797
Total	(23,592)	930,118	(49,431)	-	857,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

21. PROFIT TAX (continued)

21.1. The Parent bank (continued)

21.1.5. Tax effects related to the other comprehensive income

In thousands of RSD

	2018			2017		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities (increase on debt and equity securities)	54,832	(8,224)	46,608	(241,847)	36,277	(205,570)
Net decrease due to actuarial losses	53,387	(8,008)	45,379	24,648	(23,517)	1,131
Valuation of property	-	3,526	3,526	-	(61,917)	(61,917)
Decrease due to fair value adjustments of equity investments and securities	(28,403)	4,260	(24,143)	1,823	(274)	1,549
Total	79,816	(8,446)	71,370	(215,376)	(49,431)	(264,807)

21.2. Komercijalna banka ad, Podgorica

21.2.1. The components of the corporate Profit tax as at December 31 are as follows:

In thousands of RSD
For the year that ends December 31st

	2018	2017
Tax expense of the period	(119)	(47)
Gains from deferred taxes	1,205	29,978
Deferred Profit tax expense	(8,586)	-
	(7,500)	29,931

21. PROFIT TAX (continued)

21.2. Komercijalna banka ad, Podgorica (continued)

21.2.2. The adjustment of the effective tax rate is shown in the following table:

	2018	2018	2017	2017
Profit / (Loss) before tax		118,517		59,797
Tax calculated at the local rate of 9%	9.00%	10,667	9.00%	5,382
Taxable income - related parties and capital gains	0.10%	119	0.08%	47
Tax deductible expenses	0.00%	-	1.79%	1,067
Tax credits	0.00%	-	-10.79%	-6,449
Effective Profit tax	0.10%	119	0.08%	47
Tax effects of items reported in the income statement		(119)		(47)

21.3. Komercijalna banka ad, Banja Luka

21.3.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st 2018	2017
Tax expense of the period	(18,076)	(9,299)
Gains from deferred taxes	816	898
	(17,261)	(8,401)

21.3.2. The adjustment of the effective tax rate is shown in the following table:

	2018	2018	2017	2017
(Loss) / Profit before tax		139,879		89,714
Tax calculated at the local Profit tax rate of 10%	10.00%	13,988	10.00%	8,971
Tax deductible expenses	8.09%	11,302	5.43%	4,869
Tax free revenue	-5.16%	(7,214)	-5.06%	(4,541)
Effective tax	12.93%	18,076	10.37%	9,299
Tax effects of items reported in the income statement		(18,076)		(9,299)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

21. PROFIT TAX (continued)

21.3. Komercijalna banka ad, Banja Luka

21.3.3. Deferred tax liabilities at 31 December are shown as follows:

	In thousands of RSD For the year that ends December 31st	
	2018	2017
Balance at 1 January	1,647	4,414
Creation and elimination of temporary differences	3,189	(2,767)
Balance at 31 December	4,836	1,647

21.4. KomBank INVEST Investment fund management company ad, Belgrade

21.4.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st	
	2018	2017
Tax expense of the period	(181)	(35)
	(181)	(35)

21.4.2. The adjustment of the effective tax rate is shown in the following table:

	In thousands of RSD For the year that ends 31 December	
	2018	2017
Profit before tax	1,624	940
Profit tax at the statutory tax rate of 15%	244	141
The tax effects of net capital gains	181	35
Tax effects of differences of depreciation for tax purposes and accounting depreciation	40	40
Correction of tax effects (effect of used and new)	(465)	(216)
Other	181	35
Tax effects of items reported in the income statement	(181)	(35)
Effective tax rate	11.15%	3.72%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

22. CASH AND ASSETS IN THE CENTRAL BANK

Cash and balances with the central bank include:

	In thousands of RSD December 31 2018	December 31 2017
In RSD		
Cash on hand	4,247,196	3,045,919
Gyro account	25,485,437	15,047,427
Other RSD cash funds	99	99
In foreign currencies	29,732,732	18,093,445
Cash on hand		
Foreign currency obligatory reserves	3,956,036	4,622,429
Other cash funds	39,287,392	32,318,639
	1,015,879	1,042,235
Total	44,259,307	37,983,303
Adjustment to cash for the purpose of preparing cash flow statement		
Foreign currency accounts held with foreign banks (Note 25.1)	9,825,488	5,199,540
Foreign currency obligatory reserves	(39,287,392)	(32,318,639)
	(29,461,904)	(27,119,099)
Cash and cash equivalents reported in statement of cash flows	44,530,135	28,957,649

The Group in the Cash Flow Statement records cash on giro accounts with the central bank, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

The Parent Bank

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash registers.

Within the giro account, the dinar (RSD) mandatory reserve is presented, which represents the minimum reserve of the dinar (RSD) funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the above Decision, RSD required reserve is calculated on the amount of average daily book value of RSD deposits, loans and other RSD liabilities during one calendar month applying the rate ranging from 0.0% to 5.00% depending on maturity of liabilities and their source with this which computes the compulsory reserve requirement makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD counter value calculated compulsory reserve in euros on deposits up to 730 days, and 30.00% of the RSD counter value of the calculated obligatory reserves In Euro on deposits over 730 days.

22. CASH AND ASSETS IN THE CENTRAL BANK (continued)

The Parent Bank (continued)

The National Bank of Serbia pays interest to the Bank on the allocated funds in the amount of 1.25% per annum (since May 2018).

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, but in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or equal to the foreign exchange reserve requirement.

Decision on amendment of the Decision on obligatory reserve dated 11.12.2015 (Official Gazette 102/2015), the rates of allocation of the foreign currency reserve requirement are as follows:

• FX deposits with deposits up to 730 days are 20%
• On foreign currency deposits deposited over 730 days the rate is 13%
• For RSD deposits indexed by currency clause, the rate is 100% irrespective of maturity.

By the Decision on the Reserve Requirement of the National Bank of Serbia, the Bank allocated a portion of the foreign currency reserve requirement in RSD in its giro account. The Bank does not make any interest on the obligatory reserve in foreign currency.

Other cash in foreign currency in the amount of RSD 110 thousand (2017: RSD 184 thousand) refers to the account with the Central Securities Depository for trading in securities.

Komercijalna banka ad, Podgorica

The mandatory reserve of the Bank as of December 31, 2018 represents the minimum amount of deposited deposits in accordance with the regulations of the Central Bank of Montenegro, to which the "Decision on Required Reserves of Banks with the Central Bank of Montenegro" ("Official Gazette of Montenegro" No. 73 / 15, 78/15 and 3/16). In accordance with the above, the Bank calculates the required reserve on demand deposits and time deposits.

Deposit accounts with depository institutions in Montenegro refer to the obligatory reserve, which is allocated at the rate of 7.5% on the part of the base that consists of demand deposits and deposits with maturity up to one year, ie up to 365 days, and 7.5% per share of the base deposits are contracted with maturity over one year, or over 365 days. Deposits with a maturity of over one year that have a clause on the possibility of the disposal of these deposits within less than 365 days shall be applied at a rate of 7.5%.

The amount up to 50% is included in available-for-sale assets as an amount that is allowed to dispose of in order to maintain the daily liquidity of the Bank.

The Bank may allocate up to 25% of the required reserve in the form of government bonds issued by Montenegro.

At 50% of the allocated funds, the Central Bank pays the Bank a monthly fee of 1% per annum.

The Bank did not use the reserve requirement funds during 2018.

22. CASH AND ASSETS IN THE CENTRAL BANK (continued)

Komercijalna banka ad, Banja Luka

Cash and cash equivalents include deposited surpluses of liquid assets with the Central Bank of Bosnia and Herzegovina in accordance with the regulations of the Central Bank of Bosnia and Herzegovina.

The obligatory reserve with the Central Bank of Bosnia and Herzegovina represents the minimum reserve of funds in domestic currency calculated in accordance with the Decision on Required Reserves with the Central Bank of Bosnia and Herzegovina.

From 1 July 2016, the Central Bank of Bosnia and Herzegovina calculates remuneration to banks in the following manner:

a) on the amount of the required remuneration means - does not charge compensation,
b) for the amount of funds above the required reserve - charges shall be calculated at a rate equal to 50% of the rate applied by the European Central Bank to Deposit Facility Rate - (Official Gazette of the Republic of Srpska 33/2016).

If during the maintenance period there is a change in the value of the Deposit Facility Rate, the rate applicable on the first day of the maintenance period during which the Change Deposit Facility Rate.

23. RECEIVABLES UNDER DERIVATIVES

	In thousands of RSD For the year that ends December 31	
	2018	2017
Receivables on the basis of derivative value changes in local currency - SWAP	4,070	-
Total	4,070	-

24. SECURITIES

24.1. Securities comprise:

In thousands of RSD For the year that ends December 31	2018	2017
Securities measured at fair value through income statement (in RSD)	1,795,977	2,184,287
Securities measured at fair value through income statement in foreign currency	3,156,612	3,240,355
Total	4,952,589	5,424,642
Securities measured at fair value through other comprehensive income (in RSD)	52,167,965	33,470,304
Securities measured at fair value through other comprehensive income in foreign currency	80,395,760	82,627,637
Total	132,563,725	116,097,941
Impairment allowance	(1,594)	(3)
Total	137,514,720	121,522,580

24.2 The structure of securities measured at fair value through income statement is shown in the following table:

In thousands of RSD For the year that ends	2018	2017
Bonds of the Republic of Serbia (in RSD)	1,193,611	1,628,010
Investment units of OIF monetary fund (in foreign currency)	4,794	4,778
Investment units of OIF monetary fund (in RSD)	597,572	551,499
Bonds of the Republic of Serbia (in foreign currency)	3,156,612	3,240,355
Total	4,952,589	5,424,642

Investment units as at December 31, 2018 in the amount of RSD 602,366 RSD comprise investment units of OIF monetary fund (in foreign currency) and investment units of OIF monetary fund (in RSD).

24. SECURITIES (continued)

24.3 The structure of securities measured at fair value through other comprehensive income statement is shown in the following table:

	In thousands of RSD For the year that ends 2018	2017
In RSD		
Bonds of the Republic of Serbia	51,916,780	33,137,523
Municipality bonds (city of Pancevo and municipality of Stara Pazova)	251,185	332,781
Total RSD	52,167,965	33,470,304
In foreign currencies		
Bonds of the Republic of Serbia	75,650,086	77,178,120
Bonds of foreign banks (Raiffeisen Bank International)	1,702,199	1,782,330
Bonds of the Republic of Srpska	2,884,532	1,778,838
Bonds of the Montenegro	158,943	1,888,350
In foreign currencies	80,395,760	82,627,638
Total	132,563,725	116,097,942

Changes in the impairment allowance are as shown:

Impairment allowance of securities measured at fair value through other comprehensive income

	December 31 2018	December 31 2017
Individual impairment allowance		
Balance at January 1st	3	81,710
Correction of opening balance		
IFRS 9 – correction of the result in the capital	1,828	-
Corrected opening balance as at January 1st, 2018	1,831	-
Increase (Note 13)	586	29,813
Exchange rate effects (Note 13)	(5)	(3,523)
Reversal (Note 13)	(818)	(27,211)
Permanent write-off	-	(80,786)
Total individual impairment allowance	1,594	3

Impairment allowance of securities measured at amortised cost

	December 31 2018	December 31 2017
Individual impairment allowance		
Balance at January 1st	-	84,169
Correction of opening balance	-	-
IFRS 9 – correction of the result in the capital	-	-
Corrected opening balance as at January 1st, 2018	-	-
Increase (Note 13)	-	-
Exchange rate effects (Note 13)	-	-
Reversal (Note 13)	-	-
Permanent write-off	-	(84,169)
Total individual impairment allowance	-	-

25. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

25.1 Placements to banks include

	In thousands of RSD	
	31 December 2018	31 December 2017
RSD loans and receivables		
Per repo transactions	1,500,000	15,000,000
Loans for working capital	1,000,000	200,000
Overnight loans	1,260,000	-
Other placements	15,993	68,549
Placed deposits in local currency	16,376	-
Prepayments	14,744	18,809
Impairment allowance	(1,127)	-
	3,805,986	15,287,358
FX loans and receivables		
Foreign currency accounts held with foreign banks (Note 19)	9,825,488	5,199,539
Overnight loans	1,587,977	2,144,357
Other loans and receivables due from foreign banks	1,243,418	972,056
Foreign currency deposits placed with other banks	3,793,400	5,929,799
Prepayments	513	819
Other receivables	9,843	13,004
Secured foreign currency warranties	997,656	889,202
Impairment	(226,744)	(202,579)
	17,231,551	14,946,197
Total	21,037,537	30,233,555

As at 31 December 2018, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 1,500,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days, with the annual interest rate from 2.31% to 2.59%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 1.9% to 3.50% per annum.

Short-term time deposits with foreign currency banks were deposited for up to one year with an annual interest rate ranging from 0.05% to 0.20% for the EUR currency, from 1.2% to 2.5% for USD and from 0.13% for CHF.

Long-term time deposits with banks in foreign currency were deposited at the annual interest rate in the range of 0.25% to 0.25%.

Interest rates on placements of short-term loans in foreign currency ranged from 3.00% to 6.50%, while interest rates on planned long-term loans in foreign currency ranged from 3.70% to 6.90%.

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25. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS (continued)

25.2 Changes in the impairment allowance account by placements to banks are presented in the following table:

Impairment allowance	2018	2017
Balance at 1 January	202,579	311,994
IFRS 9 – correction of the result in the capital	18,982	-
Corrected opening balance as at January 1st, 2018	221,561	-
Impairment in the current year:		
Increase (Note 13)	56,129	3,036
Effects of exchange rate change (Note 13)	9,171	(46,791)
Permanent write-off	-	-
Released during the year (Note 13)	(59,817)	(65,660)
Other	827	-
Balance at 31 December	227,871	202,579

26. LOANS AND RECEIVABLES FROM CLIENTS

26.1 Loans and receivables from clients:

In thousands of RSD

	2018			2017		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	908,929	(22,389)	886,540	547,983	(15,523)	532,460
Working capital loans	38,238,806	(4,484,678)	33,754,128	41,111,061	(6,948,860)	34,162,201
Export loans	-	-	-	59,381	-	59,381
Investment loans	38,547,851	(1,655,814)	36,892,037	31,305,119	(2,591,763)	28,713,356
Loans for payments of imported goods and services	2,072,507	(18,613)	2,053,894	2,109,314	(18,892)	2,090,422
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	386,037	(289,188)	96,849	416,502	(261,893)	154,609
Other loans and receivables	43,407,400	(7,058,215)	36,349,185	43,331,933	(7,271,480)	36,060,453
Prepayments	120,248	(19,393)	100,855	146,649	(24,290)	122,359
Accruals	(200,317)	-	(200,317)	(174,533)	-	(174,533)
	123,481,461	(13,548,290)	109,933,171	118,853,409	(17,132,701)	101,720,708
Retail customers						
Transaction account overdrafts	3,629,088	(179,038)	3,450,050	3,852,990	(425,362)	3,427,628
Housing loans	44,282,275	(785,292)	43,496,983	41,444,608	(660,884)	40,783,724
Cash loans	32,855,277	(299,495)	32,555,782	26,591,048	(429,866)	26,161,182
Consumer loans	198,225	(2,765)	195,460	285,226	(6,927)	278,299
Other loans and receivables	2,270,794	(92,333)	2,178,461	2,369,413	(114,850)	2,254,563
Prepayments	260,985	(2,830)	258,155	229,137	(3,024)	226,113
Accruals	(619,420)	-	(619,420)	(610,078)	-	(610,078)
	82,877,224	(1,361,753)	81,515,471	74,162,344	(1,640,913)	72,521,431
Balance as at December 31	206,358,685	(14,910,043)	191,448,642	193,015,753	(18,773,614)	174,242,139

26. LOANS AND RECEIVABLES FROM CLIENTS (continued)

26.2 Movements on the account of impairment allowance of Loans and receivables from clients are presented in the table below:

In thousands of RSD

	December 31 2018	December 31 2017
Individual impairment allowance		
Balance as at January 1	17,446,730	29,920,987
Current year impairment allowance:		
IFRS 9 – correction of the result in the capital	110,779	-
Corrected opening balance as at January 1st, 2018	17,557,509	-
Increase (Note 13)	1,711,065	7,337,739
Reclassified from group to individual impairment allowance	348,305	197,466
Effects of the changes in foreign exchange rates (Note 13)	(7,051)	(419,849)
Reversal (Note 13)	(1,864,903)	(6,605,172)
Permanent write-off	(4,570,641)	(13,010,356)
Previous years interest income	-	2,014
Other (Note 13)	1,953	23,901
Total individual impairment allowance	13,176,237	17,446,730
Group impairment allowance		
Balance as at January 1	1,326,884	2,169,615
Current year impairment allowance:		
IFRS 9 – correction of the result in the capital	748,874	-
Corrected opening balance as at January 1st, 2018	2,075,758	-
Increase (Note 13)	4,279,831	4,684,063
Reclassified from group to individual impairment allowance	(348,305)	(197,466)
Effects of the changes in foreign exchange rates (Note 13)	(6,616)	(411,656)
Reversal (Note 13)	(3,880,882)	(5,108,173)
Written off (Note 13)	(584,541)	(589,260)
Other (Note 13)	198,561	779,761
Total group impairment allowance	1,733,806	1,326,884
Balance as at December 31	14,910,043	18,773,614

26. LOANS AND RECEIVABLES FROM CLIENTS (continued)

Loans and receivables due from retail customers

During 2018, short-term and long-term loans to retails in RSD were approved for a period of 30 days to 120 months with nominal interest rates ranging from 1.8% to 14.5% per annum.

Short-term loans to retails in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.50% to 9.60% annually.

Long-term loans to retails in foreign currency are approved for a term of thirteen to three hundred and sixty-five months with nominal interest rates ranging from 1.5% to 13.00% annually.

Loans and receivables due from corporate client

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.35% to 6.00% annually. In foreign currency, short-term loans were approved for a period up to twelve months with an interest rate of 1.3% to 6.00% for EUR per annum whereas for other currencies from 2.00% to 13.2% per annum.

Long-term loans in RSD were approved for a period from thirteen months to thirty months with an interest rate from 2.25% to 5.50% on an annual basis. Long-term loans in foreign currency are approved for a period of up to one hundred forty-four months with an interest rate of EUR from 1.05% to 4.95% annually and for other foreign currencies with an nominal interest rate ranging 2.00% to 11.99% per annum, that is from 4.19% plus six months Euribor to 11.4% plus six months Euribor with the same maturity period.

Risks and uncertainties

The management of the Group members made a provision for potential loan losses using the concept of expected credit loss. Losses due to impairment of assets measured at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of future estimated cash flows discounted using the initial effective interest rate of the asset. Losses are recognized in the income statement and are stated at the expense position and the impairment of financial assets under Loans and receivables from clients. When events after the balance sheet date affect the impairment loss, such a decrease is recognized as an impairment loss through the income statement.

Loans and other receivables are presented in the amount reduced for group and individual impairment allowance. Individual and group provisions are deducted from the carrying amount of loans that are identified as impaired in order to reduce their value to their recoverable amount. In order to protect against the risk of non-performance of obligations in dealing with clients, the Group takes the following measures for regulating receivables: extension of the maturity date, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures. If the measures taken to regulate the placements, ie the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, the proposal for permanent write-off of the remaining receivables of the Group, or transfer from the balance sheet to the off-balance sheet is initiated.

27. INTANGIBLE ASSETS

27.1 Intangible assets consist of

In thousands of RSD

	December 31 2018	December 31 2017
Intangible assets	437,419	367,875
Intangible assets in progress	190,049	130,512
Total	627,468	498,387

27.2 Changes in intangible assets during 2018 and 2017 are shown in the following table

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as at January 1, 2017	2,247,277	2,563	2,249,840
Additions	4,755	262,196	266,951
Transfers	134,186	(134,186)	-
FX Adjustments	(11,090)	(61)	(11,151)
Balance as at December 31, 2017	2,375,128	130,512	2,505,640
Balance at January 1, 2018	2,375,128	130,512	2,505,640
Additions	19,516	270,867	290,383
Transfers	211,304	(211,304)	-
Disposals	(5,475)	-	(5,475)
FX Adjustments	(656)	(26)	(682)
Balance as at December 31, 2018	2,599,817	190,049	2,789,866
Depreciation			
Balance at January 1, 2017	1,855,294	-	1,855,294
Depreciation (Note 16)	162,273	-	162,273
FX Adjustments	(10,314)	-	(10,314)
Balance as at December 31, 2017	2,007,253	-	2,007,253
Balance at January 1, 2018	2,007,253	-	2,007,253
Depreciation (Note 18)	161,229	-	161,229
Disposals	(5,475)	-	(5,475)
FX Adjustments	(609)	-	(609)
Balance as at December 31, 2018	2,162,398	-	2,162,398
Net Book Value			
Balance as at December 31, 2017	367,875	130,512	498,387
Balance as at December 31, 2018	437,419	190,049	627,468

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Property, plant and equipment consist of:

In thousands of RSD

	December 31 2018	December 31 2017
Property	5,146,980	5,240,836
Equipment	678,001	634,924
Investments in progress	222,403	141,440
Total	6,047,384	6,017,200

28.2 Movements on property, plant and equipment during 2018 and 2017 were as follows:

In thousands of RSD

Cost	Property	Equipment	Investment in Progress	Total
Balance at January 1, 2017	7,626,856	3,903,215	50,896	11,580,967
Additions	-	3,962	359,456	363,418
Transfers from investment in progress	60,058	213,000	(268,829)	4,229
Transfers to investment property (Note 29.1)	(14,773)	-	-	(14,773)
Transfers on assets held for sale	(176,051)	-	-	(176,051)
Transfer form equipment	787	(787)	-	-
Transfers from assets acquired through collection of receivables	-	4,013	-	4,013
Disposals and retirements	(67,183)	(115,536)	-	(182,719)
Sales	-	(15,907)	-	(15,907)
FX adjustments	(23,032)	(21,708)	(83)	(44,823)
Balance at December 31, 2017	7,406,662	3,970,252	141,440	11,518,354
Balance at January 1, 2018	7,406,662	3,970,252	141,440	11,518,354
Additions	-	55,982	390,573	446,555
Transfers from investment in progress	74,395	235,194	(309,589)	-
Transfers from investment property	49,341	-	-	49,341
Transfers to assets for held for sale	(99,152)	-	-	(99,152)
Disposals and retirements	(48,213)	(153,219)	-	(201,432)
Sales	-	(40,140)	-	(40,140)
Shortages as per year count	-	(23,058)	-	(23,058)
FX adjustments	(1,246)	(1,165)	(21)	(2,432)
Balance at December 31, 2018	7,381,787	4,043,846	222,403	11,648,036

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28. PROPERTY, PLANT AND EQUIPMENT (continued)

28.2 Movements on property, plant and equipment during 2018 and 2017 were as follows (continued)

In thousands of RSD

	Property	Equipment	Investment in Progress	Total
Depreciation				
Balance at January 1, 2017	2,078,645	3,251,135	-	5,329,780
Depreciation (Note 18)	186,308	231,829	-	418,137
Transfers on investment in progress (Note 29.1)	(3,265)	-	-	(3,265)
Transfers on assets held for sale	(25,486)	-	-	(25,486)
Transfers from assets acquired through collection of receivables	1,833	-		1,833
Disposals and retirements	(62,116)	(112,639)	-	(174,755)
Sales	-	(15,322)	-	(15,322)
FX adjustments	(10,093)	(19,675)	-	(29,768)
Balance as at December 31 2017	2,165,826	3,335,328	-	5,501,154
Balance at January 1, 2018	2,165,826	3,335,328	-	5,501,154
Depreciation (Note 18)	174,480	244,967	-	419,447
Transfers on assets held for sale	(66,684)	-	-	(66,684)
Disposals and retirements	(38,239)	(150,704)	-	(188,943)
Sales	-	(40,140)	-	(40,140)
Shortages as per year count		(22,572)		(22,572)
FX adjustments	(576)	(1,034)	-	(1,610)
Balance as at December 31, 2018	2,234,807	3,365,845		5,600,652
Net book value				
Balance as at December 31, 2017	5,240,836	634,924	141,440	6,017,200
Balance as at December 31, 2018	5,146,980	678,001	222,403	6,047,384

Members of the Group do not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, as of December 31, 2018, the Parent Bank does not have evidence of ownership for 29 construction facilities with the current value of RSD 465,649 thousand (the number of facilities includes assets acquired through collecting receivables). The parent bank's management takes all the necessary measures to obtain ownership papers.

The total write off of fixed assets of the Parent bank at the present value of RSD 12,891 thousand was made during the year on the basis of the write-off of investments in others' fixed assets in the amount of RSD 10,040 thousand.

Based on the Annual list of the Group members, the amount of RSD 2,935 thousand of the permanently useless fixed assets of the present value is disposed of and disposed of.

29. INVESTMENT PROPERTY

29.1 Movements on the account of investment property in 2018 and 2017 are presented below:

	In thousands of RSD Total
Cost	
Balance at January 1, 2017	3,107,746
Transfers from PP&E	14,773
Transfers from assets held for sale	23,461
Transfers from assets acquired through collection of receivables – correction	(5,272)
Sales	(117,034)
Appraisal – decrease	(79,477)
FX adjustments	(26,675)
Balance at December 31, 2017	2,917,522
Balance at January 1, 2018	2,917,522
Transfer from PP&E	-
Transfer to PP&E	(49,341)
Transfers from assets held for sale	69,218
Sales	(78,176)
Appraisal – decrease	(7,700)
FX adjustments	(1,561)
Balance at December 31, 2018	2,849,962
Depreciation	
Balance at January 1, 2017	499,695
Depreciation (Note 18)	45,270
Transfer to PP&E	3,265
Transfers from assets acquired through collection of receivables – correction	7,672
Sales	(4,438)
Appraisal – decrease	(3,520)
FX adjustments	(10,986)
Balance as at December 31, 2017	536,958
Balance at January 1, 2018	536,958
Depreciation (Note 18)	49,078
Transfers from assets acquired through collection of receivables	12,868
Sales	(14,786)
Appraisal – decrease	6,679
FX adjustments	(650)
Balance as at December 31, 2018	590,147
Net book value	
Balance as at December 31, 2017	2,380,564
Balance as at December 31, 2018	2,259,815

Information on investment property per members of the Group is presented below:

29. INVESTMENT PROPERTY (continued)

29.2.1 The parent bank

As of December 31, 2018, the Parent bank has listed investment property of the present value in the amount of RSD 1,896,347 thousand, which make the buildings lease.

In 2018, based on the assessment of the authorized external assessor, a decrease in the value of investment property in the amount of RSD 6,892 thousand was made against the impairment expenses (part of note 20). During 2018, the Bank made a changed the purpose for two outlets in Novi Sad to facilities with business purpose.

As at 31 December 2018, the net result on the basis of investment property is negative and amounts to RSD 2,618 thousand.

Property	Area in m^2	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(23,710)	9,239	(14,471)
Nis, Vrtiste new D - building	1,816	(4,313)	-	(4,313)
Nis, TPC Kalca	85	(799)	4,974	4,175
Beograd, Omladinskih brigade 19	15,218	(19,655)	16,487	(3,168)
Sabac, Majur, Obilazni put bb	1,263	(1,742)	-	(1,742)
Lovcenac, Marsala Tita bb,	46,971	(2,696)	7,096	4,400
Negotin, Save Dragovica 20-22	658	(583)	-	(583)
Nis, Bulevar 12. February bb	816	(380)	4,541	4,161
Beograd, Radnicka 22	7,190	(18,189)	18,717	528
Novi Sad, Vardarska 1/B	291	(1,895)	3,608	1,713
Novi Sad, Bulevar Oslobodjenja 88, 3 locals	44	(526)	2,316	1,790
Kotor, Old Town, Palata beskuca, business area, number 1	207	(1,007)	5,647	4,640
Beograd, Luke Vojvodica 77a	80	(604)	856	252
		(76,099)	73,481	(2,618)

29. INVESTMENT PROPERTY (continued)

29.2.2 Komercijalna banka ad, Banja Luka

As at 31 December 2018, the Bank has classified investment properties in the amount of RSD 268,512 thousand, which make the buildings lease.

On the basis of the concluded long-term lease agreement, in 2018, the Bank made a transfer to investment property from the position of fixed assets intended for sale (business building and land in Hadzici, Brcko) in the amount of RSD 135,380 thousand.

In 2018, based on the assessment of the authorized external assessor, a decrease in the value of investment property in the amount of RSD 7,487 thousand.

Estimation of the value of investment property where the estimated value was lower than the net book value in 2018:

Property	Area in m^2	Book value before the appraisal in 000 RSD	Appraisal value In 000 EUR	Appraisal value In 000 RSD	Difference in 000 RSD
Business building: Ground floor-production warehouse; Ground floor - administrative part; Floor-administrative part; Attic-administrative part located in the Non-custom area District Brcko - Industrial and labour zone	1,266	81,060	343	79,306	(1,754)
Business building-production building: Non-custom area Distrikt Brcko	1,088	53,830	223	51,458	(2,372)
Business building-warehouse located in the Non-custom area District Brcko - Industrial and labour zone	873	23,995	58	13,477	(10,518)
TOTAL		158,885	624	144,241	(14,644)

As at 31 December 2018, the net result on the basis of investment property amounts to RSD 3,772 thousand:

Object Name	Area in m²	Total Cost (In thousands of RSD)	Realized rental income (In thousands of RSD)	Net result (In thousands of RSD)
Brcko, Bescarinska zona bb	7,197	(1,723)	3,155	1,432
Actros motel-pizzeria Nova Topola	5,437	(2,426)	4,029	1,603
Strbac Milovan and Miroslav		(348)	725	377
Sarajevo, Aurum Arena	402	(206)	204	(2)
Nova Topola, land	5,767	(1)	363	362
		(4,704)	8,476	3,772

29. INVESTMENT PROPERTY (continued)

29.2.3 Komercijalna banka ad, Podgorica

As at 31 December 2018, the Bank has listed investment property in the amount of RSD 94,956 thousand, which make the buildings lease.

As at 31 December 2018, the net result on the basis of investment property amounts to RSD 2,062 thousand:

In thousands of RSD

Object Name	Area in m²	Total Cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	2,062	2,062
		-	2,062	2,062

30. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In thousands of RSD

	December 31 2018	December 31 2017
Assets held for sale and discontinued operations	659,003	787,618
Total	659,003	787,618

a) Assets held for sale at the parent bank:

Object Name	Area in m^2	Book value
Jasika, office space	75.87	538
Pozarevac, Mose Pijade 2, commercial space	826.82	27,926
Pozarevac, Mose Pijade 2, commercial space	880.86	23,107
Vrbas M. Tita 49, commercial space	145.56	2,128
Kotor, business premises 1 and 2	690.00	91,582
Jastrebac, resort building	687.00	19,388
Jastrebac, summer house	108.00	1,301
Jastrebac, house for aggregate	65.00	310
Belgrade, Palmira Toljatija 5	637.00	61,350
Total		227,630

During 2018, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 13,518 thousand.

The parent bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

30. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

b) Assets held for sale at Komercijalna banka ad, Banja Luka

Object name	Area in m^2	Booking value in thousands of RSD
Business space Posusje	1,289.00	20,311
Commercial building and land, Kocicevo, Gradiska	5,333.30	14,492
Family apartment building, Prijedor	505.65	5,504
Business buildings and land, Mrkonjic grad	2,619.00	4,339
Business buildings and land, Prijedor	7,043.00	58,883
Commercial building and land, Rovine, Gradiska	961.00	4,957
Business premises - Brcko District	29.00	1,675
Business premises - Brcko District	52.00	4,184
Production and Commercial Complex Brcko Distrikt	67,232.00	58,043
Equipment – machines		3,390
		175,778

During 2018, five objects were sold (flat in Pale, business object and land Prohema doo Brcko, business object Cupic doo Prijedor and Alumina doo Knezevo) and on that basis, fixed assets intended for sale decreased by RSD 105,729 thousand. The total sale price of these facilities amounts to RSD 137,788 thousand.

During 2018, various equipment (merchandise, trailers, commercial vehicles, spare parts and consumables) were sold, and on that basis, fixed assets intended for the sale decreased in the amount of present value of RSD 30,706 thousand. The total selling price of these facilities is 30,386 thousand dinars. A sales loss amounting to RSD 320 thousand was realized.

During 2018, on the basis of the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale in the amount of RSD 14,009 thousand was made.

In compliance with the internal acts of the Bank, a decrease in the value of fixed assets intended for sale in the amount of RSD 1,716 thousand has been made.

Total impairment of fixed assets intended for sale during 2018 is RSD 15,725 thousand.

The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

30. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

c) Assets held for sale at Komercijalna banka ad, Podgorica:

Object Name	Area in m^2	Booking value in thousands of RSD
2 business premises at the Stari Aerodrom in Podgorica	97	5,496
4 business premises at the Stari Aerodrom in Podgorica	455	26,973
Pasture area on Cemovsko polje in Podgorica	375	1,172
2 apartments and 2 garages in Perazic Dol in Podgorica	135	18,095
Land in Razevici	547	6,567
Land and auxiliary building in Podgorica	849	-
Land and production hall for wood processing in Andrijevica (3 auxiliary buildings and buildings in the energy sector)	14.233	8,829
Unurbanized land in Kotor	31.534	35,718
Forest in Budva	709	14,767
Forest and meadow in Vranovici	3.131	2,724
Land in Kotor	3.362	5,429
Land and fish factory (buildings) in Rijeka Crnojevica (Cetinje)	50.455	87,865
Apartment in Niksic	65	2,361
Urbanized plot in Herceg Novi	300	1,369
Urbanized plot in Risan	425	4,061
Forests, fields and pastures in Bar	12.501	9,986
2 Business premises in Petrovac	173	24,183
Business premises Hoti - Podgorica	45	-
TOTAL		255,595

During the year 2018 there were sales of five properties held for sale.

In 2018, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 8,823 thousand.

The Bank's management continues to pursue the sale procedure for all assets that have not been sold in the past year.

31. OTHER ASSETS

Other assets consist of:

	December 31 2018	December 31 2017
	In thousands of RSD	
In RSD		
Fee receivables per other assets	107,852	102,745
Inventories	148,886	158,202
Assets acquired in lieu of debt collection	3,379,717	3,412,873
Prepaid expenses	141,317	120,459
Equity investments	1,747,405	1,572,140
Other RSD receivables	3,220,716	3,003,211
	8,745,893	8,369,630
Impairment allowance of:		
Fee receivables per other assets	(68,497)	(44,251)
Assets acquired in lieu of debt collection	(1,599,828)	(1,507,288)
Equity investments	(446,661)	(504,732)
Other RSD receivables	(859,572)	(944,035)
	(2,974,558)	(3,000,306)
In foreign currencies		
Fee receivables per other assets	807	2,104
Other receivables from operations	984,859	813,355
Receivables in settlement	381,548	1,379,082
Other foreign currency receivables	226,552	157,975
	1,593,766	2,352,516
Impairment allowance of		
Other receivables from operations	(133,562)	(163,542)
Receivables in settlement	(77,875)	(77,922)
	(211,437)	(241,464)
Total	7,153,664	7,480,376

On the basis of the performed annual inventory, the parent bank has made a write-off of the material expenses in the total amount of RSD 22 thousand.

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31. OTHER ASSETS (continued)

Changes in the allowance account for other assets and active time delimits during the year are shown in the following table:

Individual impairment allowance

In thousands of RSD

	December 31 2018	December 31 2017
Balance at 1 January	892,037	1,235,731
Corrected opening balance		
IFRS 9 – correction of the result in the capital	13,573	-
Corrected opening balance as at January 1st, 2018	905,610	-
Impairment in the current year:		
Increase (Note 13)	24,983	197,905
Effects of change in exchange rate (Note 13)	(1,598)	(35,144)
Release during the year (Note 13)	10,592	(20,151)
Permanent write-off	(4,226)	(16,865)
Other	(8,574)	(469,439)
Total individual correction	926,787	892,037

Group impairment

In thousands of RSD

	December 31 2018	December 31 2017
Balance at 1 January	2,248,880	2,340,680
Corrected opening balance		
IFRS 9 – correction of the result in the capital	(439,405)	
Corrected opening balance as at January 1st, 2018	1,809,475	-
Impairment in the current year:		
Increase (Note 13)	217,543	451,171
Effects of change in exchange rate (Note 13)	102	(9,994)
Release during the year (Note 13)	(301,878)	(122,050)
Permanent write-off	(6,559)	(9,781)
Other	(7,771)	(401,146)
Total group impairment allowance	1,710,912	2,248,880
Balance at December 31 (without small inventory)	2,637,699	3,140,917
Impairment allowance of inventory (not subject to credit risk)	101,635	100,851
Balance at December 31 (with small inventory)	2,739,334	3,241,770

31. OTHER ASSETS (continued)

a) Equity participation

Within the position of other assets, equity participation of legal entities is recognized according to the table:

	2018	2017
Participation in the capital of banks and financial organizations	80,270	80,270
Participation in the capital of enterprises and other legal entities	410,760	464,902
Participation in the capital of foreign persons abroad	1,256,375	1,026,968
	1,747,405	1,572,140
impairment allowance based on:		
Participation in the capital of banks and financial organizations	(80,270)	(80,270)
Equity participation of enterprises and other legal entities	(366,391)	(424,462)
	(446,661)	(504,732)

Participation in the capital of banks and financial organizations relates to: Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, Union Bank a.d. in the amount of RSD 1,874 thousand and Univerzal banka a.d. Belgrade (in bankruptcy) in the amount of RSD 9 thousand.

The company's equity shares mostly relate to: October 14th, Krusevac in the amount of RSD 324,874 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand, the Company Dunav osiguranje a.d.o. Belgrade in the amount of RSD 32,759 thousand and Politika a.d. Belgrade RSD 1,899 thousand.

Participation in the capital of foreign entities abroad relates to the company VISA INC in the amount of RSD 1,020,797 thousand and MASTER Card International in the amount of RSD 235,223 thousand and Montenegro Stock Exchange Podgorica in the amount of RSD 355 thousand.

The impairment of the equity participation in the amount of RSD 446,661 thousand relates to the impairment of the purchase value for those shares that do not have market value, the largest amount of which is related to: October 14, Krusevac in the amount of RSD 324,874 thousand, Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, RTV Politika doo, Belgrade in the amount of RSD 37,633 thousand, Politika a.d., Belgrade and PPD Dobricevo Cuprija in the amount of RSD 2,563 thousand.

b) Other receivables and receivables in the calculation

Other receivables in RSD mostly relate to receivables arising from the purchase of foreign currency on the foreign exchange market in the amount of 709,270 thousand, operating receivables in the amount of RSD 250,989 thousand, receivables based on material values received by collection of receivables in the amount of RSD 2,268,696 thousand (Impairment allowance in the amount of RSD 949,729 thousand), receivables arising from advances granted for working capital in the amount of RSD 28,391 thousand, receivables on lease RSD 368,981 thousand, receivables for default interest on the basis of stocks s assets in the amount of 204,498 thousand, receivables on the overpaid taxes and contributions in the amount of RSD 1,606 thousand and receivables in the calculation according to the court judgment in the amount of RSD 209,085 thousand (allowance for the full amount of 100%).

Within the position of Other receivables in foreign currency settlement of the total amount of RSD 381,548 thousand, the most significant amount of RSD 227,052 thousand refers to receivables based on spot transactions.

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31. OTHER ASSETS (continued)

c) Foreclosed assets

Foreclosed assets totalling RSD 3,379,717 thousand, less recorded impairment allowance of RSD 1,599,828 thousand, with the net carrying value of RSD 1,779,889 thousand relate to members of the group:

Parent Bank

I Assets foreclosed before December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

Description	Area in m^2	Value	Date of acquisition
Novi Pazar, Kej Skopskih zrtava,44 local	82.95	2,128	27.09.2006.
Gnjilica, field VII class	2.638	56	15.04.2008.
Cacak, Hotel "Prezident", Bulevar oslobodjenja bb	2.278.92	98,456	21.01.2009.
Tivat, Mrcevac-apartment building, auxiliary building	277	4,834	23.12.2009.
Budva, Montenegro, forest, IV class	8.292	88	12.10.2010.
Buce, forest, IV class	974	3,875	27.05.2011.
Prijevor, forest IV class	1.995	4,559	27.05.2011.
Belgrade, 14 Miajla Avramovic, building	925.35	164,228	21.11.2011.
Krusevac, Kosevi, production and office building I.C.P.	12.836	45,433	08.06.2012.
Mladenovac, Sopot-Nemenikuce, field III class	16.633	258	25.06.2012.
Obrenovac, Mislodjin, field III class	10.017	1,016	11.07.2012.
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,547	24.07.2012.
Majur, Tabanovacka, field	14.452	1,575	10.08.2012.
Mali Pozarevac, large field, field III and IV classes	21.915	309	27.09.2012.
Cuprija, Aleksa Santic 2/24, apartment	72.40	811	15.01.2013.
NIS, Ivana Milutinovica 30, business office	438.39	4,924	23.04.2013.
NIS, Triglavska 3/1, flat	79.80	3,165	04.06.2013.
Mladenovac, field-lug III class	1.142	405	18.07.2013.
NIS, Bulevar 12. februar, outhouse-storage	2.062	39,112	30.07.2013.
Kula,Zeleznicka bb,business office,land	7.959	21,990	01.10.2013.
Prijepolje, Karosevina, sawmill	450	839	08.11.2013.
Total I		401,608	

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

II Assets foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

Description	Area in m²	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132.450	552	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3.823	46,813	08.05.2014.
Subotica, Magnetic fields, 17, production hall and warehouse	2.492	44,612	18.07.2014.
Mokra Gora, land, forests, fields, houses	58.400	3,985	31.01.2014.
Kopaonik, House with land	337	3,936	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 6/3	29	2,970	31.01.2014.
Novi Sad, Bulevar oslobodjenja 30 and commercial property 7/3	44	4,506	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 8/3	35	3,584	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 9/3	34	3,482	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 10/3	39	3,994	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/22	226	16,430	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	19,463	31.01.2014.
Novi Sad, Tihomira Ostojic, 4, Office 7	134	5,530	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office 8	81	4,769	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office 9	79	4,651	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, Office space 10	408	24,703	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9.144	33,601	14.08.2014.
Budva, Rezevici, Montenegro, rocks, forest	1.363.20	19,469	22.07.2014.
Budva, Rezevici, Montenegro, forest V class	5.638.54	79,502	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	4,360	17.04.2013.
Mladenovac, Americ, field IV class	7.768	245	03.10.2014.
Valjevo, Radjevo selo, warehouse	394	423	11.06.2014.
Bela Crkva, Kajtasovo, forest	4.187	68	03.10.2014.
Mladenovac, fields, orchards	25.136	519	03.10.2014.
Valjevo, Vojvode Misica 17, family building	106	1,651	25.09.2014.
NIS, Cajnicka bb, residential buildings with additional building	825.74	10,369	14.03.2013.
NIS, Sjenicka 1, commercial buildings, warehouses, workshops	1.452.73	12,767	14.03.2013.
Belgrade, Zemun, Cara Dusana 130, factory complex	6.876	96,957	16.06.2014.
NIS, Sumadijska 1, Office space	504.60	1,746	04.12.2014.
Valjevo, Worker 6, place	69	2,684	28.05.2014.
Prokuplje, field III class	12.347	554	28.08.2015.
Mionica, Prote Zarko Tomovica bb, House	107	1,678	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	270	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417.908	5,312	31.07.2012.
Sokobanja, production hall with land	5.042	22,825	31.07.2012.
Sokobanja, space with land	2.005	656	31.07.2012.
Sokobanja, House with land	4.194	3,547	31.07.2012.
Belgrade, Pivljanina 83, residential buildings	278.52	58,577	23.08.2012.
Divcibare, meadows V class	8.012	4,114	02.12.2015.
Lebane, Branka Radicevica 17, residential and commercial building	768.42	5,507	27.08.2015.
Loznica, Lipnica, Karadjordjeva, residential and commercial building with land	146	1,997	15.10.2015.
Vrhpolje, lodging hospitality	1.334	2,283	16.05.2013.
Krusevac, century village, a concrete base with land	100.560	131,163	11.03.2016.
Zrenjanin, Bagljas, pasture II class	230	48	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10.462	29,667	26.02.2016.
Aleksandrovo, Merosina, building with land	8.527	14,135	23.12.2015.
Cacak, Suvo polje, buildings 1 and 2 with land	1.225	11,564	05.05.2016.
Bojnik, Mirosevce, fields, pasture, vineyard	29.550	224	31.03.2016.
Valjevo, Bobove, field VI and VII class	20.599	307	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	20,622	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,860	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,860	22.12.2016.
Total II		895,111	

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Parent Bank (continued)

III Assets foreclosed after December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision (continued)

In RSD thousand

Description	Value	Acquisition Date
Krusevac, movables (machinery, furniture, equipment)	6,799	08.06.2012.
Nis and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	6,101	31.07.2012.
Paracin, coffee roasting line	2,512	31.12.2012.
Vranic, equipment, production line	4,318	09.07.2013.
Total III	19,730	

IV Foreclosed equipment in periods prior December 30, 2013 – amounts included in the calculation of reserves from profit in accordance with the relevant NBS decision

In RSD thousand

Description	Value	Acquisition Date
Movable property, agricultural machinery and tools	59	03.06.2015.
Equipment, supply of secondary raw materials	1,523	18.07.2014.
Movables, installation materials	672	13.05.2014.
Other	264	
Total IV	2,518	
TOTAL (Net carrying value) I + II+ III+ IV	1,318,967	

The effect of the impairment of assets acquired through the collection of debts in 2018 is shown in the table:

In RSD 000

Effects of property impairment	83,099
Effects of equipment impairment	13,439
TOTAL	96,538

Total negative effect amounted to RSD 96,538 thousand and it was recognized as expense of a period as follows (note 13):

- For properties RSD 57,525 thousand based on lower appraisal market value and RSD 26,151 thousand according to internal act due to Bank's inability to sell the property in the period longer than 12 months, even though the appraisal value is higher than book value
- For equipment RSD 13,439 thousand based on lower appraisal market value and according to internal act.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

31. OTHER ASSETS (Continued)

c) Foreclosed assets (continued)
G1.1. Appraisal value of foreclosed properties

Property	Area in m²	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, Mihaila Avramovica 14a,building	925.35	184,285	1,559	164,228	(20,057)
Krusevac, St. selo, a concrete base with land	100,560	136,062	1,151	131,163	(4,899)
Cacak, Hotel "Prezident", Bulevar oslobodjenja BB	2,278.92	100,608	851	98,456	(2,152)
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	100,578	851	96,957	(3,621)
Budva, Rezevici, Montenegro, forest V class	5,638.54	81,042	686	79,502	(1,540)
Kotor, Montenegro, Office space, building No. 1 PD 4	345	69,626	589	60,860	(8,766)
Kotor, Montenegro, Office space, building No. 1 PD6	345	69,626	589	60,860	(8,766)
Belgrade, Pivljanina 83, Office building	278.52	60,764	514	58,577	(2,187)
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	54,292	459	46,813	(7,479)
Subotica,Magnetna polja 17, production hall and warehouse	2,492	46,278	392	44,612	(1,666)
Krusevac, Kosevi bb, production and office building I.C.P.	12,836	45,475	385	45,433	(42)
NIS, Bulevar 12. Februara bb, extra building-warehouse	2,062	40,573	343	39,112	(1,461)
Sokobanja, link, port, with land, Orchard, House, field IV kl.	429,149	38,957	330	32,340	(6,617)
Zerenjanin,Bagljas,Novosadski put 4,building,pump,land, pasture	9,374	34,904	295	33,649	(1,255)
Svilajnac, Kodublje, partner, buildings, halls and land	10,462	32,672	276	29,667	(3,005)
Novi Sad, Polgar Andrasa 40/a, pressing business. Space 10	408	24,857	210	24,703	(154)
Kula, Zeleznicka bb, commercial property, land	7,959	22,811	193	21,990	(821)
Kotor, Montenegro, Office space, building No. 1 PD2	106	21,393	181	20,622	(771)
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	20,189	171	19,463	(726)
Budva,Rezevici, Montenegro,forest	1,363.20	19,846	168	19,469	(377)
Novi Sad, Bulevar oslobodjenja 88 , business space 22	226	17,044	144	16,430	(614)
Aleksandrovo, Merosina, administration building with land	8,527	14,663	124	14,135	(528)
Nis, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	13,244	112	12,767	(477)
Cacak, Suvo polje,building 1 и 2 with land	1,225	11,996	101	11,564	(432)
Nis, Cajnicka BB, building	825.74	10,756	91	10,369	(387)
Novi Sad, Tihomira Ostojica 4, business office 7	134	5,736	49	5,530	(206)
Lebane, Branka Radicevica 17, residential and commercial building	768.42	5,714	48	5,507	(207)
NIS, Ivana Milutinovica 30, business space	438.39	5,107	43	4,924	(183)
Novi Sad, Polgar Andrasa 40/a, , business space 8	81	4,922	42	4,769	(153)
Novi Sad, Polgar Andrasa 40/a, , business space 9	79	4,801	41	4,651	(150)
Novi Sad, Bulevar Oslobodjenja 30a, business space (5 local)	181	19,227	163	18,536	(691)
Prijevor, forest 4 class	1,995	4,647	39	4,559	(88)
NIS, Ivana Gorana Kovacica 31, residential area	434.58	4,523	38	4,360	(163)
Divcibare, meadows V class	8,012	4,193	35	4,114	(79)
Mokra Gora, houses and meadows	58,400	4,134	35	3,985	(149)
Kopaonik, House with land	337	4,083	35	3,936	(147)
Budva, forest IV class	974	3,950	33	3,875	(75)
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,648	31	3,547	(101)
Other (27 properties)	-	32,201	272	30,294	(1,907)
TOTAL		1,379,427		1,296,328	(83,099)

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

G1.2. Appraisals of foreclosed equipment

Description	Book value before the appraisal	Net carrying value in RSD	Difference in value
Movables	21,262	13,618	7,644
Equipment, inventory and secondary raw materials	6,303	1,846	4,457
Other	8,169	6,831	1,338
TOTAL	35,734	22,249	(13,439)

For three movables object worth in total RSD 96 thousand Parent bank does not have ownership documents (objects recorded on off-balance). The Parent bank's management is taking all necessary measures in order to sell the acquired assets.

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

Komercijalna banka ad, Podgorica

Tangible assets acquired through collection of receivables in previous period:

Description	Area in m^2	Value in RSD thousand	Acquisition Date
Danilovgrad – land and buildings	13.395	-	09.10.2007.
Sutomore – hotel and land	1.590	88,376	31.01.2009.
Podgorica – grassland and three family buidings	1.105	15,934	17.12.2009.
Petrovac – residential building and business premises	80	11,179	17.12.2009.
Podgorica – factory and land	8.214	36,041	28.12.2009.
Podgorica – business premises and land	5.209	37,436	28.12.2009.
Cetinje – garage and land	439	1,437	25.05.2010.
Podgorica– house and yard	883	25,519	31.07.2010.
Zemljiste, two ancillary buildings and house /kafana - Danilovgrad	1.892	4,175	31.10.2011.
Podgorica – hotel	551	40,991	31.12.2011.
Podgorica – land and house	484	5,624	31.12.2011.
Bar – land, house and two ancillary buildings	1.507	3,747	28.02.2013.
Niksic – meadow and unclassified roads	977	981	28.02.2013.
Budva – Perezica Do – land, business premises,three garages, four apartments	5.315	78,622	25.01.2014.
Budva – Buljarice land and business premises	9.791	25,530	25.01.2014.
Kotor – land, two family residential buildings and ancillary buildings	396	1,674	12.08.2014.
Podgorica land and building under construction	412	4,733	22.12.2014.
Bar – forest	3.569	56,760	29.12.2014.
Bar – business premises	385	22,163	24.03.2015.
TOTAL KB Podgorica (present value)		460,922	

For 20 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not entered into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered into possession as at 31 December 2018, amount to 460,922 thousand (EUR 3,899 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

31. OTHER ASSETS (continued)

c) Foreclosed assets (continued)

The Bank has hired licensed external appraisers who conducted a reappraisal of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of 11,395 thousand. Also, due to the inability to sell the acquired assets within a year, and whose estimated value is higher than the book value, the recognition of the impairment in the amount of RSD 2,000 thousand was made.

Estimated value of property acquired through collection of receivables:

Name of the property	Area in m^2	Book value before revaluation In RSD thousand	Estimated value In EUR thousand	Estimated value In RSD thousand	Value difference in RSD thousand
Zemljiste, business premises, 3 garages and 4 apartments - Perazica Do	5.315	78,858	665	78,622	(236)
Land and business premises - Buljarice – Podgorica	9.791	26,440	216	25,530	(910)
Yard and a house Podgorici	883	25,519	216	25,519	-
Land and hotel- Sutomoru	1.590	88,376	748	88,376	-
Apartment and business premises- Petrovac	80	11,495	95	11,179	(316)
Grassland and three family residential buildings - Podgorica	1.105	16,231	135	15,934	(297)
Land and factory - Podgorica	8.214	37,061	305	36,041	(1,020)
Land and two business premises - Podgorica	5.209	37,436	317	37,436	-
Land and ancillary buildings - Danilovgrad	13.395	40	-	-	(40)
Land and garage - Cetinje	439	1,451	12	1,437	(14)
Land,two ancillary buildings and house/pub – Danilovgrad	1.892	4,175	35	4,175	-
Hotel - Podgorica	551	40,991	347	40,991	-
Land and house - Podgorica	484	6,288	48	5,624	(664)
Meadow and unclassified roads – Niksic	977	1,033	8	981	(52)
Land, house and two i ancillary buildings – Bar	1.507	3,785	32	3,747	(38)
Land, two family residential buildings and ancillary buildings - Kotor	396	2,065	14	1,674	(391)
Land and building under construction - Podgorica	412	4,867	40	4,733	(134)
Forest - Bar	3.569	56,760	480	56,760	-
Business premises - Bar	385	22,790	187	22,163	(627)
TOTAL		465,661	3,900	460,922	(4,739)

32. LIABILITIES UNDER DERIVATIVES

In RSD thousand

	December 31, 2018	December 31, 2017
Liabilities based on changes in fair value - SWAP	-	7,845
TOTAL	-	7,845

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

Liabilities to banks and financial organizations are consist of:

In RSD thousand

	December 31, 2018	December 31, 2017
Demand deposits	2,401,291	2,440,548
Term deposits	5,096,550	1,494,226
Borrowings	709,168	2,203,592
Expenses deferred at the effective interest rate (deductible item)	(2,990)	(20,681)
Other	24,265	20,091
Balance at December 31	8,228,284	6,137,776

During 2018 deposits in RSD were placed at interest rate of 2.10% to 2.55% whereas in deposits in foreign currency were placed by banks at interest rate from 0.05% to 0,15%for CHF, and 0.05% - 0.10% for EUR and for other currencies from 0.3% to 2.6%.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

In RSD thousand

	December 31, 2018	December 31, 2017
EBRD	709,168	2,132,509
Balance at December 31	709,168	2,132,509

In 2018, the Bank has repaid the EBRD credit line in the amount of EUR 12,000 thousand, which resulted in a decrease in the balance at the end of the year compared to 2017 in the amount of RSD 1,423,341 thousand.

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

Breakdown of long-term borrowings of Komercijalna Banka a.d. Banja Luka included within the line item Liabilities due to banks:

In RSD thousand

	December 31, 2018	December 31, 2017
EFSE fund	-	71,083
Balance as at December 31	-	71,083

34. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS

Deposits and other financial liabilities to clients comprise:

In RSD thousand

	December 31, 2018	December 31, 2017
Corporate customers		
Demand deposits	72,491,064	62,522,169
Callable deposits	30,820	-
Overnight and other deposits	18,589,984	10,673,102
Borrowings	4,205,963	6,560,037
Special purpose deposits	2,104,808	1,616,883
Deposits for loans approved	710,420	691,317
Interest payable, accrued interest liabilities and other financial liabilities	500,933	456,241
Retail customers		
Demand deposits	36,114,872	30,083,520
Callable deposits	34,962	31,717
Savings deposits	207,149,245	197,121,547
Special purpose deposits	4,668,630	4,198,663
Deposits for loans approved	2,430,396	2,197,246
Interest payable, accrued interest liabilities and other financial liabilities	930,104	943,804
Other deposits	705,955	481,502
Corporate customers	-	-
Balance at December 31	350,668,156	317,577,748

Corporate customer's deposit

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2018, these deposits are interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Banja Luka's interest rate ranges from 0.30% to 0.62% annually.

34. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Podgorica's interest rate ranges from 0.00% to 0.01% annually.

Non-resident deposits in foreign currency in Parent Bank are non-interest bearing deposits, except for specific business arrangements.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Podgorica is non-exhaustive.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Banja Luka ranges from 0.0% to 0.62%.

During 2018, short-term deposits of enterprises in RSD were deposited at an interest rate ranging from: reference interest rates minus 2.50 percentage points on deposits from three to fourteen days to the reference interest rate annually minus 1.00 percentage points for a period of up to one year limit of minimum 300 thousand dinars. Short-term deposits of entrepreneurs were deposited at an interest rate ranging from 0.25% to 2.20% annually with a minimum of RSD 300 thousand.
Short-term deposits of companies and entrepreneurs in foreign currency are deposited at an interest rate ranging from 0.0% to 1.50% annually for EUR or from 0.0% to 1.00% for USD, and for other currencies ranging from 0.0% to 0.85%.
Long-term corporate deposits in RSD were deposited with an interest rate determined by the reference interest rate of the National Bank of Serbia annually reduced by 0.50 percentage points to 0.20 percentage points, and in foreign currency from 0.50% to 2.00% annually for EUR and from 1.30% up to 1.40% annually for USD, from 0.00% to 3.70% annually for other foreign currencies.
Retail Customer Deposits
A vista retail savings deposits in local and foreign currencies in the Parent Bank during 2018 were non-interest bearing.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Banja Luka during 2018 were interest bearing ranging from -0.30% to 0.47% annually.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Podgorica during 2018 were interest bearing ranging from 0.00% to 0.01% annually.

Short-term retail deposits in RSD were deposited with interest rates ranging from 1.50% to 3.50% annually, and in foreign currency from 0.05% to 1.60% for EUR, and for other currencies ranging from -0.45% to 2.90% per annum.

Long-term retail deposits in RSD were deposited with interest rates ranging from 3.75% to 4.00% annually, and in foreign currency from 0.65% to 2.00% for EUR, and for other currencies ranging from -1.00% to 5.20% per annum.

In the framework of loan commitments, total liabilities are recognized for foreign-credit lines to foreign legal entities that are defined as clients for the needs of the balance sheet.

34. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Breakdown of long-term and short-term borrowings of Parent bank included within the line item of liabilities due to customers is presented below:

In RSD thousand

	December 31, 2018	December 31, 2017
Long-term loans		
LEDIB 1 and 2 (Kingdom of Denmark)	-	3,982
Republic of Italy Government	103,104	249,272
European Investment Bank (EIB)	1,955,882	3,635,120
European Agency for Reconstruction (EAR)	52,836	98,674
Short-term loans		
KfW	-	1,292,430
Balance at December 31	2,111,822	5,279,478

The above presented long-term and short-term borrowings mature in the period from 2019 to 2030.

The loan facility agreements agreed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by loan facility agreements differs from the method for calculating those same ratios in accordance with the regulations of the National Bank of Serbia in part relating to the calculation of capital and includes items eligible for determining open credit exposure.

During 2018, the Parent Bank made an early repayment of the credit line on the basis of contracts concluded with the German Development Bank (KfW), as well as the regular repayment of the LEDIB 1 and 2 credit line, which were paid off as a whole. Also, part of the credit line of the European Investment Bank (EIB) in the amount of EUR 7,065 thousand and the Italian Government line of credit in the amount of EUR 333 thousand were early repaid.

Breakdown of long-term borrowings of Komercijalna banka a.d. Podgorica included within the line item of liabilities due to customers is presented below:

In RSD thousand

	December 31, 2018	December 31, 2017
European Investment Bank (EIB)	196,287	291,950
Government of Montenegro - Project 1000+	46,728	50,441
Development Fund of Montenegro	378,782	123,681
Balance at December 31	621,797	466,072

The above presented long-term and short-term borrowings mature in the period from 2018 to 2031.

Komercijalna Banka a.d. Podgorica is not obligated to meet any financial ratios due to abovementioned loans.

34. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Breakdown of long-term borrowings of Komercijalna banka a.d. Banja Luka included within the line item of liabilities due to customers is presented below:

In RSD thousand

	December 31, 2018	December 31, 2017
Investment-Development Bank	1,472,344	814,487
Balance at December 31	1,472,344	814,487

The above presented long-term and short-term borrowings mature in the period from 2018 to 2044.

35. PROVISIONS

Provisions relate to:

In RSD thousand

	December 31, 2018	December 31, 2017
Provisions for off-balance sheet items (Note 15)	309,211	171,582
Provisions for litigations (Note 38.4)	988,557	876,374
Provisions for employee benefits in accordance with IAS 19	511,085	503,927
Balance at December 31	1,808,853	1,551,883

35. PROVISIONS (continued)

Movements on the accounts of provisions are provided below:

	2018				2017			
	Provisions for Off-Balance Sheet Items (Note 13)	Provisions for Litigations (Note 37.4)	Provisions for Employee Benefits (IAS 19)	Total	Provisions for Off-Balance Sheet Items (Note 13)	Provisions for Litigations (Note 37.4)	Provisions for Employee Benefits (IAS 19)	Total
Balance January 1	171,582	876,374	503,927	1,551,883	493,492	1,042,094	485,921	2,021,507
Correction of opening balance – IFRS9	85,303	-	-	85,303	-	-	-	-
Corrected opening balance January 1st, 2018	256,885	876,374	503,927	1,637,186	-	-	-	-
Increase	383,333	276,540	81,701	741,574	338,553	191,029	34,144	563,726
Provisions against actuarial gains within equity	-	-	(53,596)	(53,596)	-	-	(25,699)	(25,699)
Release	-	(29,186)	(7,475)	(36,661)	(260,686)	(323,540)	(14,568)	(598,794)
Reversal of provision	(330,916)	(134,354)	-	(465,270)	(397,562)	(29,089)	(1,538)	(428,189)
Foreign exchange differences	(91)	(187)	(107)	(385)	(2,215)	(4,120)	(2,013)	(8,348)
Other	-	(630)	(13,365)	(13,995)	-	-	27,680	27,680
Balance at December 31	309,211	988,557	511,085	1,808,853	171,582	876,374	503,927	1,551,883

35. PROVISIONS (continued)

a) Provisions for litigations of Parent Bank

A provision was done on the basis of estimates of future outflows in the amount of damage receivables including interest and costs. Total amount of provisions for 1.725 disputes as at December 31, 2018 amount to RSD 900,153 thousand.

Compared to 31 December, 2017 there was a change in the total level of provisions in the net amount of RSD 181,171 thousand. Of this, the change related to the net provisioning provision for legal liabilities amounts to RSD 136,861 thousand recognized in the income statement position, while the decrease in the provision in the amount of RSD 28,690 thousand relates to the use of provisions for payments and cancellation under the adopted court judgments.

Majority of disputes mainly relate to loan approval fee, receivables for damages and labour disputes.

b) Provisions for employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments.

The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2018	December 31, 2017
Parent Bank		
Discount rate	4.75%	4.50%
Salary growth rate within the Bank	2.00%	4.00%
Employee turnover	4.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

Komercijalna Banka a.d., Podgorica

	December 31, 2018	December 31, 2017
Discount rate	3.00%	3.00%
Salary growth rate within the Bank	3.00%	5.00%
Employee turnover	8.00%	6.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

	December 31, 2018	December 31, 2017
Discount rate	4.00%	4.00%
Salary growth rate within the Bank	2.00%	1.00%
Employee turnover	5.00%	4.00%

35. PROVISIONS (continued)

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on ten-year bonds issued by the Government of the Republic of Srpska was used to determine the discount rate.

KomBank INVEST a.d., Beograd

	December 31, 2018	December 31, 2017
Discount rate	4.75%	4.50%
Salary growth rate within the Bank	7.00%	8.00%
Employee turnover	5.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

36. OTHER LIABILITIES

Other liabilities include:

In RSD thousand

	December 31, 2018	December 31, 2017
Accounts payable	559,770	435,448
Liabilities to employees (salaries, payroll taxes and contributions and other liabilities to employees)	77,450	76,450
Advances received	129,635	89,167
Accrued interest, fees and commissions	170,378	163,311
Accrued liabilities and other accruals	380,493	551,441
Liabilities in settlement	2,277,235	3,077,788
Dividend payment liabilities	5,442,133	2,507,577
Taxes and contributions payable	30,842	30,125
Other liabilities	265,958	798,243
Balance as at December 31	9,333,894	7,729,550

Liabilities in settlement totalling RSD 2,277,235 thousand mostly relate to the liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 709,168 thousand, liabilities related to buying and selling foreign currencies in the amount of RSD 708,910 thousand, foreign currency liabilities for spot transactions in the amount of RSD 277,056 thousand and liabilities based on payment card receivables in the amount of RSD 322,546 thousand.

Liabilities from Parent's Bank profit in the amount of RSD 5,442,133 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 86,497 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 4,456,758 thousand and
- liabilities from profit to employees in the amount of RSD 898,877 thousand.

36. OTHER LIABILITIES

With the Decision of the Bank 6380/3 of April 26, 2018, a part of prior year's retained earnings was distributed for dividends on ordinary share in the amount of RSD 2,522,693 thousand and preferred shares in the amount of RSD 13,222 thousand with a payout limit of fulfilment of the requirements stated in the Article 25 of the Banking Act, The Republic of Serbia.

During 2018, the Bank did not carry out payments based on the distribution of profits for 2014, 2015, 2016 and 2017 because of the abovementioned limitation.

37. EQUITY

37.1 Equity is comprised of:

In RSD '000

	December 31 2018	December 31 2017
Share capital	17,191,526	17,191,527
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	17,503,846	14,439,525
Revaluation reserves	6,187,537	5,934,564
Retained earnings	9,277,759	8,357,094
Loss for the period	(1,481,701)	(1,665,678)
Balance as at December 31	71,522,051	67,100,116

Capital structure

In RSD '000

	December 31, 2018			December 31, 2017		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	Total
Share capital	17,191,466	60	17,191,526	17,191,466	61	17,191,527
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	40,034,550	60	40,034,610	40,034,550	61	40,034,611
Retained earnings	9,277,755	4	9,277,759	8,357,092	2	8,357,094
Loss for the period	(1,481,701)	-	(1,481,701)	(1,665,678)	-	(1,665,678)
Reserves from profit and other reserves	17,503,844	2	17,503,846	14,439,523	2	14,439,525
Revaluation reserves (credit balance)	4,539,643	-	4,539,643	4,385,025	-	4,385,025
Revaluation reserves (debit balance)	(257)	-	(257)	(109,194)	-	(109,194)
Translational reserves (Note 37.3)	1,648,151	-	1,648,151	1,658,733	-	1,658,733
Reserves	23,691,381	2	23,691,383	20,374,087	2	20,374,089
Capital	71,521,985	66	71,522,051	67,100,051	65	67,100,116

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank, as well as to participate in profit distribution. As of December 31, 2018 the Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

37. EQUITY (continued)

The first-time effect of IFRS 9 in the consolidated financial statements of the Group reduced by the effect of internal relations of the members and shown in the following tables:

Effect of first application of IFRS 9 correction 01/01/2018 reduced by the effect of internal relations

Parent Bank — In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities through the other comprehensive income	The total effect of the first application of IFRS 9 recognized through correction of the results of the previous year
943,486	211,947	1,155,433

KB Podgorica — In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities	The total effect of the first application of IFRS 9 recognized through correction of the capital
22,765	23,585	46,350

KB Banja Luka — In thousands of RSD

Impairment allowance of financial assets measured at amortised cost including the effect of the change in the provision for off-balance sheet assets – deducted for the effect of internal relationships	Effect of correction of the fair value of securities	The total effect of the first application of IFRS 9 recognized through correction of the capital
78,415	22,409	100,824

37. EQUITY (continued)

37.1 Equity is comprised of (continued)

Structure of the Parent Bank's shares is provided in the table below:

Share Type	Number of shares December 31 2018	Number of shares December 31 2017
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2018 was as follows:

Shareholder	Number of shares	% share
Republic of Serbia	7,022,166	41.75
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
DEG Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
BDD M&V INVESTMENTS AD BEOGRAD	320,000	1.90
Kompanija Dunav osiguranje a.d., Beograd	290,214	1.73
East Capital (lux)-Balkan Fund	195,656	1.16
Global Marco Capital Opportun	130,558	0.78
Stankom co. d.o.o., Beograd	117,535	0.70
Global Marco ABSOLUTE RETURN	91,575	0.54
SOCIETE GENERAL BANKA SRBIJA (castody account)	81,651	0.49
FRONT MARK OPPORTUN.MASTER	68,404	0.41
Others (1,154 shareholders)	1,203,077	7.15
	16,817,956	100.00

The structure of the Bank's shareholders with preferred shares at December 31, 2018 was as follows:

Shareholder	Number of shares	% share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (614 shareholders)	270,280	72.37
	373,510	100.00

37. EQUITY (continued)

37.1 Equity is comprised of (continued)

Revaluation reserves totalling RSD 6,187,537 thousand (2017: RSD 5,934,564 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,027,040 thousand, revaluation reserves based on valuation of equity securities in the amount of RSD 1,077,886 thousand, revaluation reserve based on the valuation of debt securities in the amount of RSD 2,299,326 thousand and actuarial gains in the amount of RSD 135,134 thousand. The stated values also include the tax effects of revaluation reserves

37.2. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period:

	2018	2017
Profit minus preferred dividends (in RSD thousand)	8,132,109	8,104,145
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	484	482

The basic earnings per share for 2018 is RSD 484 or 48.35% at the nominal value of ordinary shares; for 2017, earnings per share amounted to RSD 482 or 48.19% at the nominal value of ordinary shares; for 2016, the loss per share was RSD 480 or 48.04% of the nominal value of ordinary shares.

37.3. Cumulative foreign exchange losses and gains on foreign transactions

In RSD '000

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total
Balance as at January 1, previous year	1,827,754	44,300	55,634	1,927,688
Increase	(290,273)	25,015	(3,697)	(268,955)
Balance as at December 31, previous year	1,537,481	69,315	51,937	1,658,733
Increase	(16,147)	5,743	(178)	(10,582)
Balance as at December 31, previous year	1,521,335	75,058	51,758	1,648,151

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In RSD '000

	December 31, 2018	December 31, 2017
Operations on behalf and for the account of third parties	4,278,176	4,278,704
Taken-over future liabilities	47,477,824	37,815,096
Derivatives intended for trading under the contract currency	1,772,919	592,364
Other off-balance sheet items	443,254,125	464,659,832
Total	496,783,044	507,345,996

From the assumed future liabilities, the internal relationship with Komercijalna banka ad, Banja Luka, based on undisbursed loans in the amount of RSD 1,181,946 thousand (EUR 10 million) was eliminated as well as an unused part of the approved limit for KomBank INVEST cards amounting to RSD 200 thousand.

From other off-balance sheet positions, internal relations were eliminated by Komercijalna banka a.d. Banja Luka and KomBank INVEST have with Komercijalna banka a.d. Beograd.

38.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

In RSD '000

	December 31, 2018	December 31, 2017
Payment guarantees	3,897,871	4,021,866
Performance guarantees	3,630,897	4,802,696
Letters of credit	214,361	104,330
Balance as at December 31	7,743,129	8,928,892

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

38.2 Structure of commitments is provided below:

In RSD '000

	December 31, 2018	December 31, 2017
Unused portion of approved payment and credit card loan facilities and overdrafts	11,082,318	10,191,351
Irrevocable commitments for undrawn loans	26,336,746	17,539,762
Other irrevocable commitments	2,315,630	1,155,091
Balance as at December 31	39,734,694	28,886,204

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

38.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Operations on behalf and for the account of third parties in the total amount of RSD 4,278,176 thousand consist mostly of funds from the commission credits for the repayment of housing loans in the amount of RSD 3,524,405 thousand, loans for the purchase of social apartments of budget institutions in the amount of RSD 291,695 thousand (loans taken from Beobanka in bankruptcy), while other funds mostly refer to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets in the amount of RSD 443,254,125 thousand, the Group discloses, among other things, the received financial assets for collateral and receivables in the amount of RSD 210,154,497 thousand, the nominal value of custody securities for clients of the Group in the amount of RSD 58,545,369 thousand, the nominal value of securities of the value in the Group's portfolio in the amount of RSD 126,513,591 thousand, repo placements in government securities in the amount of RSD 1,500,000 thousand, the amount of the permanent write-off of balance sheet items - loans and placements by transfer into the off-balance sheet in the amount of RSD 28,336,005 thousand and the amount of the accounting write-off of credit receivables under the NBS Decision on accounting write-off balance assets in the amount of RSD 4,609,712 thousand.

The parent bank, in accordance with the issued license for performing custodial transactions, also keeps the financial instruments of the clients on the securities accounts, for which the off-balance sheet is kept. Based on these activities, the Parent banka does not bear the credit risk.

Also, in the position of other off-balance sheet assets, in accordance with the legislation, the Parent bank also presents the value of received financial assets for securing placements: residential, business and other security facilities in the amount of RSD 178,731,833 thousand.

38.4 Litigations

Based on the expert assessment of the Legal Department and attorneys representing the Group's members, in all disputes against members of the Group, in 2018, the management made provisions for potential losses in litigations in the amount of RSD 988,557 thousand (Note 35).

As at 31 December 2018, contingent liabilities - the basis of the receivable against the members of the Group, were estimated at the amount of RSD 2,854,176 thousand (for 2,165 active items).

In addition, members of the Group conduct disputes against third parties, the most significant part of which is RSD 39,684,043 thousand (for 1,337 items of the highest individual value). The Group's management expects positive outcomes in most of the disputes.

38.5 Commitments for operating lease liabilities are provided below:

	In thousands of RSD	
	December 31 2018	December 31 2017
Commitments due within one year	477,010	449,654
Commitments due in the period from 1 to 5 years	1,150,541	1,058,330
Commitments due in the period longer than 5 years	91,020	123,179
Total	1,718,571	1,631,163

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

38.6 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are in the process of continuous revision and modification. In different circumstances, tax authorities may have different approaches to certain issues and may determine additional tax liabilities together with subsequent default interest and penalties. The Group's management believes that tax liabilities recorded in the financial statements are correctly stated.

During 2018, Parent banka, Komercijalna banka a.d. Podgorica and Kombank INVEST a.d. Belgrade did not have tax controls.

In the course of 2018, there was one tax control of Komercijalna Banka a.d. Banja Luka.

39. RELATED PARTY DISCLOSURES

The Republic of Serbia owns 41.75% of the ordinary shares of the Home Bank and EBRD, London, which owns 24.43% of the ordinary shares of the Parent Bank. The parent bank has three subsidiaries: Komercijalna banka ad, Podgorica, Komercijalna banka ad, Banja Luka and KomBank Invest ad, Belgrade.

Legal entities and individuals are regarded as related parties if one person has control, joint control or significant influence on the adoption of financial and business decisions of another legal entity. Related parties are also those persons who are under joint control of the same parent legal entity.

Within the Group's regular business operations, a number of banking transactions with related parties are performed. These include loans, deposits, investments in equity securities and derivative instruments, payment transactions and other banking transactions.

Consolidated transactions with dependent entities are shown in Note 6.1.

39. RELATED PARTY DISCLOSURES (continued)

39.1 Loans and receivables from related parties

In thousands of RSD

	2018			2017		
Placement	On-balance	Off-balance	Total	On-balance	Off-balance	Total
Bolero ZR	1	-	1	-	-	-
PMC Inzenjering	1	-	1	-	-	-
Cedens company	-	-	-	29	63	92
Private individuals	173,920	15,859	189,779	155,978	14,338	170,316
Total	173,922	15,859	189,781	156,007	14,401	170,408
Liabilities	Deposits	Borrowings	Total	Deposits	Borrowings	Total
PMC Inzenjering	207	-	207	-	-	-
Arhitektonski biro studio 3	1	-	1	-	-	-
JP Jugoimport	29	-	29	-	-	-
Anfibija d.o.o Cacak	239	-	239	189	-	189
EBRD (note 33)	-	710,563	710,563	-	2,145,943	2,145,943
International Finance Corporation	9	-	9	-	-	-
Reprezent doo	12	-	12	12	-	12
Bolero ZR	11	-	11	8	-	8
Cedens company	-	-	-	2,364	-	2,364
Private individuals	179,554	-	179,554	113,841	-	113,841
Total	180,062	710,563	890,625	116,414	2,145,943	2,262,357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

39. RELATED PARTY DISCLOSURES (continued)

39.2 Income and expenses from related parties

	2018		
	Interests	Fees	Total
Income			
PMC Inzenjering	-	12	12
Anfibija d.o.o Cacak	-	7	7
Arhitektonski biro studio 3	-	12	12
Bolero ZR	-	18	18
Private individuals	8,452	1,134	9,586
Total Income	8,452	1,183	9,635
Expenses			
EBRD	40,813	-	40,813
Private individuals	1,427	736	2,163
Total Expenses	42,240	736	42,976
Net Expenses	(33,788)	447	(33,341)

	2017		
	Interests	Fees	Total
Income			
Bolero ZR	-	18	18
Cedens company	10	144	154
Anfibija d.o.o Cacak	-	8	8
Private individuals	7,628	1,540	9,168
Total Income	7,638	1,710	9,348
Expenses			
EBRD	100,446	5,106	105,552
International Finance Corporation	284,025	3	284,028
Cedens company	3	23	26
Private individuals	394	512	906
Total Expenses	384,868	5,644	390,512
Net Expenses	(377,230)	(3,934)	(381,164)

39. RELATED PARTY DISCLOSURES (continued)

39.3 Gross and net remunerations

Gross and net remunerations paid to the members of the Group members' Executive Board, Board of Directors and Audit Committee were as follows:

In thousands of RSD

	December 31 2018	December 31 2017
Gross remunerations		
Executive Board	125,437	143,026
Net remunerations		
Executive Board	91,459	109,096
Gross remunerations		
Board of Directors and Audit Committee	44,490	39,724
Net remunerations		
Board of Directors and Audit Committee	27,856	24,457

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Unreconciled Outstanding Item Statements

Based on the analysis of the regular annual census conducted on December 31, 2018, the Parent Bank has non-compliant statements of open items for 10 clients with the stated reason for the dispute.

Non-compliant statements for 3 clients relate to clients who challenge the amount of receivables for given advances, receivables based on issued invoices, receivables on the basis of a rent in the total amount of RSD 282 thousand.

For one client, the non-compliant amounts relate to off-balance sheet item of guarantee because of the different date of the Client's and Bank's records in the total amount of RSD 4,137 thousand.

Six clients disputed the amounts: receivables from domestic and foreign payment fees, unreported amount from bankruptcy for clearing checks, fees for the activities of the issuing agent in RSD in the total amount of RSD 80 thousand.

The amount of impairment allowance for receivables that are disputed (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.

The parent bank is in a continuous process of harmonization of the disputed items.

KomBank INVEST AD, Belgrade has no mismatch of open items.

Komercijalna banka ad, Banja Luka has five non-compliant statements of open items in the amount of RSD 45 thousand.

Komercijalna banka ad, Podgorica has two non-compliant statements of open items in the amount of RSD 77 thousand.

41. EVENTS AFTER THE REPORTING PERIOD

In accordance with the provisions of the valid pre-prepared reorganization plan, by executing a contract between two clients, on February 12th, 2019 the Parent Bank has collected the amount of RSD 442,089 thousand (EUR 3,740 thousand) from the client whose placement was completely impaired and as such was classified as off-balance sheet item, based on the purchase of warehouse space over which the Parent Bank had the mortgage. The total amount of RSD 442,089 thousand is recognized in the income statement on the basis of collection of written-off receivables.

Other than those events described above, there were no significant events after the balance sheet date that would be necessary to be disclosed in the financial statements.

42. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in dinars on December 31, 2018 and 2017 for certain major currencies are:

	NBS official exchange rate		NBS average exchange rate	
	2018	2017	2018	2017
USD	103.3893	99.1155	-	-
EUR	118.1946	118.4727	118.2752	121.4027
CHF	104.9779	101.2847	-	-
BAM	60.4319	60.5741	60.4731	62.0722

In Belgrade, March 12, 2019

Signed on behalf of Komercijalna banka a.d., Beograd:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

2018 ANNUAL REPORT ON OPERATIONS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP

March 2019

CONTENTS

Consolidated financial statements of the banking group are presented in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

Functional currencies EUR, used in the financial statements of Komercijalna banka a.d., Podgorica, and BAM, used in the financial statements of Komercijalna banka a.d., Banja Luka, have been converted to the dinar (RSD) as the Parent Bank's reporting currency based on the officially published exchange rates in the Republic of Serbia.

The Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the period have been reclassified by applying the average official exchange rate in the Republic of Serbia for 2018 of RSD 118,2752 for one EUR and RSD 60,4731 for one BAM, respectively, while other Consolidated Financial Statements (Balance Sheet, Statement of Changes in Equity and Statement of Comprehensive Income) by applying the closing exchange rate as of balance sheet date of RSD 118,1946 for one EUR, or RSD 60,4319 for one BAM.

Any transactions performed in foreign currency have been translated into dinars at the middle exchange rate valid in the interbank foreign exchange market and applicable as at the date of the relevant transaction.

The assets and liabilities presented in foreign currency as at the date of the Consolidated Balance Sheet have been translated into dinars at the middle exchange rate valid in the interbank foreign exchange market as at that date.

1. Key Performance Indicators of the Group

ITEM	2018	2017	INDICES 2018/2017	2016	2015	2014
PROFIT & LOSS ACCOUNT *(in RSD thousand)*						
Profit / loss before tax	8.381.166	7.316.383	114,6	(6.533.686)	(6.893.558)	4.792.801
Net interest income	13.946.644	13.517.238	103,2	14.456.333	14.839.373	14.436.051
Net fee income	5.540.447	5.413.601	102,3	5.093.523	5.190.282	4.983.940
BALANCE SHEET *(in RSD thousand)*						
Consolidated balance sheet assets	441.586.959	400.108.316	110,4	428.827.608	416.461.558	430.702.109
Off-balance sheet transactions	496.783.044	507.341.556[1]	97,9	551.970.548	621.827.674	416.982.422
Loans and receivables from banks and other financial organisations	21.037.537	30.233.555	69,6	43.216.681	17.848.897	35.733.988
Loans and receivables from customers	191.448.642	174.242.139	109,9	166.401.008	179.422.656	203.828.648
Deposits and other liabilities to banks, other financial organisation and the central bank	8.228.284	6.137.776	134,1	9.822.519	18.768.726	26.247.764
Deposits and other liabilities to other customers	350.668.156	317.577.748	110,4	345.135.959	319.334.622	321.094.208
Capital	71.522.051	67.100.116	106,6	59.292.420	64.694.402	72.100.729
Capital adequacy	25,2%	24,6%	-	26,2%	23,1%	18,7%
Number of employees	3.076	3.106	99,0	3.152	3.148	3.178
PROFITABILITY RATIOS						
ROA	2,0%	1,8%	-	(1,5%)	(1,6%)	1,2%
ROE (on total capital)	12,1%	11,6%	-	(10,5%)	(10,1%)	6,9%
Net interest margin on total assets	3,3%	3,3%	-	3,4%	3,5%	3,5%
Cost / income ratio	60,4%	64,0%	-	63,2%	60,4%	61,6%
Operating expenses	11.772.192	12.119.512	97,1	12.363.223	12.092.310	11.953.592
Net income/expense from loan impairment	51.681	36.342	142,2	(13.079.497)	(13.807.580)	(2.821.458)
Assets per employee *(in RSD thousand)*	143.559	128.818	111,4	136.049	132.294	135.526
Assets per employee *(in EUR thousand)*	1.212	1.087	111,4	1.102	1.088	1.120

1 As o f 30.06.2018 consolidation is performed of off-balance sheet records and on account of comparability of data with the current year the datum for 2017 is corrected, which has already been published in the Annual Report of the Group

2. Business Operations and Organisational Structure of the Group

The Banking Group consists of three banks (the Parent Bank and two Subsidiaries) and one Investment Fund Management Company.

The Parent Bank, Komercijalna banka ad Beograd, performs the following operations within the framework of its registered business activities:

- Deposit operations (receiving and making deposits),
- Loan operations (lending and borrowing),
- Foreign currency, foreign currency exchange transactions and exchange operations;
- Payment transactions;
- Payment card issuing;
- Securities operations (issuing of securities, custody bank operations etc.);
- Broker/dealer operations;
- Issuance of guarantees, guarantees of a bill and other forms of sureties (guarantee operations);
- Debt purchase, sale and collection (factoring, forfeiting etc.);
- Insurance agency operations, with prior approval of the National Bank of Serbia;
- Other operations it is authorised to conduct under the law.

The Parent Bank has been authorised for international payments since 2003, for broker/dealer operations since 2005, for custody bank operations since 2006 and for insurance agency operations since 2011.

Komercijalna banka ad Podgorica performs the following operations:

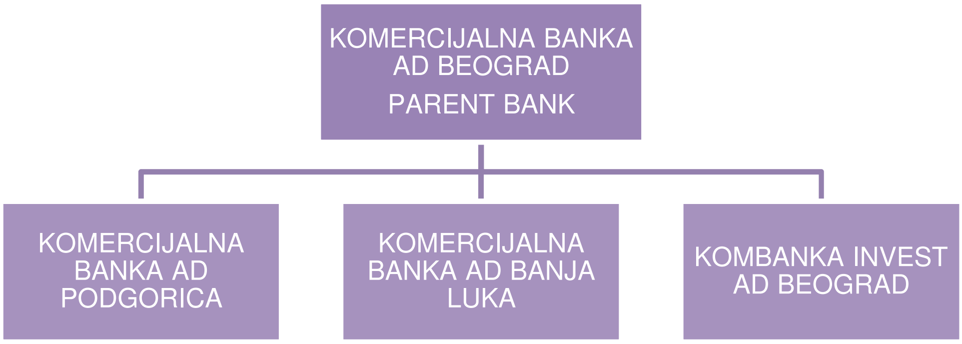
- Deposit operations (receiving and making deposits), ,
- Loan operations (lending and borrowing), ,
- Issuing of guarantees and undertaking other commitments,
- Debt purchase and collection,
- Issuing, processing and recording of payment instruments,
- International payments,,
- Financial leasing,
- Trading in foreign payment instruments on its own behalf and for its own account or on behalf and for the account of its clients,
- Data collection, performing analysis and notifying and advising on creditworthiness of companies and entrepreneurs,
- Depository operations,
- Safekeeping of assets and securities,,
- Other ancillary operations within the Bank’s scope of operations.

Komercijalna banka ad Banja Luka is registered in Bosnia and Herzegovina for payment transactions and loan and deposit operations in the country and abroad, in accordance with the regulations of the Republic of Srpska.

IFMC Kombank Invest ad Beograd is registered for the following operations:

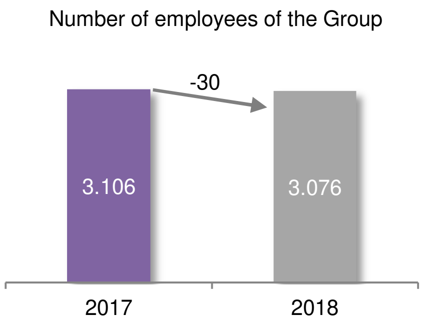
- Organising and managing open-end investment fund,
- Forming and managing closed-end investment fund,
- Managing private investment funds.

Organisational Chart of the Group



Human Resources of the Group

As at 31 December 2018, the Group had a total of 3.076 employees, which makes for 30 employees less than in the previous year 2017. Reduction occurred in the Parent Bank (40), while KB Podgorica increased the number of employees (8), as did KB Banja Luka (2), whereas KB Invest maintained the same number of employees.



Key information about the Group members

	KOMERCIJALNA BANKA AD PODGORICA	KOMERCIJALNA BANKA AD BANJA LUKA	IFMC KomBank INVEST AD BEOGRAD
ADDRESS	11, Cetinjska, VI floor Kula PC 1	Jevrejska 69	Kralja Petra 19
COUNTRY	Montenegro	BiH, Republic of Srpska	Serbia
PHONE	00382-20-426-300	00387-51-244-700	011-330-8160

KOMERCIJALNA BANKA AD PODGORICA

100% owned by KB Beograd

Komercijalna banka AD Podgorica was incorporated in November 2002 as an affiliation of Komercijalna banka AD Beograd and was registered with the central register of the Commercial Court of Podgorica on 6 March 2003. At the end of 2018 the Bank had 146 employees and business network comprising 9 branches and 1 sub-branch.

KOMERCIJALNA BANKA AD BANJA LUKA

99,998% owned by KB Beograd

Komercijalna banka AD Banja Luka was incorporated in September 2006 and was registered with the relevant court register on 15 September 2006 pursuant to the Decision of the Basic Court in Banja Luka. At the end of 2018 the Bank had 159 employees and business network consisting of 9 branches and 9 agencies.

KOMBANK INVEST AD BEOGRAD

100% owned by KB Beograd

Investment Fund Management Company (IFMC) Company **KomBank INVEST AD Beograd** is a company registered with the Company Register maintained by the Business Registers Agency on 5 February 2008. The company was incorporated as a closed joint stock company operating in accordance with the Law on Investment Funds, Regulations on Investment Funds and Rulebook on Conditions for Conducting Investment Fund Management Activities.

At the end of 2018 the Company managed three investment funds, including:

1. KomBank INFOND, open-end growth investment fund (equity fund),
2. KomBank NOVČANI FOND, open-end value investment fund (money market fund),
3. KomBank DEVIZNI FOND, open-end value investment fund (money market fund).

At the end of 2018 the Company had five employees.

Key information about the Parent Bank

Address/Head Office / Divisions	14, Svetog Save Street	42-44, Svetogorska Street	29, Makedonska Street
PHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
TELEX	12133 COMBANK YU	12133 COMBANK YU	12133 COMBANK YU
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

KOMERCIJALNA BANKA AD BEOGRAD*
Republic of Serbia - 41,8% EBRD, London - 24,4% „IFC Capitalization“ Fund - 10,15%

* owners of ordinary shares above 5% of capital

Komercijalna banka AD Beograd, Parent Bank, was incorporated on 1 December 1970, and transformed into a joint stock company on 6 May 1992. The Bank is registered with the Commercial Court in Belgrade on 10 July 1991, and it was legally re-registered in the Business Registers Agency on 14 April 2006. The Bank was granted a banking license by the National Bank of Yugoslavia on 3 July 1991. On 31.12.2018 the Parent Bank has 2.766 employees and business network that is consisted of 6 business centres, one branch (KM) and 202 sub-branches, 3 Corporate Divisions for operations with SMEs, and one Corporate Division- Large Clients.

Business Network of Parent Bank

	BUSINESS CENTRE	SEAT
1.	BC Beograd 1	Trg Politike 1, Beograd
2.	BC Beograd 2	Trg Politike 1, Beograd
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Bulevar oslobođenja 88, Novi Sad
6.	BC Užice	Petra Ćelovića 4, Užice
	BRANCH	**SEAT**
1.	Kosovska Mitrovica	Čika Jovina 11, Kosovska Mitrovica

	DIVISONS	SEAT
1.	Corporate Division – Large Clients	Svetogorska 42-44, Beograd
2.	Corporate Division ' SME –Vojvodina	Bulevar oslobođenja 88, Novi Sad
3.	Corporate Division ' SME -Beograd	Svetogorska 42-44, Beograd
4.	Corporate Division ' SME – Central Serbia	Svetogorska 42-44, Beograd

Since the first quarter of 2018 new organisational structure of business network of Komercijalna banka ad Beograd – Parent Bank has been fully implemented. In order to maintain a high level of satisfaction of its clients, the Parent Bank in 2018, performed, as well, the constant monitoring of the business network and made necessary amendments. When modifying the business network the key objectives were as follows: increase of efficiency in work with the clients, acceleration of the process of making loan related decisions and creating preconditions for further active management of the amount of operating expenses. Upon amendments made at the end of the first quarter of 2018, the Parent bank provides the retail-related services through the network of 202 sub-branches grouped in six Business Centres and the Branch Kosovska Mitrovica. Corporate operations are conducted through Corporate Divisions- SME and the Corporate Division – Large Clients.

3. Financial Position and the Results of Operations of the Group

3.1 Macroeconomic business conditions

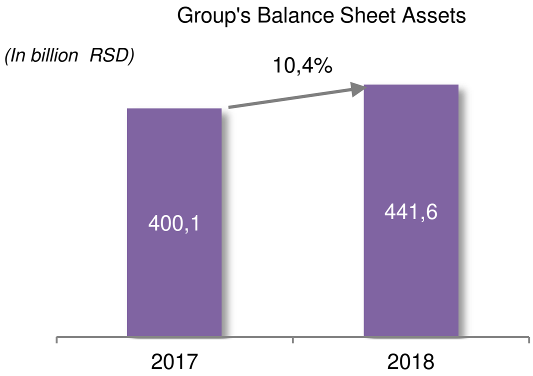
Macroeconomic Indicators	SERBIA	MONTENEGRO[2]	REPUBLIC OF SRPSKA
Gross domestic product	EUR 31,2 billion[3]	EUR 4,60 billion	EUR 4,0 billion (KM 7,8 billion)
GDP trends	+4,4%[4]	+4,1%	+3,8%[5]
Consumer price index (XII 2018 / XII 2017)	+2,0%	+2,0%	+1,4%
Banking sector assets	+4,7%[6]	+5,4%	+10,0%[7]
Banking sector assets as a share of GDP	96,6%	95,7%	114%
Industrial production (I-XII 2017 / I-XII 2016)	+2,4%[8]	+22,8%	+5,7%[9]
NPL of banking sector, or non-performing assets	6,1%[10]	9,2%	9,0%[11]
Unemployment rate	11,3%[12]	17,8%	24,4%

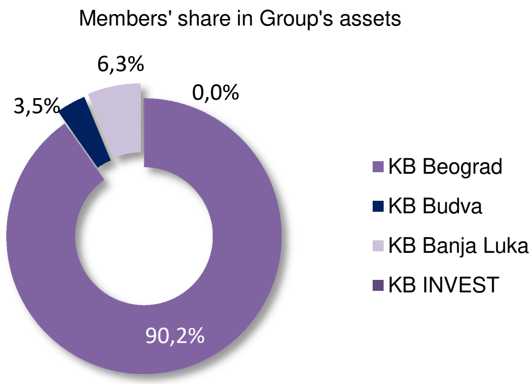
Note: Macroeconomic business conditions of the Group members according to available data of the relevant institutions

3.2 Group's Operations

ITEM	2018	2017	2016	2015	2014
(in RSD thousand)					
GROUP'S BALANCE SHEET ASSETS	441.586.959	400.108.316	428.827.608	416.461.558	430.702.109
Komercijalna banka a.d. Beograd	398.447.676	366.074.702	397.222.810	387.378.734	400.168.484
Komercijalna banka a.d. Podgorica	15.353.955	13.801.705	13.212.323	12.497.800	13.939.442
Komercijalna banka a.d. Banja Luka	27.624.178	20.075.186	18.385.992	16.469.869	16.484.378
KomBank INVEST a.d. Beograd	161.150	156.723	6.483	115.155	109.805

2 Data for Montenegro are for November 2018.
3 NBS, basic macroeconomic indicators,January 2019, balance for the first three quarters of 2018
4 Estimate,SORS, Announcement for public, 28.12.2018, expected annual growth rate
5 Data relate September 2018/September 2017
6 Growth of assets of the banking sector of Serbia 30.09.2018./2017
7 Data relate to 30.09.2018 compared to 31.12.2017
8 MFIN, Current macroeconomic trends, December 2018, January -October 2018, y-o-y.
9 Data relate to first ten months of 2018 compared to the same period of 2017
10 NBS,Macroeconomic trends, January 2019, data relate to November 2018.(NPL/total loans),
11 Data relate to September 2018
12 SORS, Labor Force Survey, End of Q3 2018

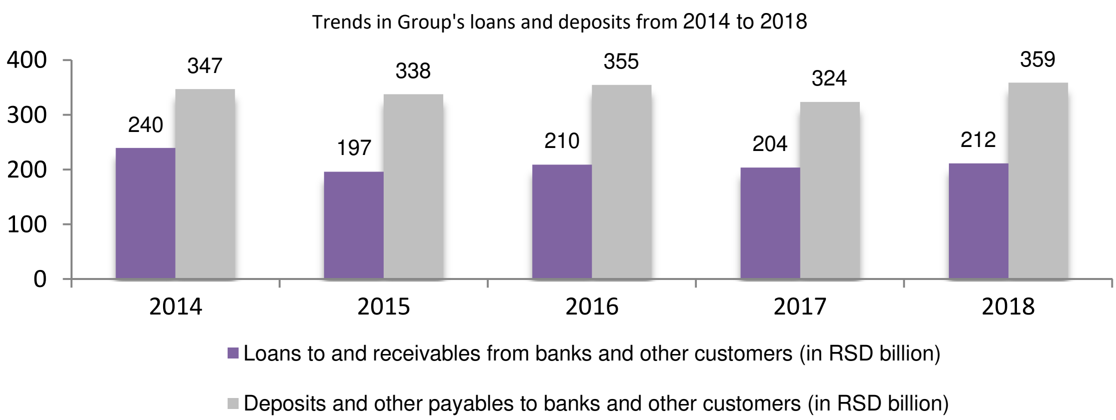




Group's balance sheet assets at the end of 2018 have been increased compared to the end of 2017 by RSD 41.478,6 million (10,4%). Share of Parent Bank in consolidated assets is still dominant (Group members account for 9,8% of total consolidated assets).

Loans and Liabilities of Banks and Customers as at 31 December 2018 by Group Members

ITEM	2018	2017	2016	2015	2014
(in RSD thousand)					
LOANS AND RECEIVABLES FROM BANKS AND CUSTOMERS	212.486.179	204.475.694	209.617.689	197.271.553	239.562.636
Growth rate	3,9%	(2,5%)	6,3%	(17,7%)	3,6%
Komercijalna banka a.d. Beograd	185.917.193	182.944.400	190.830.293	179.006.392	219.502.491
Komercijalna banka a.d. Podgorica	9.740.866	7.883.783	6.351.466	7.271.135	7.687.740
Komercijalna banka a.d. Banja Luka	16.811.744	13.647.511	12.435.930	10.994.026	12.372.405
KomBank INVEST a.d. Beograd	16.376	-	-	-	-
DEPOSITS AND PAYABLES TO BANKS AND CUSTOMERS	358.896.440	323.715.524	354.958.478	338.103.348	347.341.972
Growth rate	10,9%	(8,8%)	5,0%	(2,7%)	13,4%
Komercijalna banka a.d. Beograd	321.271.358	295.755.134	329.732.740	316.177.501	325.559.503
Komercijalna banka a.d. Podgorica	14.078.021	12.157.123	10.982.889	9.918.868	9.987.090
Komercijalna banka a.d. Banja Luka	23.547.061	15.803.267	14.242.849	12.006.979	11.795.379
KomBank INVEST a.d. Beograd	-	-	-	-	-



The Parent Bank's share in loans and receivables from banks and other customers of the entire Group was 87,5%, KB Podgorica 4,6%, and KB Banja Luka 7,9%. The Parent Bank also had a dominant share in deposits and other payables to banks and the Group's other customers of 89,5% (KB Podgorica– 3,9%, KB Banja Luka – 6,6%).

3.3 Consolidated Balance Sheet

Group's Consolidated Assets as at 31 December 2018

No	BS POSITION	31.12.2018.	31.12.2017.	INDICES	SHARE 2018
1	2	3	4	5=(3:4)*100	6
	ASSETS (*in RSD thousand*)				
1.	Cash and assets held with the central bank	73.992.039	56.076.748	131,9	16,8%
2.	Pledged financial assets	-	-	-	-
3.	Receivables from derivatives	4.070	-	-	-
4.	Securities	137.514.720	121.522.580	113,2	31,1%
5.	Loans and receivables from banks and other financial organisations	21.037.537	30.233.555	69,6	4,8%
6.	Loans and receivables from customers	191.448.642	174.242.139	109,9	43,4%
7.	Changes in fair value of items that are hedged	-	-	-	-
8.	Receivables from derivatives intended for hedging	-	-	-	-
9.	Investment in affiliates and joint ventures	-	-	-	-
10.	Investment in subsidiaries	-	-	-	-
11.	Intangible assets	627.468	498.387	125,9	0,1%
12.	Property, plant and equipment	6.047.384	6.017.200	100,5	1,4%
13.	Investment property	2.259.815	2.380.564	94,9	0,5%
14.	Current tax assets	1.650	5.622	29,3	-
15.	Deferred tax assets	840.967	863.527	97,4	0,2%
16.	Available-for-sale non-current assets and assets from discontinued operations	659.003	787.618	83,7	0,1%
17.	Other assets	7.153.664	7.480.376	95,6	1,6%
	TOTAL ASSETS (from 1. to 17.)	**441.586.959**	**400.108.316**	110,4	100,0%

Of all individual balance sheet positions, the highest share in the Group's balance sheet assets was that of loans and receivables from customers (43,4%) and they are showing an upward trend in 2018 (they are increased by 9,9% in comparison to the end of 2017). Securities, also, represent a significant item of consolidated assets with share of 31,1% and they recorded a growth during 2018 (they are increased by 13,2% compared to the end of 2017). Cash and assets held with the central bank had a share in total consolidated assets of 16,8% and are increased in comparison to previous reporting period (increase of 31,9%). Loans and receivables from banks and other financial organisations account for 4,8% of consolidated balance sheet assets and have been reduced by 30,4% when compared to the end of 2017.

Group's Consolidated Liabilities as at 31 December 2018

No	BS POSITION	31.12.2018.	31.12.2017.	INDICES	SHARE 2018
1	2	3	4	5=(3:4)*100	6
	LIABILITIES (*in RSD thousand*)				
1.	Liabilities from derivatives	-	7.845	-	-
2.	Deposits and other liabilities to banks, other financial organizations and Central Bank	8.228.284	6.137.776	134,1	1,9%
3.	Deposits and other liabilities to other customers	350.668.156	317.577.748	110,4	79,4%
4.	Liabilities from derivatives intended for hedging	-	-	-	-
5.	Changes in fair value of items that are hedged	-	-	-	-
6.	Liabilities from securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	1.808.853	1.551.883	116,6	0,4%
9.	Liabilities from assets available-for-sale and assets from discontinued operations	-	-	-	-
10.	Current tax liabilities	11.044	1.751	630,7	-
11.	Deferred tax liabilities	14.677	1.647	891,1	-
12.	Other liabilities	9.333.894	7.729.550	120,8	2,1%
	TOTAL LIABILITIES (from 1. to 12.)	**370.064.908**	**333.008.200**	111,1	83,8%
	CAPITAL				
13.	Share capital	40.034.550	40.034.550	100,0	9,1%
14.	Profit	9.277.755	8.357.092	111,0	2,1%
15.	Loss	1.481.701	1.665.678	89,0	0,3%
16.	Reserves	23.691.381	20.374.087	116,3	5,4%
17.	Non-controlling interest	66	65	101,5	-
	TOTAL CAPITAL (from 13. to 17.)	**71.522.051**	**67.100.116**	106,6	16,2%
	TOTAL LIABILITIES	**441.586.959**	**400.108.316**	110,4	100,0%

On the liability side dominant were deposits and other liabilities to other customers with share of 79,4% (identical share was in 2017). The above-mentioned deposits and other liabilities to other customers are increased compared to 2017 by 10,4%.

Total capital accounted for 16,2% in consolidated liabilities (approximate share was in 2017, 16,8%). Capital is increased in comparison to 2017 (increase of 6,6%) primarily due to generated profit in the Parent Bank and the Subsidiary Banks. The reserves in capital are also increased by 16,3%.

Consolidated Balance Sheet as at 31 December 2018– Banking Group members.

No	POSITION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	Position / ASSETS *(in 000 RSD)*					
	Cash and assets held with CB	63.595.710	2.466.997	7.929.332	-	73.992.039
	Receivables from derivatives	4.070	-	-	-	4.070
	Securities	133.177.598	1.967.042	2.227.301	142.779	137.514.720
	Loans and receivables from banks and other financial organisations	18.371.519	1.143.293	1.506.349	16.376	21.037.537
	Loans and receivables from customers	167.545.674	8.597.573	15.305.395	-	191.448.642
	Intangible assets	557.051	25.194	45.223	-	627.468
	Property, plant and equipment	5.619.078	306.695	121.592	19	6.047.384
	Investment property	1.896.347	94.956	268.512	-	2.259.815
	Current tax assets	-	-	1.650	-	1.650
	Deferred tax assets	840.967	-	-	-	840.967
	Available-for-sale non-current assets and assets from discontinued operations	227.630	255.595	175.778	-	659.003
	Other assets	6.612.032	496.610	43.046	1.976	7.153.664
	TOTAL ASSETS	**398.447.676**	**15.353.955**	**27.624.178**	**161.150**	**441.586.959**
	Position / LIABILITIES					
	Deposits and other liabilities to banks and other financial organisations	4.042.274	237.889	3.948.121	-	8.228.284
	Deposits and other liabilities to other customers	317.229.084	13.840.132	19.598.940	-	350.668.156
	Provisions	1.646.400	130.585	22.732	9.136	1.808.853
	Current tax liabilities	-	119	10.782	143	11.044
	Deferred tax liabilities	-	9.841	4.836	-	14.677
	Other liabilities	9.059.972	95.359	177.810	753	9.333.894
	TOTAL LIABILITIES	**331.977.730**	**14.313.925**	**23.763.221**	**10.032**	**370.064.908**
	Total capital	**71.314.919**	**-**	**312.453**	**10.964**	**71.522.051**
	Total lack of capital *	-	116.285	-	-	-
	TOTAL LIABILITIES	**403.292.649**	**14.197.640**	**24.075.674**	**20.996**	**441.586.959**

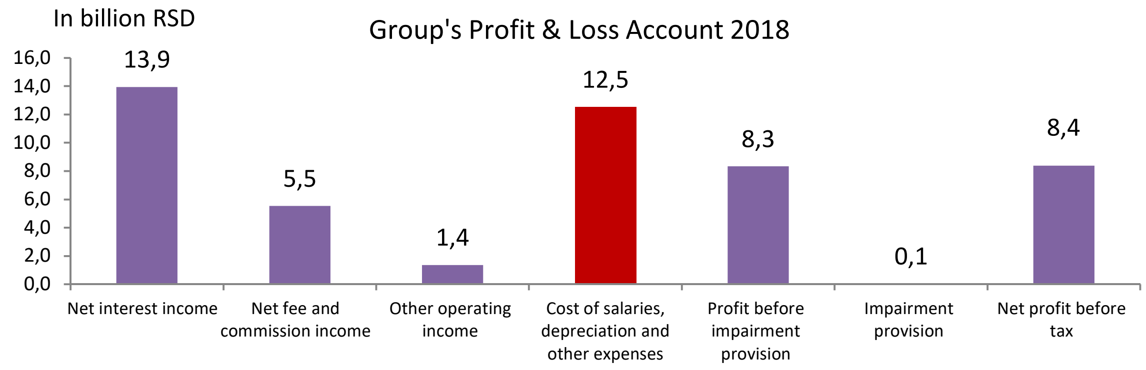
*Observed by segments of consolidated Balance Sheet, Komercijalna banka a.d. Podgorica as at 31.12.2018 has reported negative capital as a result of consolidation of the positions within the capital due to elimination of internal relations, when the share capital is reduced to zero, above all due to the fact that the Parent Bank is the only owner of Komercijalna banka a.d. Podgorica and concurrently, due to negative result from the previous period, which is higher than the amount of formed reserves and realized profit. Capital in individual financial statements of Komercijalna banka a.d. Podgorica is within the legally prescribed limits.

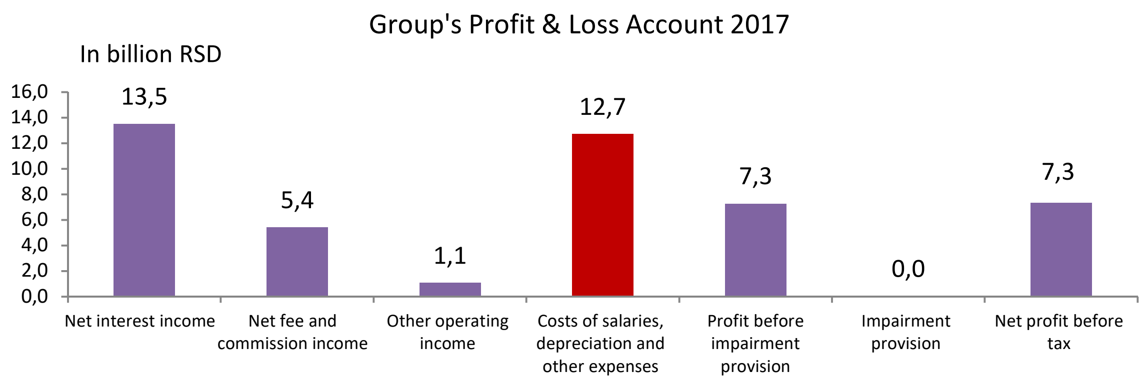
3.4 Consolidated Profit & Loss Account

In the consolidation process it is necessary to exclude all positions on the individual P&L that stem from intra-group transactions, including: interest, fees, commissions and other income/expense.

Consolidated Profit & Loss Account for the period from 1 January – 31 December 2018

No.	POSITION	31.12.2018.	31.12.2017.	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSE *(in RSD thousand)*			
1.1.	Interest income	15.092.523	15.358.399	98,3
1.2.	Interest expenses	-1.145.879	-1.841.161	62,2
1.	**Net interest income**	**13.946.644**	**13.517.238**	103,2
2.1.	Fee and commission income	7.653.028	7.159.507	106,9
2.2.	Fee and commission expenses	-2.112.581	-1.745.906	121,0
2.	**Net fee and commission income**	**5.540.447**	**5.413.601**	102,3
3.	Net gain/loss from the change in fair value of financial instruments	48.572	61.620	78,8
4.	Net profit/loss from reclassification of financial instruments	-	-	-
5.	Net profit/loss from derecognition of financial instruments that are measured at fair value	247.084	102.523	241,0
6.	Net profit/loss from hedging	-	-	-
7.	Net income/expense from currency exchange differences and the effects of agreed currency clause	-1.532	-77.402	2,0
8.	Net income/expense from impairment of financial assets that are not measured at fair value through P&L	51.681	36.342	142,2
9.	Net profit /loss from derecognition of financial instruments that are measured at amortized cost	526.547	-	-
10.	Net profit /loss from derecognition of investment in affiliates and joint ventures	-	306	-
11.	Other operating income	174.795	201.359	86,8
	TOTAL NET OPERATING INCOME	**20.534.238**	**19.255.587**	106,6
12.	Costs of salaries, fringe benefits and other personal expenses	-5.043.937	-5.130.812	98,3
13.	Depreciation costs	-629.754	-625.680	100,7
14.	Other income	375.392	778.982	48,2
15.	Other expenses	-6.854.773	-6.961.694	98,5
	PROFIT/LOSS (-) BEFORE TAX	**8.381.166**	**7.316.383**	114,6
16.	Corporate income tax	18.376	9.381	195,9
17.	Deferred tax gain	702.775	1.366.704	51,4
18.	Deferred tax loss	-685.231	-405.710	168,9
19.	**PROFIT/LOSS(-) AFTER TAX**	**8.380.334**	**8.267.996**	101,4
	Profit attributable to the parent entity	8.380.332	8.267.995	
	Profit attributable to owners of non-controlling interest	2	1	
	Basic earnings per share	484	482	
	Reduced (diluted) earnings per share	481	482	



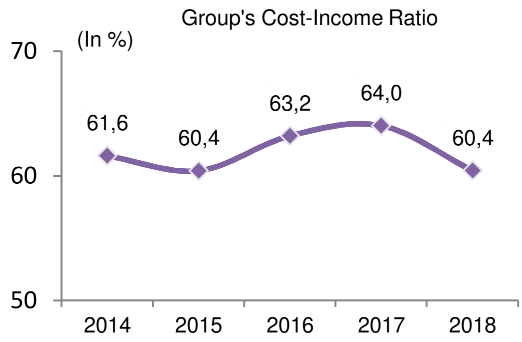


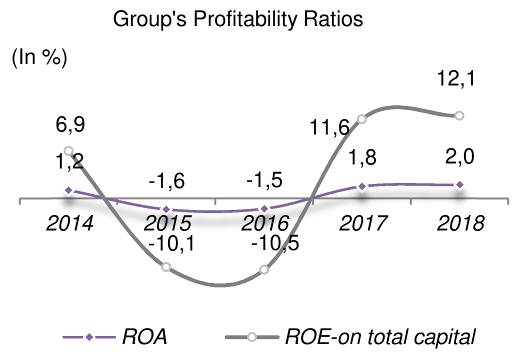
During 2018, at the Group level the profit before tax was generated in the amount of RSD 8.381,2 million. Consolidated profit before tax of KB Group over the period from 01 January to 31 December 2018 is increased by 14,6%, or it is increased by RSD 1.064,8 million in comparison to the same period of 2017. Group's interest income in 2018 is reduced relative to 2017 by 1,7%, while the interest expenses are also reduced but to the greater extent (reduction by 37,8 %). The above-mentioned resulted in increase of Group's net interest income in the amount of RSD 429,4 million, or 3,2%.

Consolidated fee and commission income, in 2018 is increased in comparison to the same period of 2017 by 6,9%. Despite the increase in fee and commission expenses by 21,0%, the Group's net fee and commission income is higher by 2,3% when compared to 2017.

Costs of salaries, fringe benefits, amortization and other expenses are reduced in comparison to previous year by 1,5%, or they are lower by RSD 189,7 million.

In 2018 net income was realized from impairment of financial assets that are not measured at fair value in the amount of RSD 51,7 million. Also, the extraordinary income was realized from the sale of NPL loans (Parent Bank) in the amount of RSD 526,5 million, which impacted the final operating result (comprehensive income) of the entire Group.





Consolidated P&L by Group's Members for the period from 1 January to 31 December 2018

No	POSITION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in thousand RSD)					
1.1.	Interest income	13.741.459	558.654	791.833	577	15.092.523
1.2.	Interest expenses	-910.270	-83.003	-152.606	-	-1.145.879
1.	**Net interest income**	**12.831.189**	**475.651**	**639.227**	**577**	**13.946.644**
2.1.	Fee income	7.200.038	188.349	241.604	23.037	7.653.028
2.2.	Fee expenses	-1.996.886	-45.230	-70.170	-295	-2.112.581
2.	**Net fee income**	**5.203.152**	**143.119**	**171.434**	**22.742**	**5.540.447**
3.	Net profit/loss from change in fair value of financial instruments	44.076	-	-	4.496	48.572
4.	Net profit/loss from reclassification of financial instruments	-	-	-	-	-
5.	Net profit/loss from derecognition of financial instruments that are measured at fair value	230.194	-	16.872	18	247.084
6.	Net profit/loss from hedging					
7.	Net profit/loss from currency exchange differences and the effects of agreed currency clause	2.863	-3.274	-1.122	1	-1.532
8.	Net profit/loss from impairment of financial assets that are not measured at fair value through P&L	11.818	29.335	10.528	-	51.681
9.	Net profit/loss from derecognition of financial instruments that are measured at amortized cost	526.547	-	-	-	526.547
10.	Net profit/loss from derecognition of investment in affiliates	-	-	-	-	-
11.	Other operating income	155.351	7.636	11.808	-	174.795
I	**TOTAL NET OPERATING INCOME**	**19.005.190**	**652.467**	**848.747**	**27.834**	**20.534.238**
12.	Costs of salaries, fringe benefits and other personal expenses	-4.442.799	-265.618	-320.675	-14.845	-5.043.937
13.	Amortization expenses	-551.988	-34.940	-42.816	-10	-629.754
14.	Other income	280.229	58.264	36.886	13	375.392
15.	Other expenses	-6.167.977	-296.849	-379.966	-9.981	-6.854.773
II	**PROFIT BEFORE TAX**	**8.122.655**	**113.324**	**142.176**	**3.011**	**8.381.166**

4. Environmental Investment

By adopting the Environmental and Social Risks Management Policy and Procedure at the Banking Group level, the Group set out standards for identifying and managing the environmental and social risks in the process of loan approval and monitoring. This document is adequately applied at the Group Members' level through incorporation of bylaws at the level of each member while adhering to the local legislation and the internal bylaws of the Group members reconciled with the Bank's bylaws. Likewise, the Group develops activities in the area of protection of the environment and protection of the human and labour rights, by applying the best practice of sustainable financing. The internal bylaws define the procedure for solving and providing answers to complaints based on direct or indirect impact of business activities on environment and social issues.

Through the categorization of loans, depending on environmental and social risk level, the Group assesses in which per cent the activities that may adversely affect the environment are financed. Also, the Group continually monitors its clients for any extraordinary events that could adversely impact the environment, health or safety or the community in general and regularly reports its findings to the Bank's management bodies and Bank's shareholders.

To protect the environment and minimise the likelihood of events that could adversely impact the environment, health or safety or the community in general, the Group does not finance the clients whose main business activity is associated with the manufacturing or with trading in weapons and ammunition, radioactive materials and other technologies that may adversely impact the environment, thus ensuring compliance with the standards of good international practice in this field. Likewise, the Group operates in line with the defined limits of engagement with regard to activities: production and trading in alcoholic drinks, production and trading in tobacco and tobacco products and in gambling.

The members of the Banking Group report on a monthly level to the Risk Management function of the Parent Bank and other relevant business and operational functions on risk levels from the aspect of environmental and social impact. In case of exceeding the internal limits, the members of the Banking Group deliver the explanation with the proposal of measures and the activity plan and the Risk Management function reports to the Bank's Executive Board and the international financial institutions (shareholders) on such exceeding. Risk Management function reports at six-month level to the Executive Board and to the Board of Directors on environmental and social risk management on consolidated basis, and the Republic of Serbia and the International Financial Institutions (shareholders) annually.

5. Significant Events After the Financial Year End

From 31 December 2018 until the end of February 2019 one General Meeting of Shareholders of the Parent Bank was convened.
Regular General Meeting of Shareholders of the Parent Bank was convened for 28 January 2019. For this meeting the following agenda was anticipated:

- -Decision on Adopting the Strategy and Business Plan of Komercijalna banka ad Beograd for the period 2019-2021;
- -Decision on Correction of Technical Error in the Decisions of the General Meeting of Bank's Shareholders no. 19521/3c and no. 19521/3d of 17.10.2018.

The Meeting was not held due to lack of quorum for holding the session. The repeated General Meeting of Shareholders of the Parent Bank was held on 27 February 2019 at which the proposed Decisions were adopted.

On the 6^{th} of February 2019 the contract was signed on providing the consulting services in the process of Bank's privatization between the Government of the Republic of Serbia, as the majority shareholder of the Bank and the company „Lazard" (France).

Other significant events after the financial year end in KB Group, and/or in the Group members, are disclosed in the Notes to the Consolidated Financial Statements – Events after the Balance Sheet Date.

6. Plan for the Future Development of the Group

Operating strategies and plans for the future period are defined and adopted at the level of individual Group members[13].

Operations of the Subsidiaries, the Group members, as well as the Parent Bank in the coming period will generally be focused primarily on maintaining, but also on growth of the market share with acceptable level of business risk, and primarily credit risk. As regards the financing, and/or lending to retail clients as more perspective segment of clients, in the coming period, the Group's member banks will be focused on expanding the client base. Also, the focus will be on attracting and financing the creditworthy clients with a sound credit history, and on financing the micro clients. In the upcoming period the prudential, more conservative policy of approving loans and advances to corporate clients will be implemented, the focus will primarily be on the quality of credit portfolio, with enhanced monitoring of clients' business operations, financed projects and received collaterals. The aim is to timely identify all the signal of warning that may indicate the inability of clients to discharge their obligations, or that will indicate the difficulties in collection of receivables. The strategies of subsidiary banks that are the Group's members for the upcoming period will continuously be directed to investment of funds to the enterprises from the segment of SME (small and medium-sized enterprises) with acceleration of the very process of loan approval. The increase of the volume of NPL is not expected in the future period.

The basic pillars of the development strategy of **Komercijalna banka Beograd**, the Parent Bank, in the next three-year period are as follows[14]:

- growth of loans to customers (as a key aspect of the future profitability),
- control of operational risk in the future period aiming to maintain the low level of net expenses of impairment provisions ,
- enhancement – change in the structure of clients based on demographics and standards (taking into consideration the development of innovative products and services) so that in addition to large companies the Bank intends to continue developing the segment of operations with the local self-governments, small and medium enterprises, as well as with clients from the countries in the region,
- growth of share of fee and commission income in relation to interest income (the Bank shall have stronger focus on fee and commission income given the trend of falling interest rates and the application of digitization and other development initiatives),
- control of the operating expenses and further enhancement of efficiency in operations with the aim of reducing the operating expenses ratios against the income throughout the entire planning period (CIR),
- preservation of an adequate capital position, with the payment of cumulative dividends from previous years (2014 and 2017) and dividends on the basis of planned profit in the next three-year period (2019 -2021).

13 Within this Item of Report the parts are presented that are taken from individual Strategies and Business Plans of Group members

14 Strategy and Business Plan 2019-2021 of Komercijalna banka ad Beograd

The main strategic goals of operations of **Komercijalna banka Podgorica** for the future planning period are as follows[15]:

- stable and sustainable business development;
- continuous strengthening of market share;
- further improvement and target diversification of portfolio (creating new products, attracting new clients, higher efficiency in decision-making as per loan applications/requests);
- actively solving the problem of NPL and acquired assets through direct communication with clients and third parties with the aim of collection of positions, offering and selling the acquired assets;
- strengthening of profitability (activities at cross selling, bancassurance activities, further development of payment cards operations, digitization and application of the new banking technologies in business operations);
- increase of efficiency of the network through reorganization of business operations;
- brand strengthening.

As strategic goals for the future period of **Komercijalna banka Banja Luka** the following are defined[16] **:**

- better utilization of the existing client base and the growth of number in clients who will use the credit products by making better use of the existing customer base (and proactive approach to clients where the bank is not engaged, by taking over from other banks);
- introduction of new products and credit lines for legal entities (cross border financing in cooperation with the Parent bank, the participation of the bank in syndicated lending of large projects in cooperation with other banks, financing the energy sector, short-term loans for working capital for small and medium-sized enterprises);
- greater focus on cash, housing, consumer, agricultural and "retirement" loans;
- Increasing efficiency in the process of granting loans;
- growth of retail savings on longer terms, as well as the increase in retail deposits;
- diversification of the deposit base and increase in the share of retail deposits in total deposits with the orientation towards a larger number of depositors with a smaller individual deposit amount;
- withdrawal of new credit lines, credit lines from the parent bank, in the long term and with a more favorable interest rate.

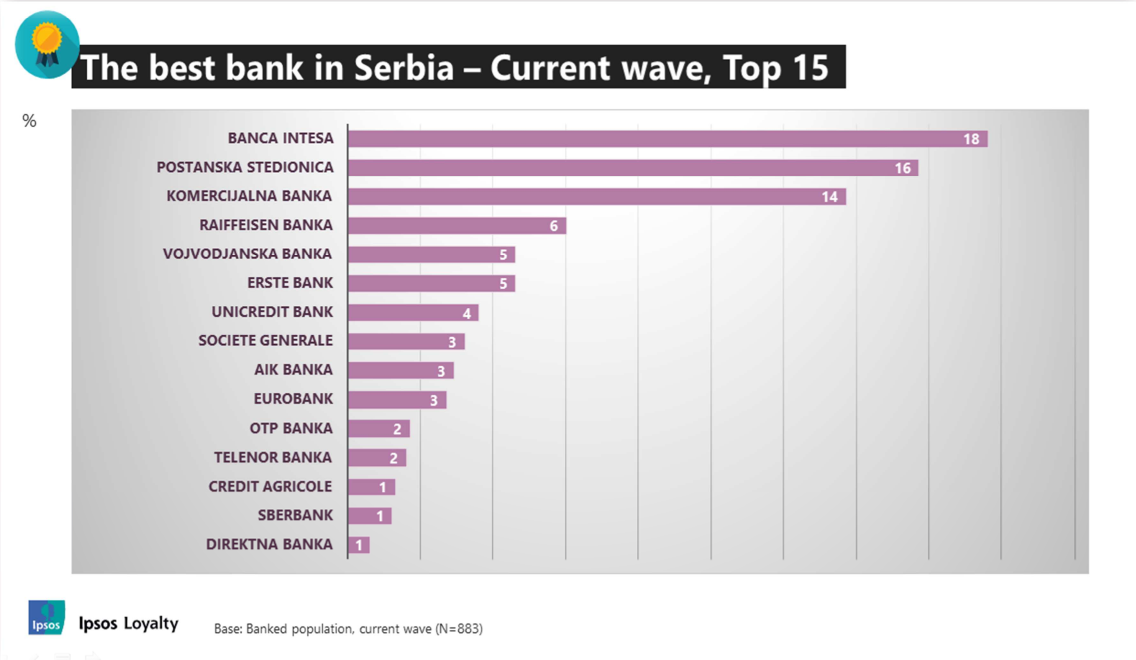
Business goals of the Company **KomBank INVEST Beograd** remain further growth of business, accompanied by growth of investment funds and business income of the Company. In the next three-year period, the Company expects the growth of balance assets of RSD 31.2 million, i.e. a cumulative growth of 19.2% is planned, and the average annual growth rate of 6.4%[17] is planned. The largest part of the Company's assets is invested in the investment units of the Fund. In the future planning period, the purchase of fixed assets is not planned. A mild growth of the Company's liabilities is expected. Expected and realized profit from future business will be allocated to the Company's capital (in accordance with the Shareholders' Assembly decision).
In the forthcoming three-year period, significant growth in revenues from the management of the Company's funds is expected. Stable financial income of the company is expected. Operating expenses are maintained at the expected level. In the coming three-year period, a significant increase in the annual net profit is expected.
As a result of the growth in net profit in the future period, high return on assets and capital (ROA, ROE) are planned. Due to the expectation that the conditions for investing in investment funds will be difficult, a somewhat lower return on financial placements is expected. Due to the expected growth in profit of the Company, the profit margin is expected to increase.

15 Business Plan of Komercijalna banka ad Podgorica
16 Strategy and Business Plan 2019-2021 of Komercijalna banka ad Banja Luka
17 Business Plan of the Management Company for 2019-2021

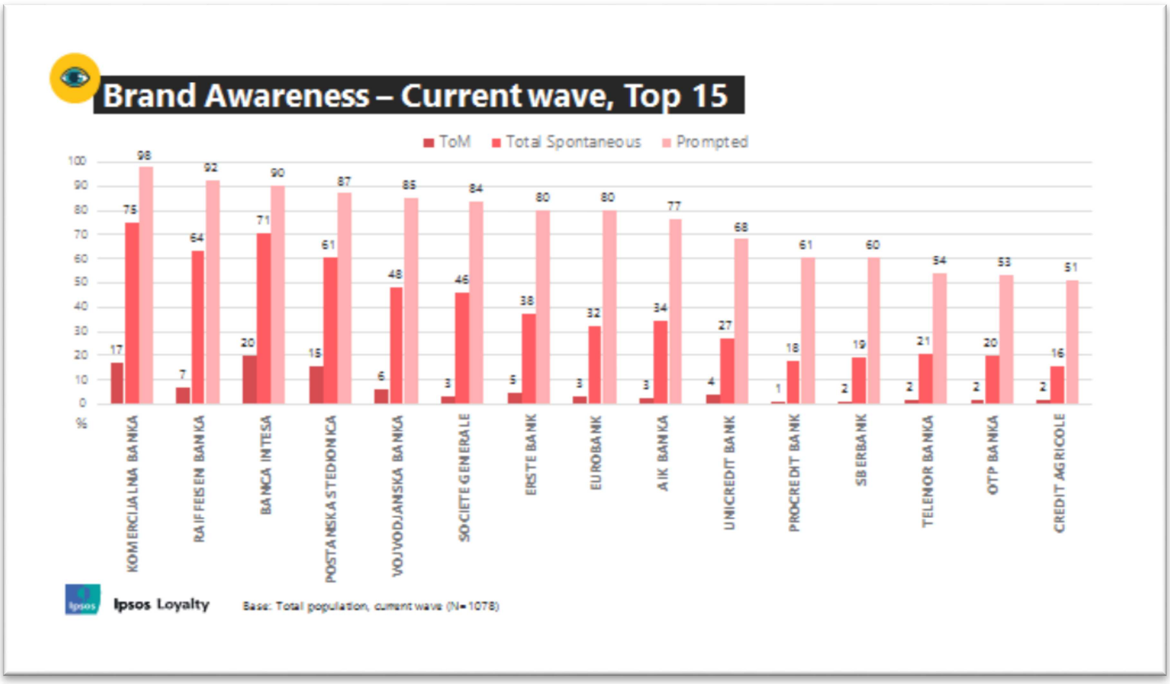
7. Research and development

The Banking Group continuously monitors the activity on the banking products' market, using available staff and hiring specialized, independent public opinion research agencies.

Market research: IPSOS Strategic Marketing, Banking Omnibus, November 2018



The agencies provide customer satisfaction data, and according to the conducted analyzes, the Group takes the lead in recognizing the brand and quality of its services.



The results of the research help in the process of making business decisions, especially important in the segment of development of new and improvement and modification of existing products and services.

In the continuous process of tracking market signals and the needs of users and potential clients, the Group's business divisions offered new and or improved certain types of loans to customers and micro clients in the previous period , and developed a full range of services in the electronic and mobile banking, payment and credit cards which are, bearing in mind the local conditions, satisfactory.

8. Repurchase of own shares and stakes

Members of the Group did not acquire own shares in the last fiscal year, and have no intention of acquiring own shares in the period to come.

9. Operation of Branches Before Consolidation

Dependent banks: Komercijalna Banka AD Podgorica and Komercijalna Banka AD Banja Luka keep their business books and prepare financial statement in accordance with the accounting regulations of the Republic of Montenegro, or Bosnia and Herzegovina (the Republic of Srpska). KomBank INVEST AD Beograd prepares financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of preparing consolidated financial statements, the individual audited financial statements of the subsidiary banks and the KomBank INVEST Company have been adapted to the presentation of the financial statements based on:

- The accounting regulations of the Republic of Serbia
- The Internal Acts of the Parent Bank – Komercijalna Banka AD Beograd, and
- The relevant IAS and IFRS.

Re-classified individual balance sheets of the Group members before condsolidation as of 31.12.2018

ITEM	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST
(in RSD thousands)				
Cash and balances with the central bank	63.595.710	2.470.383	7.934.785	8
Pledged financial assets	-	-	-	-
Derivative receivables	4.070	-	-	-
Securities	133.177.598	1.967.042	2.227.301	142.779
Loans and receivables from banks and other fin.org.	18.479.050	2.580.380	1.680.887	16.376
Loans and receivables from customers	167.545.674	8.597.573	15.305.395	-
Investments in subsidiaries	5.480.888	-	-	-
Intangible assets	557.051	25.194	45.223	-
Property, plant and equipment	5.619.078	306.695	121.592	19
Investment property	1.896.347	94.956	268.512	-
Current tax assets	-	-	1.650	-
Deferred tax assets	840.967	-	-	-
Fixed assets intended for sale and operating assets that are discontinued	227.630	255.595	175.778	-
Other assets	6.612.268	496.609	43.047	1.976
TOTAL ASSETS	**404.036.331**	**16.794.428**	**27.804.170**	**161.158**
Derivative liabilities	-	-	-	-
Deposits and other financial liabilities to banks, o.f.o. and the central bank	5.662.748	242.802	4.050.739	-
Deposits and other liabilities to other customers	317.229.084	13.840.132	19.598.940	-
Provisions	1.646.400	130.585	22.732	9.136
Current tax liabilities	-	119	10.782	143
Deferred tax liabilities	-	9.841	4.836	-
Other liabilities	9.059.972	95.407	177.835	915
TOTAL LIABILITIES	**333.598.204**	**14.318.887**	**23.865.864**	**10.195**
Total capital	70.438.127	2.475.541	3.938.307	150.964
TOTAL LIABILITIES	**404.036.331**	**16.794.428**	**27.804.170**	**161.158**

NOTE: For the purposes of consolidation, reclassification of positions is carried out in the individual (statutory) financial statements of the Group members which influence the adjustments in the balance sheet and the results in the profit and loss account reported in the statutory reports. Adjusted (reclassified) financial statements are the initial balance sheet reports and positions that are still subject to consolidation.

Reclassified individual income statements of the Group members before consolidation for the period January 1 to December 31, 2018

ITEM	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST
(in RSD thousands)				
Interest income	13.744.908	558.654	791.833	578
Interest expenses	-910.270	-83.003	-156.055	-
Net interest income	**12.834.638**	**475.651**	**635.778**	**578**
Fees and commission income	7.207.872	188.351	242.439	23.037
Fees and commission expenses	-1.997.723	-47.606	-74.242	-1.681
Net fees and commission income	**5.210.149**	**140.745**	**168.197**	**21.355**
Net profit/loss arising from changes in fair value of financial instruments	44.076	-	-	4.496
Net profit/loss on the expiry of recognition of financial instruments valued at fair value	230.194	-	16.872	18
Net income / expense from exchange rate differences and effects of the contract currency clause	-7.458	8.428	3.241	1
Net income / expense based on impairment of financial assets which are not valued at fair value through P&L	11.818	29.335	10.528	-
Net income/expense based on expiry of recognition of financial instruments which are valued at amortized cost	526.547	-	-	-
Other operating income	155.969	7.636	11.808	-
TOTAL NET OPERATING INCOME	**19.005.933**	**661.795**	**846.424**	**26.449**
Costs of salaries, fees, earnings and other personal expenses	-4.442.799	-265.617	-320.675	-14.845
Depreciation cost	-551.988	-34.940	-42.816	- 10
Other income	280.229	58.264	36.886	12
Other expenses	-6.167.977	-297.467	-379.966	- 9.981
PROFIT/LOSS (-) BEFORE TAX	**8.123.398**	**122.034**	**139.853**	**1.624**

10. Financial instruments important for the assessment of the Group's financial position

At the end of the fiscal 2018, for the evaluation of the financial position of the Group, the following financial instruments or balance sheet items are of key importance: loans and receivables from customers, securities, deposits and liabilities to other clients and capital.

The position of loans and receivables from customers made up 43.4% of total consolidated assets and increased by RSD 17,206.5 million compared to 2017. A detailed structure of loans to customers is presented in the note to the consolidated financial statements.

The position of the securities accounted for 31.1% of the total consolidated assets and increased by RSD 15,992.1 million compared to 2017, and mostly related to the Parent Bank's investments in securities of the Republic of Serbia (the detailed structure is stated in the note the consolidated financial statements).

On the other hand, deposits and other liabilities to other customers accounted for 79.4% of consolidated liabilities and increased by RSD 33,090.4 million. Deposits were the main source of financing of dependent banks as well as the Parent Bank (the detailed structure is stated in the Notes to the consolidated financial statements).

The position of the Group's total capital accounted for 16.2% of consolidated liabilities and increased by RSD 4.421.9 million mainly due to the profit generation of the parent bank and other members of the Group.

The Group's members are well capitalized, and the Group's capital adequacy ratio is 25.2% and is significantly above the prescribed limit (8% + combined protective capital layer).

11. Risk Management

The Group recognized the risk management process as a key element of business management, since exposure to risks stems from all business activities, as an inseparable part of banking operations, managed through identification, measurement, evaluation, monitoring, control and mitigation, and risk reporting, respectively establishing risk limits, and reporting in line with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks the Group is exposed to or exposed to in its operations, adequate an internal control system, an appropriate information system and an adequate process of internal capital adequacy assessment. Also, in the risk management system, the Group Recovery Plan is integrated as a mechanism for early identification of the situation of a severe financial disturbance in which the Group can take measures or apply the defined recovery options in order to prevent entry into the early intervention phase in which the regulator has active participation or improvements but a worsening financial situation.

The Risk Management Strategy and the Capital Management Strategy, the Group has set the following goals within the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined framework of acceptable level of risk, maintaining the required level of capital adequacy, developing the Group's activities in line with business opportunities and development of the market in order to achieve competitive advantages, diversification of risks to which the Group is exposed, maintenance of the participation of NPLs in total loans until accepted level for the Group, maintain a ratio of liquid assets to cover above the statutory regulations and internal limits.

The Group permanently monitors all announcements and changes in the regulatory framework, analyzes the impact on the level of risk and takes measures to timely align its business with new regulations, such as the implementation of the International Financial Reporting Standard 9 (IFRS 9) implemented by the Group from 01/01/2018. Through a clearly defined process of introducing new and significantly altered products, services and processes related to processes and systems, the Group analyzes their impact on future risk exposure in order to optimize their revenue and costs for the estimated risk, and minimize any potentially adverse effects on the financial result Groups.

A more detailed overview of the Group's risk management objectives and policies is presented in the Notes to the Consolidated Financial Statements.

Policy of protection against exposure to credit risk

In order to protect against exposure to credit risk, the Group applies credit risk mitigation techniques by providing both collateral security instruments (collaterals) as secondary sources of collateral. The Group strives to deal with clients with good creditworthiness, assessing it at the time of filing the application and regular monitoring of debtors, placements and collaterals, in order to take timely action in the process of collection.

Types of collateral depend on the credit risk assessment of the debtor and are determined in each specific case individually, and their acquisition is made after the conclusion of the contract and before the loan realization.

The Group regulated the internal credit rating of the credit protection instruments and the management of these instruments by internal acts.

When assessing the value of collateral, the Group engages the authorized appraisers in order to minimize the potential risk of unrealistic valuation, and the immovable property, goods, equipment and other movable items that are the subject of inventory must be insured with an insurance company acceptable to the Group with insurance policies endorsed in her favor.

In order to protect against the change in the market value of collateral, the estimated value is adjusted for the defined percentage of impairment, depending on the type of collateral and the location of the real estate, which are regularly reviewed and revised.

The Group devotes special attention to the monitoring of collaterals and undertakes activities to provide new valuation, but also to the provision of additional collaterals, first of all, for clients with identified problems in the business as well as for clients whose coverage of exposure to collateral is reduced due to the collapse of the value of collateral.

For the purpose of adequate risk management, the Group conducts credit risk analysis activities for the approval of placements and the establishment of a system for monitoring, preventing and managing risky placements, including the adequate identification of potentially risky clients (Watch List), alleviating credit risk in clients of the said status, and through taking measures and actions in order to protect the Group's interests and to prevent adverse effects on its financial result and capital.

During 2018, the Group continued to improve the risk management system. Revised the Risk Management and Risk Management Policy, supplemented policies and procedures with the aim of aligning with changes in local and international regulations, improved business practices and organizational changes. In line with the changed requirements of the regulations, credit risk management has been improved. The Group continuously improves the risk management system that relies on the postulates of independence of the risk management function of risk centers, the timeliness of information flows that support the decision-making process, and the transparency and correctness of the information provided.

In 2018, the Group focused on improving the quality of the loan portfolio by reducing the emergence of new bad loans and addressing the problems of clients that have already been identified as problematic and has implemented activities to reduce non-performing loans (improved collection, sale transfer, and write-off by transferring entirely impaired receivables into off-balance sheet records). In accordance with the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets of the bank (application dated September 30, 2017), as well as the regulation of the Central Bank of Montenegro, the parent Bank transferred 100% impaired loans from the balance sheet to the off-balance sheet, which resulted in a decrease in NPL ratio. In Komercijalna Banka Podgorica and Banja Luka, there was no transfer of 100% impaired loans into off-balance sheet records, so that the decrease in NPLs with those subsidies is solely due to the collection of risk loans, primarily in the retail sector (micro business and housing loans).

As of 01.01.2018, the Group applies the International Financial Reporting Standard 9 (IFRS 9), which resulted in the harmonization of internal acts (methodology and procedures). In accordance with IFRS 9, the Banking Group members adopted a new Methodology for assessing the impairment of balance sheet assets and probable loss on off-balance sheet items. From the concept of "incurred losses", the concept of "expected losses" was adopted, through the inclusion of the impact of the expected movement of macroeconomic factors on the future movement of the probability of occurrence of default status on the basis of statistically proven inter-dependencies; the portfolio is differentiated into three levels that monitor the status of a client (level 1 - clients without identified credit risk deterioration, level 2 - PL clients with identified credit risk deterioration - measured set of defined criteria, level 3 - NPL clients). Also, in accordance with IFRS 9, the Group calculates impairment for exposures to the countries and central banks of the Banking Group members, and a permanent stakes (excluding long-term deposits in subsidiaries) are valued at fair value, implying the suspension of the corresponding impairments in the balance sheet i.e., the reduction of the gross value of the share to their fair value.

The Group has aligned all relevant internal acts in accordance with the application of IFRS 9 standards.

Effects of the first application of IFRS 9 of the Standard 01/01/2018. They are accounted for at the expense of equity. The real growth of impairments (income statement) in the Group in 2018 was well below the planned value for 2018, as the collection of risk placements was significantly higher than planned. Also, the low increase in impairments was also influence the conservative lending policy in 2018. With the subsidies from Podgorica and Banja Luka there was also a real decrease in loan impairments due to the collection of risky placements. The decrease in the allowance for impairment in the balance sheet of the Group was mostly affected by the transfer of 100% impaired loans from balance sheet to off-balance sheet at the parent Bank.

The Group is particularly exposed to the following types of risks in its operations:

- Credit and related risks.
- Liquidity risk.
- Market risk.
- Interest rate risk in the banking book.
- Operational risk.
- Risk of investment.
- Risk of exposure.
- Country risk as well as any other risks that may arise in the Group's ordinary business.

Credit risk exposure

Credit risk is the possibility of adverse effects on the Group's financial result and capital, due to non-fulfillment of the obligations of the debtor towards the Group members. Credit risk is conditioned by the borrower's creditworthiness, its regularity in carrying out obligations towards members of the Group, as well as the quality of the security instrument.

The acceptable level of exposure to the Group's credit risk is in accordance with the defined risk management strategy and depends on the Group's portfolio structure, which allows limiting the negative effects on the Group's financial result and capital, minimizing capital requirements for credit risk, settlement risk and delivery on the basis of free delivery, counterparty risk, the risk of a decrease in the value of the purchased receivables and in order to maintain capital adequacy at an acceptable level. Banks, members of the banking group, manage the credit risk at the level of the client, the group of affiliates and the entire loan portfolio. They also grant loans to clients (legal and natural persons) who are assessed as having a creditworthiness in performing an analysis, that is, quantitative and/or qualitative measurement and the assessment of credit risk and the financial condition of the borrower. The process of measuring credit risk is based on measuring the risk level of individual loans based on the internal rating system, as well as the application of regulations. By monitoring and controlling the portfolio as a whole and by segment, the Group compares with previous periods, identifies trends, movements and causes of changes in the level of credit risk. It also monitors asset quality indicators (NPL movement, NPL coverage by impairments, etc.), as well as exposure to regulatory and internally defined limits. The process of monitoring loan quality enables members of the Group to estimate potential losses as a result of the risks they are exposed to and take appropriate corrective measures.

Exposure to liquidity risk

Liquidity risk is the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group's members to meet their maturity obligations, as well as to provide liquid assets at no higher cost in the short term. Liquidity risk is manifested through the Group's difficulties in settling matured liabilities in the event of insufficient liquidity reserves and the inability to cover unexpected outflows of other liabilities.

The parent Bank, as well as the Group's members, adheres to the basic principles of liquidity in its operations, achieving sufficient level of liquid assets to cover short-term liabilities, i.e. they respect the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not endanger generation of projected return on capital.

Liquidity risk is also manifested in the Group's inability to transform individual assets into liquid assets in the short term. The Group analyzes the funding risk and market liquidity risk. The problem of liquidity from the aspect of funding sources refers to the structure of liabilities, i.e. liabilities and is expressed through the potentially significant share of unstable funding sources, short-term sources or their concentration. The funding risk actually presents a risk that the Group will not be able to fulfill its obligations due to withdrawal of unstable sources of funds, or the inability to obtain new sources of funds. On the other hand, the liquidity risk is also manifested through the deficit of liquidity reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices. During 2018, the Group maintained an indicator of liquid assets coverage as well as a liquidity indicator and narrower liquidity indicator at a level that was not lower than the prescribed regulatory and internal limits.

The parent bank, as well as members of the Group, actively take preventive measures in order to minimize exposure to liquidity risk.

Exposure to market risks

Market risk is the possibility of adverse effects on the Group's financial result and capital due to changes in market variables and includes foreign exchange risk for all business activities it performs and the price risk of trading book positions.

The Group is exposed to foreign exchange risk, which manifests itself through the possibility of adverse effects on the financial result and capital due to the volatility of foreign exchange rates, relations, changes in the value of the domestic currency against foreign currencies, or the change in the value of gold and other precious metals. In order to minimize exposure to foreign currency risk, the Group performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of asset maturity transformation. During 2018, the Group was in line with the regulatory foreign exchange risk indicator, which was expressed as 20% of the regulatory capital.

Exposure to interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and capital based on positions in the banking book due to adverse changes in interest rates. The Parent Bank, as well as members of the Group, comprehensively determine in a timely manner the causes of the current and assess the factors of future exposure to interest rate risk. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities. Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk from the point of view of impact on the financial result and the economic value of the capital, by maintaining an adequate policy of maturity adjustment of the period for re-setting interest rates and matching funding sources with lending according to the interest rate and maturity.

Exposure to operational risks

Operational risk is the risk of potential adverse effects on the Group's financial result and capital due to employees' failures, inadequate internal procedures and processes, inadequate management of information and other systems in member banks of the Group, and the occurrence of unpredictable external events. Operational risk includes legal risk, which is the risk of adverse effects on the Group's financial result and capital on judicial or extra-judicial procedures. The member banks of the Group conduct measurement of operational risk exposure through event logging, monitoring key risk indicators, self-evaluation and stress testing of operational risk. The Group takes measures in order to mitigate operational risks and proactive responses to potential operational risk events through permanent monitoring of all activities, implementation of an adequate and reliable information system, the implementation of which improves business practice and optimizes the Group's business processes. In order to minimize the legal risk and its impact on the financial result, the Group continues to improve its business practices in the part of timely provision based on claims against banks of the Group's members, in accordance with an estimate of future expected loss on that basis.

Risk of investment

The Group's investment risk is the risk of investments in other legal entities and in fixed assets and investment property. In accordance with the regulations, the level of long-term investments is monitored and the Group's bodies and committees are informed. This ensures that the Group's investment in a non-financial entity does not exceed 10% of the Group's capital, and that the Group's investments in non-financial entities and in the Group's fixed assets and investment property do not exceed 60% of the Group's capital.

Large exposure

The Group's large exposure to a single entity or a group of related entities, including entities related to the Group, is an exposure amounting to at least 10% of the Group's capital. During 2018, the Parent Bank and the Banking Group members were in compliance with the regulatory and internally defined exposure limits.

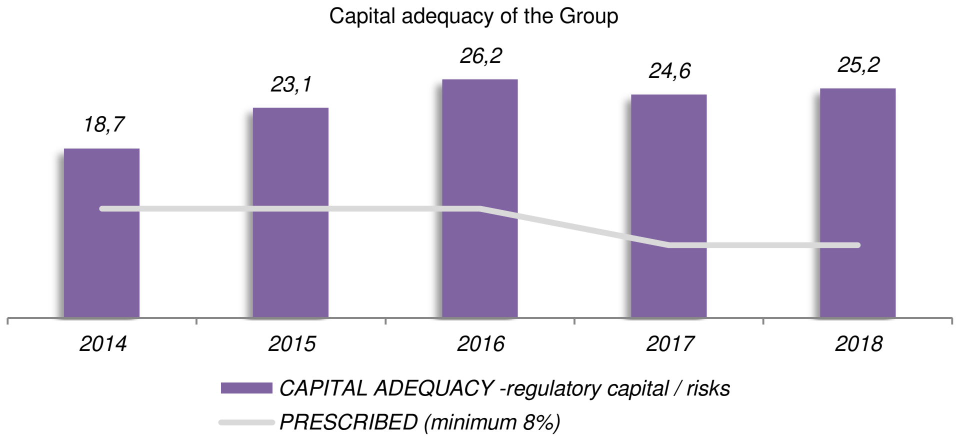
Exposure to country risk

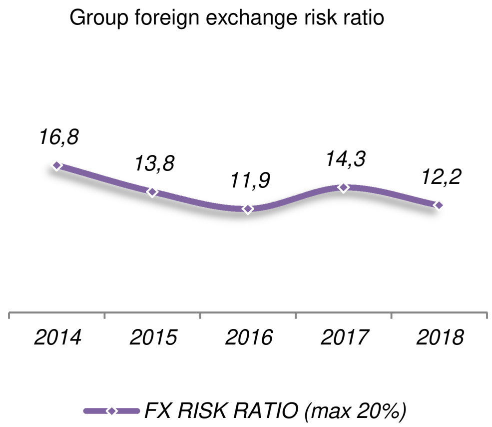
The country risk is the risk that refers to the country of origin of the persons to which the Group's members are exposed, or the risk of the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group members to collect receivables from the debtor for reasons arising from political, economic or social circumstances in the country of origin of the debtor. The Group's exposure to country risk is at an acceptable level.

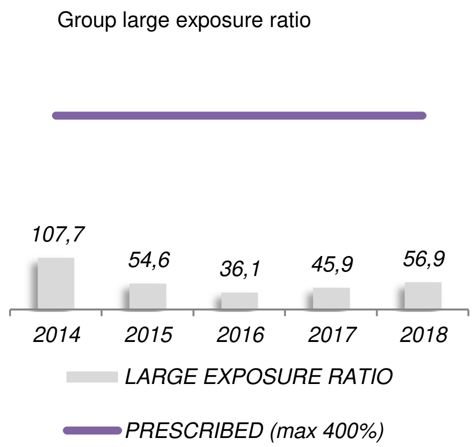
Regulatory requirements for KB Group

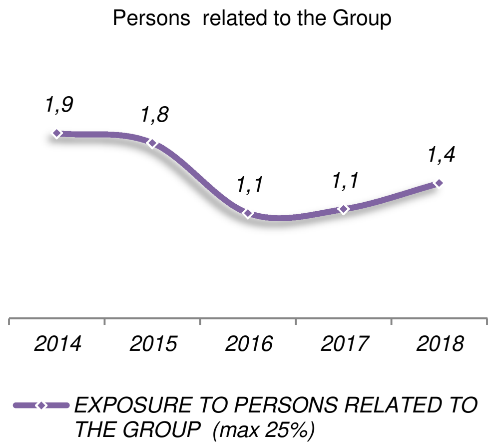
According to the Law on Banks: "For the banking group on a consolidated basis, the following ratios are determined:

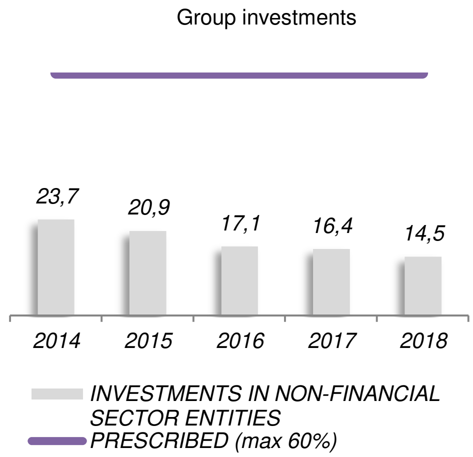
- Capital adequacy ratio,
- Large exposure ratio
- Investment in other legal entities and in fixed assets and investment property,
- Open net FX position,
- Liquid assets coverage ratio and others.











12. Corporate Social Responsibility

KOMERCIJALNA BANKA A.D. BEOGRAD

Komercijalna Banka AD Beograd, the Parent Bank, is paying special attention to activities in the area of corporate social responsibility (CSR). This segment is especially important to us because we are aware of its impact on customer confidence and corporate image. Activities in the area of CSR were carefully selected and the Group actively cooperated with its partners in that segment.

In 2018, Komercijalna Banka Beograd continued with the donation of baby born on the World Savings Day on October 31 in the amount of 50 Euros in RSD counter value.

KOMBANK ART HOL, our gallery space in the center of Belgrade, during 2018 attracted the attention of the media and the public through 15 conceptually different exhibitions, organized in cooperation with the Faculty of Applied Arts.

CSR activities are coordinated with subsidiary banks in Montenegro and the Republic of Srpska.

KOMERCIJALNA BANKA A.D PODGORICA

Socially responsible business and the desire to help and support all projects that contribute to the wider social community is an indispensable part of the activities of Komercijalna Banka Podgorica. In 2018, the Bank donated a valuable appliance to the Center for Pathology of the Clinical Center of Montenegro. The microscope of the renowned brand "Leica" has the most up-to-date optics adapted to the work of doctors of pathology specialists. This donation will improve the quality of analyzed samples and will contribute to the faster and more precise work of the Center. The donation value is EUR 5,000. In the year in which it celebrates 25 years of existence and business in Montenegro, the Bank signed a Cooperation Agreement with the Faculty of Economics in Podgorica with the aim of joint activities within this cooperation, to improve the knowledge and skills of students in order to prepare them better for job market. Cooperation includes a wide range of activities such as organization of joint expert discussions and tribunes, visits by representatives of the Bank to the Faculty and vice versa, joint design and development of studies, professional practice for students at the Faculty of Economics in the Bank, as well as training of lecturers, trainers and employees on both sides. In the framework of this cooperation, the Bank awarded 26 best students with cash prizes, and the 6 best students of the final year of paid practice in the business sector of their choice.

In 2018, Komercijalna Banka Podgorica, as in previous years, took part in the action of donating babies born on savings week, October 31st to November 6th, which has been organized by the Central Bank of Montenegro in cooperation with commercial banks for years. All babies born on savings week are given savings of EUR 400, half of which is provided by the Central Bank of Montenegro, and half by the commercial bank.

In addition, in 2018 the Bank continued with other socially responsible activities that have been continuously implemented for many years, and has supported a number of sports clubs as well as individuals who have achieved notable results in the field of sports, science and art, as well as a number of citizens who requested financial assistance for medical treatment needs.

KOMERCIJALNA BANKA A.D. BANJA LUKA

Activities related to social responsibility in 2018 took up an important segment of the functioning of Komercijalna Banka a.d. Banja Luka in accordance with the corporate culture and the Bank's policy. Special attention is paid to the youngest population and institutions that care about the educational development of children and their health and social protection. In support of birth rate, during the year, in August, September and October, the bank delivered savings deposits to first-born babies in all maternity wards in the Republic of Srpska and Bosnia and Herzegovina.

The funds were allocated for the kindergarten "Kolibri", the best students of the Banja Luka's School of Economics were awarded, as well as the winners of the literary competition of all high school students in the Republic of Srpska organized by the Consulate General of the Republic of Serbia in Banja Luka on the occasion of celebrating Sretenje - Statehood Day of the Republic of Serbia.

Komercijalna banka a.d. Banja Luka, as a socially responsible company, has launched various projects with economic faculties in Banja Luka and East Sarajevo, with the aim of supporting professional development and training of young people. In this regard, the Bank has provided a chance for professional training of students and those students who during the engagement show a high level of motivation, dedication and devotion in fulfilling their tasks will get the opportunity to further employment and career building in Komercijalna Banka a.d. Banja Luka. In the past period, the Bank financially supported and awarded the best students during the organized campaigns and conferences.

In addition, the Bank helped organize a humanitarian concert "Autism Talking to the Heart" for children with autism, as well as the manifestation "Children without Borders for Children in BiH". Komercijalna Banka a.d. Banja Luka continuously provides support to sports clubs in order to equip and bring sports closer to the youngest population, as well as to individuals who achieve outstanding results in sports competitions.

Rules of Corporate Governance

Corporate governance rules are based on the relevant legislation (Law on Banks and the Law on Companies). Code of Corporate Governance established principles of corporate practice by which the holders of corporate governance abide and behave in business. The aim of the Code is the introduction of good business practices and the establishment of high standards of corporate governance, which should ensure the strengthening of trust of shareholders, investors, customers and other stakeholders. Good practice of corporate governance basically allows the consistency of the control system, protect the interests of shareholders, the timely submission of all relevant information on the operations and complete transparency through public access to financial reports of companies.

Komercijalna Banka ad Beograd, as the parent bank, applies the Code of Corporate Governance of the Serbian Chamber of Commerce in its business, adopted by the Assembly of the Serbian Chamber of Commerce, in accordance with the Decision on the Implementation of the Corporate Governance Code of the Serbian Chamber of Commerce adopted by the Executive Board of the Bank (No. 8373) dated 09.04.2013.

In line with the Law on Companies (“Official Gazette of CG nos.17/2007, 80/2008, 36/2011), Komercijalna Banka ad Podgorica obtained the legal person capacity on the date of registration as the joint stock company. As the joint stock company, Komercijalna Banka ad Podgorica is regulating mutual relations of all stakeholders in accordance with its Memorandum and Articles of Association. Company’s bodies are the Bank’s General Meeting of Shareholders, Board of Directors, Audit Committee and Executive Directors. Roles of the Bank’s bodies have been defined by the Articles of Association and other regulations of the Bank. In the part of management, the Bank applies the best international practices of corporate governance.

When applying the corporate governance rules the acts referred to above are being implemented, as well as other internal acts of the Bank and there are no deviations in the very application of these rules and regulations.

Komercijalna Banka AD Banja Luka in its operation applies the Corporate Governance Standards adopted by the Securities Commission of the Republic of Srpska, in accordance with the Article 309 of the Law on Companies (Official Gazette of the Republic of Srpska Nos. 127/98, 58/09, 100/11, 67/13 and 100/17) and Article 260 of the Law on Securities Market (Official Gazette of the Republic of Srpska Nos. 92/06, 34/09, 30/12, 59/13, 108/13 and 4/17).

KomBank INVEST AD Beograd has been organized in the form of one-member joint stock company that is not public, with a two-tier management structure. In order to ensure impartiality, transparency and accountability in corporate behavior, the Company applies the Rules of Business approved by the Securities Commission in accordance with Article 17 of the Law on Investment Funds (Official Gazette of the Republic of Serbia, No. 46/2006, 51/2009, 31/2011 and 115/2014), Code of conduct and professional ethics that complied with the parent company, Personal Transactions and Conflict of Interest Management Policy etc..

The competencies and powers of all the Group's member bodies are based on the relevant legal regulations and are defined in internal acts. Corporate governance rules have been implemented through internal acts and there are no deviations in their application.

Signed on behalf of Komercijalna Banka a.d. Beograd

Miroslav Perić, PhD — Member of the Executive Board

Vladimir Medan, PhD — President of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Svetog Save 14, 11000 Beograd
Tel: +381 11 30 80 100
Fax: +381 11 344 13 35
Registration No. 07737068
Tax Identification No. SR 100001931
VAT No. 134968641
Activity code: 6419
Business Registers Agency: 10156/2005
Account No. 908-20501-70
SWIFT: KOBBRSBG
E-mail: posta@kombank.com
www.kombank.com

KOMERCIJALNA BANKA AD BEOGRAD
Svetog Save 14
11000 Beograd

18.04.2019.

Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011, 112/2015, 108/2016) Komercijalna banka AD Beograd issues the following

STATEMENT

I hereby state that, according to my best knowledge and based on the opinion of an external auditor, the annual consolidated financial statements have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, including its companies included in the consolidated reports, based on the adopted audited separate financial statements of the Group members for the year 2018.

KOMERCIJALNA BANKA AD BEOGRAD

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Vladimir Medan, PhD
Chief Executive Officer

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KOMERCIJALNA BANKA AD BEOGRAD

GENERAL MEETING OF SHAREHOLDERS

Number: 2586/2

Belgrade, 24.04.2019.

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd, the General Meeting of the Bank's Shareholders, at its regular session on 24.04.2019, adopted the following

D E C I S I O N

TO ADOPT THE ANNUAL REPORT ON GROUP'S OPERATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP FOR 2018 WITH THE EXTERNAL AUDITOR'S OPINION

I

We hereby adopt the 2018 Annual Report of Komercijalna banka AD Beograd Group, with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd), the text of which is incorporated in this Decision by reference.

II

We hereby adopt the 2018 Consolidated Financial Statements of Komercijalna banka AD Beograd Group, with the report and opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd):

1. Balance Sheet – consolidated as at 31 December 2018.
2. Income Statement – consolidated for the period from 1 January to 31 December 2018.
3. Statement of Other Comprehensive Income – consolidated for the period from 1 January to 31 December 2018.
4. Statement of Changes in Equity – consolidated for the period from 1 January to 31 December 2018.
5. Cash Flow Statement – consolidated for the period from 1 January to 31 December 2018.
6. Notes to 2018 Consolidated Financial Statements,
   in the wording that forms an integral part of this decision.

III

This Decision becomes effective on the day of its passing.

CHAIRPERSON OF
THE GENERAL MEETING OF THE BANK'S SHAREHOLDERS

Marijana Marković