UNICREDIT BANK SRBIJA A.D., BEOGRAD

Unconsolidated Financial Statements
Year Ended December 31, 2019 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language
Translation of the Bank's Unconsolidated Financial Statements and Notes to the Unconsolidated Financial Statements issued in the Serbian language

CONTENTS

Deloitte.

Deloitte d.o.o. Beograd
Terazije 8
11000 Belgrade
Republic of Serbia

Tax Identification Number: 100048772
Registration Number: 07770413

Tel: +381 (0)11 3812 100
Fax: +381 (0)11 3812 112
www.deloitte.com/rs

This is a translation of the Auditors' Report issued in the Serbian language
In case of any discrepancy between the Serbian and English versions, the Serbian version shall prevail

INDEPENDENT AUDITORS' REPORT

To the Shareholders of UniCredit Bank Srbija A.D., Beograd

Opinion

We have audited the financial statements (pages 3 to 105) of UniCredit Bank Srbija A.D., Beograd (hereinafter: the "Bank") which comprise the statement of the financial position as at December 31, 2019, and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, in all material respects, give a true and fair view of the financial position of the Bank as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) and the Law on Audit of the Republic of Serbia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, as well as to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

(Continued)

This is a translation of the Auditors' Report issued in the Serbian language
In case of any discrepancy between the Serbian and English versions, the Serbian version shall prevail

INDEPENDENT AUDITORS' REPORT

To the Shareholders of UniCredit Bank Srbija A.D., Beograd (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with the ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

a) As disclosed in Notes 2(a) and 3(a) to the financial statements, the Bank is a parent entity and its consolidated financial statements prepared in accordance with the International Financial Reporting Standards have been issued separately. The Bank's consolidated financial statements as of and for the year ended December 31, 2019, have been audited by us, and, in our auditors' report dated February 24, 2020, we expressed an unqualified opinion thereon.

b) The Bank's unconsolidated financial statements as of and for the year ended December 31, 2018 were audited by another auditor, whose report dated February 14, 2019, expressed an unqualified opinion thereon.

Miroslav Tončić
Certified Auditor

Deloitte d.o.o.
BEOGRAD
IV

Terazije 8, Belgrade
February 24, 2020

STATEMENT OF FINANCIAL POSITION
As of December 31, 2019
(Thousands of RSD)

	Note	December 31, 2019	December 31, 2018
Cash and balances held with the central bank	3.l, 21	59,710,178	53,405,309
Receivables under derivative financial instruments	3.m, 22	1,167,316	682,823
Securities	3.k, 3.p, 23	106,276,789	101,927,293
Loans and receivables due from banks and other financial institutions	3.k, 3.o, 24	2,908,405	20,974,936
Loans and receivables due from customers	3.k, 3.o, 25	264,501,433	255,642,820
Changes in the fair value of hedged items	3.n, 26	-	222,773
Receivables under derivatives designated as risk hedging instruments	3.n, 27	-	2
Investments in subsidiaries	3.z, 28	112,644	112,644
Intangible assets	3.r, 3.u, 29	1,901,383	1,617,855
Property, plant and equipment	3.q, 3.t, 3.u, 30	3,888,486	1,589,673
Investment property	3.s, 31	3,528	1,331
Current tax assets	3.j, 20.4	58,867	-
Deferred tax assets	3.j, 32	-	239,899
Other assets	33	1,048,224	982,931
Total assets		**441,577,253**	**437,400,289**
Liabilities under derivative financial instruments	3.m, 34	1,206,796	723,632
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.k, 3.v, 35	116,333,776	133,078,135
Deposits and other liabilities due to customers	3.k, 3.v, 36	230,679,097	220,931,036
Liabilities under derivatives designated as risk hedging instruments	3.n, 37	158,188	488,580
Provisions	3.w, 3.y, 38	1,288,884	1,131,110
Current tax liabilities	3.j, 20.4	-	461,958
Deferred tax liabilities	3.j, 32	411,884	381
Other liabilities	3.t, 39	5,651,643	2,756,959
Total liabilities		**355,730,268**	**359,571,791**
Issued (share) capital	41.1	24,169,776	24,169,776
Profit	41.1	8,273,431	9,221,647
Reserves	41.1	53,403,778	44,437,075
Total equity		85,846,985	77,828,498
Total liabilities and equity		**441,577,253**	**437,400,289**

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

Belgrade, February 14, 2020

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Feza Tan
Management Board Chairperson

Sandra Vojnović
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

INCOME STATEMENT
Year Ended December 31, 2019
(Thousands of RSD)

	Note	2019	2018
Interest income	3.d, 7	16,654,054	16,211,037
Interest expenses	3.d, 7	(2,879,692)	(2,531,688)
Net interest income		**13,774,362**	**13,679,349**
Fee and commission income	3.e, 8	5,290,999	4,782,251
Fee and commission expenses	3.e, 8	(1,239,842)	(1,289,437)
Net fee and commission income		**4,051,157**	**3,492,814**
Net gains on changes in the fair value of financial instruments	3.f, 9	218,200	145,562
Net gains on derecognition of the financial assets measured at fair value	3.g, 10	503,521	172,506
Net losses on risk hedging	3.h,11	(241,352)	(10,705)
Net foreign exchange gains and positive currency clause effects	3.c, 12	1,682,234	1,415,932
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.k, 13	(1,416,349)	(2,904,225)
Net gains on derecognition of the financial assets measured at amortized cost	3.i, 14	-	2,099,033
Net losses on derecognition of the financial assets measured at amortized cost	3.i, 14	(516,198)	-
Other operating income	15	53,018	46,642
Total operating income, net		18,108,593	18,136,908
Salaries, salary compensations and other personal expenses	16	(3,078,367)	(3,021,454)
Depreciation and amortization charge	3.q, 3.r, 17	(1,094,444)	(579,879)
Other income	18	193,399	88,730
Other expenses	19	(5,172,471)	(4,582,729)
Profit before tax		8,956,710	10,041,576
Current income tax expense	3.j, 20	(756,285)	(889,257)
Deferred tax gains	3.j, 20	73,006	76,575
Deferred tax losses	3.j, 20	-	(7,247)
Profit after tax		**8,273,431**	**9,221,647**
Result of the period - profit		**8,273,431**	**9,221,647**
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	41.2	3,505	3,906
Diluted earnings per share (in dinars, without paras)	41.2	3,505	3,906

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

Belgrade, February 14, 2020

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Feza Tan
Management Board Chairperson

Sandra Vojnović
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2019
(Thousands of RSD)

	Note	2019	2018
Net profit for the year		8,273,431	9,221,647
Components of other comprehensive income that cannot subsequently be reclassified to profit or loss:			
- Increase in revaluation reserves based on intangible assets and fixed assets		58,909	-
- Actuarial gain		-	6,592
- Actuarial losses		(23,395)	-
Components of other comprehensive income that may subsequently be reclassified to profit or loss:			
- Positive effects of value adjustments of debt securities measured at fair value through other comprehensive income (FVtOCI)		2,278,950	651,976
Losses on taxes relating to other comprehensive income	32.2	(724,408)	(989)
Total positive other comprehensive income for the year	41.3	1,590,056	657,579
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**9,863,487**	**9,879,226**

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

Belgrade, February 14, 2020

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Feza Tan
Management Board Chairperson

Sandra Vojnović
Member of the Management Board
Head of Strategy and Finance Division

"UniCredit Bank Srbija a.d." Beograd
UniCredit Bank Serbia JSC, Belgrade
07

Mirjana Kovačević
Head of the Accounting Department

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2019
(Thousands of RSD)

	Share and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Profit	Total
Opening balance as at 1 January of the previous year	23,607,620	562,156	36,997,080	1,540,320	6,633,319	69,340,495
Effects of the first implementation of new IFRS - increase	-	-	-	319,182	-	x
Effects of the first implementation of new IFRS - decrease	-	-	-	-	(455,405)	x
Adjusted opening balance as at 1 January of the previous year	23,607,620	562,156	36,997,080	1,859,502	6,177,914	69,204,272
Total positive other comprehensive income for the period	-	-	-	657,579	-	x
Profit for the current year	-	-	-	-	9,221,647	x
Distribution of profit - increase	-	-	4,922,914	-	-	x
Distribution of profit , and/or coverage of losses - decrease					(4,922,914)	x
Dividend payments	-	-	-	-	(1,255,000)	x
Total transactions with owners	-	-	4,922,914	-	(6,177,914)	x
Balance as at 31 December of the previous year	**23,607,620**	**562,156**	**41,919,994**	**2,517,081**	**9,221,647**	**77,828,498**
Opening balance as at 1 January of the current year	23,607,620	562,156	41,919,994	2,517,081	9,221,647	77,828,498
Adjusted opening balance as at 1 January of the current year	23,607,620	562,156	41,919,994	2,517,081	9,221,647	77,828,498
Total positive other comprehensive income for the period	-	-	-	1,590,056	-	x
Profit for the current year	-	-	-	-	8,273,431	x
Distribution of profit - increase	-	-	7,376,647	-	-	x
Distribution of profit , and/or coverage of losses - decrease					(7,376,647)	x
Dividend payments	-	-	-	-	(1,845,000)	x
Total transactions with the owners	-	-	7,376,647	-	(9,221,647)	x
Balance as at 31 December of the current year	**23,607,620**	**562,156**	**49,296,641**	**4,107,137**	**8,273,431**	**85,846,985**

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

Belgrade, February 14, 2020

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Feza Tan
Management Board Chairperson

Sandra Vojnović
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

STATEMENT OF CASH FLOWS
Year Ended December 31, 2019
(Thousands of RSD)

	Note	2019	2018
Cash inflows from operating activities		**23,159,457**	**26,570,905**
Interest receipts		12,502,749	11,964,294
Fee and commission receipts		5,259,747	4,767,353
Receipts of other operating income		5,396,961	9,839,258
Cash outflows from operating activities		**(14,818,775)**	**(16,876,528)**
Interest payments		(2,569,865)	(2,361,834)
Fee and commission payments		(1,228,921)	(1,297,270)
Payments to, and on behalf of employees		(3,111,052)	(2,887,513)
Taxes, contributions and other duties paid		(478,457)	(477,323)
Payments for other operating expenses		(7,430,480)	(9,852,588)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities		**8,340,682**	**9,694,377**
Decrease in financial assets and increase in financial liabilities		**278,424**	**76,488,298**
Decrease in receivables from securities and other financial assets not held for investments		77,774	682,803
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		-	75,600,206
Increase in other financial liabilities		200,650	205,289
Increase in financial assets and decrease in financial liabilities		**(12,638,472)**	**(51,467,520)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(410,439)	(51,375,973)
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		(11,835,074)	-
Decrease in liabilities under derivatives designated as hedging instruments and changes in the fair value of hedged items		(392,959)	(91,547)
Net cash generated by operating activities before income taxes		**-**	**34,715,155**
Net cash used in operating activities before income taxes		**(4,019,366)**	**-**
Income tax paid		(1,277,110)	(606,120)
Dividend paid		(1,845,000)	(1,255,000)
Net cash generated by operating activities		**-**	**32,854,035**
Net cash used in operating activities		**(7,141,476)**	**-**
Cash inflows from investing activities		**3,337,919**	**-**
Proceeds from investing in investment securities		3,337,919	-
Cash outflows from investing activities		**(966,565)**	**(14,512,169)**
Cash used for investing in investments securities		-	(13,397,250)
Cash used for the purchases of intangible assets, property, plant and equipment		(966,565)	(1,114,919)
Net cash generated by investing activities		**2,371,354**	**-**
Net cash used in investing activities		**-**	**(14,512,169)**

(Continued)

STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2019
(Thousands of RSD)

	Note	2019	2018
Cash inflows from financing activities		**6,293,777**	**-**
Borrowings, inflows		6,293,777	-
Cash outflows from financing activities		**(396,367)**	**(10,521,642)**
Outflows for subordinated debt payment		-	(2,811,628)
Cash used in the repayment of borrowings		-	(7,710,014)
Other outflows from financing activities		(396,367)	-
Net cash generated by financing activities		**5,897,410**	**-**
Net cash used in financing activities		**-**	**(10,521,642)**
TOTAL CASH INFLOWS		**33,069,577**	**103,059,203**
TOTAL CASH OUTFLOWS		**(31,942,289)**	**(95,238,979)**
NET CASH INCREASE		**1,127,288**	**7,820,224**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.I, 42	**30,625,269**	**22,805,898**
Foreign exchange Losses, net		(208,257)	(853)
CASH AND CASH EQUIVALENTS, END OF YEAR	3.I, 42	**31,544,300**	**30,625,269**

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

Belgrade, February 14, 2020

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Feza Tan
Management Board Chairperson

Sandra Vojnović
Member of the Management Board
Head of Strategy and Finance Division

Bank Srbija a.d., Beograd
Bank Serbia JSC, Belgrade
UniCredit

Mirjana Kovačević
Head of the Accounting Department

1. BANK'S ESTABLISHMENT AND ACTIVITY

UniCredit Bank Srbija a.d. Beograd (the: "Bank") was originally established as HVB Banka Jugoslavija ("HVB") in 2001 after obtaining an operating license from the National Bank of Yugoslavia on July 2, 2001. On October 1, 2005, a status change of merger and acquisition of entities HVB Banka Srbija i Crna Gora A.D. Beograd, as the Acquirer and Eksport-Import banka Eksimbank A.D. Beograd, as the Acquiree was registered. The Bank changed its name to UniCredit Bank Srbija a.d. Beograd on March 30, 2007.

The Bank is a member of UniCredit Group. In accordance with the reorganization of the Banking Group's activities in Central and Eastern European countries, under the Demerger and Takeover Agreement executed by and between UniCredit Bank Austria AG and UCG Beteillingsverwaltung GmbH on August 31, 2016 and Merger and Acquisition Agreement executed by and between UCG Beteillingsverwaltung GmbH and UniCredit SpA on September 30, 2016, UniCredit Bank Austria AG transferred its sole (100%) ownership of the Bank to the Austrian holding company UCG Beteillingsverwaltung GmbH. Through merger of UCG Beteillingsverwaltung GmbH with UniCredit SpA, UniCredit SpA became the sole shareholder of UniCredit Bank Srbija a.d., Beograd.

The Bank is registered in the Republic of Serbia to provide banking services associated with payment transfers, lending and depositary activities in the country and abroad and other activities defined by the Law on Banks and the Bank's own Statute.

In January 2016 the bank became the sole owner of entities UniCredit Leasing Srbija d.o.o., Beograd and UniCredit Partner d.o.o., Beograd.

As of December 31, 2019, the Bank was comprised of the Head Office in Belgrade and 72 branch offices located in towns throughout the Republic of Serbia (December 31, 2018: 72 branch offices).

As of December 31, 2019, the Bank had 1,312 employees (December 31, 2018: 1,280 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

(a) Basis of Preparation and Presentation of the Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred to as the "Law", Official Gazette of the Republic of Serbia nos. 62/2013 and 30/2018). As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by the International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance. In addition, in accordance with the Amendments and Supplements to the Law on Banks (Official Gazette of the Republic of Serbia no. 14/2015), upon preparation of the annual financial statements, banks in the Republic of Serbia are obligated to apply the International Financial Reporting Standards, subsequent revisions and amendments thereto and related interpretations as from their issue date by the competent authorities.

The Bank's financial statements (the "financial statements") are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS nos. 101/2017, 38/2018 and 103/2018).

The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards. The Bank holds respective sole (100%) equity interests in the subsidiaries UniCredit Leasing d.o.o., Beograd and UniCredit Partner d.o.o., Beograd. In the accompanying unconsolidated financial statements the Bank's equity investments in subsidiaries are stated at cost. The Bank's consolidated financial statements for 2019 were issued on February 14, 2020.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

(a) Basis of Preparation and Presentation of the Financial Statements (Continued)

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

- financial assets stated at fair value through other comprehensive income,
- financial assets and liabilities at fair value through profit and loss,
- derivative financial instruments stated at fair value, and
- investment property in the current year, while in the previous year the historical cost principle was applied (Notes 2.(d) and 3.(s)): and
- property used for performance of the Bank's own business activity that are stated at revalued method (Notes 2.(d) and 3.(q)).

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

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

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

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

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

The Bank's financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia.

Standards/amendments to the existing standards and interpretations issued that came into effect in the current period are disclosed in Note 2(b). Standards/amendments to the existing standards and interpretations in issue but not yet in effect are disclosed in Note 2(c)

(b) Adoption of the New Standards and Revised/Amended Standards Effective for the Current Year

In 2019, the Bank has adopted and applied the following new standards and amendments to the existing standards that are effective for annual periods beginning on or after January 1, 2019:

- IFRS 16 "Leases";
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation;
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement;
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (;
- Amendments to various standards due to "Improvements to IFRSs - Cycle 2015-2017 (IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs"; and
- IFRIC 23 "Uncertainty over Income Tax Treatments".

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

(b) Adoption of the New Standards and Revised/Amended Standards Effective for the Current Year (Continued)

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Bank's unconsolidated financial statements, except for the effects of IFRS 16 implementation, as disclosed further in this Note to the unconsolidated financial statements.

(i) First-Time Adoption of IFRS 16 "Leases"

IFRS 16 sets out the main principles of recognition, presentation and the disclosure of lease contracts for the counterparties, i.e., the lessee and lessor. IFRS 16 is effective for accounting periods beginning on or after January 1, 2019 and supersedes the previous lease guidance including IAS 17 'Leases' and related interpretations: IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC 15 'Operating Leases – Incentives' and SIC 27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'.

IFRS 16 provides a new definition of a lease. The essential element differentiating the definition of a lease under IAS 17 and under IFRS 16 is the concept of control. Under IFRS 16, an agreement is a lease or contains a lease if it conveys the right to control the use of an identified asset for a given period in exchange for compensation. Control is considered to exist, or to have been conveyed, if the lessee has the right to obtain substantially all of the economic benefits from the use of an identified asset, and the right to direct the use of that asset.

The lessee accounting for the leases is changed under IFRS 16 and stipulates recognition of a right-of-use asset for all leases. A right-of-use asset is a right to use the asset leased while at the same time the lessee recognizes a liability for future lease payments defined by the lease contract (a lease liability). On initial application of IFRS 16, the right-of-use asset is initially measured based on the contractual cash flows defined by the lease contract. Subsequently, the right-of use asset will be measured under the rules for measurement of asset set forth by IAS 16, IAS 38 or IAS 40, using the cost model, i.e., at cost net of accumulated depreciation and aggregate impairment losses, if any, or using the revaluation model or fair value model, as appropriate. The accounting treatment of lease contracts for lessors under IFRS 16 has remained substantially unaltered in comparison to IAS 17. The lessors will continue to classify all lease contracts as either operating or finance leases.

The date of initial application of IFRS 16 for the Bank was January 1, 2019. The Bank elected to use the modified retrospective transition approach.

The Bank implemented activities of developing rules, principles and software solutions for appropriate assessment of the new assets and liabilities and subsequent calculation of the related performance to ensure adequate initial application of the standard. The Bank assessed all its lease contracts to identify those that will be in the scope of the new standard's first-time adoption given the new definition of a lease.. The Bank has applied the new definition of a lease set out in IFRS 16 to all lease contracts effective on January 1, 2019 or entered into or modified after January 1, 2019. As permitted by the standard, the Bank decided not apply provisions of IFRS 16 to the leases of intangible assets, short-term leases (with lease terms of up to 12 months from the first-time adoption of the standard) and leases with low-value assets leased (such as printers, POS terminals, tablets, computers, telephones, water dispensers and smaller office furniture items). In the aforesaid cases, the Bank applies the same accounting treatments as in prior years, i.e., recognizes lease costs on a straight-line basis within the income statement's line item of other expenses.

Upon first-time adoption of IFRS 16, the Bank did not restate the comparative figures for 2018, but recognized the right-of-use asset in the amount equal to that of the lease liability adjusted by the amount of any prepaid or accrued lease payments before or on the date of the lease commencement date. In addition, the future cash flows were determined based on the contractual provisions, excluding VAT since the obligation to pay VAT is established at the moment of invoice issuance and not on the lease commencement date. On initial application of IFRS 16, the Bank initially measured the lease liability using its average incremental borrowing interest rate ranging from 0.7 % to 3.68% for EUR borrowings and from 3.14% to 4.6% for RSD borrowings.

All amounts expressed in thousands of RSD, unless otherwise stated.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

(b) Adoption of the New Standards and Revised/Amended Standards Effective for the Current Year (Continued)

(i) First-Time Adoption of IFRS 16 "Leases" (Continued)"

As of January 1, 2019, the Bank recognized the right-of-use (ROU) asset in the total amount of RSD 2,608,392 thousand (Note 30.2), while at the same time the corresponding lease liability was recognized in the amount of RSD 2,600,524 thousand. The difference between those two amounts recognized of RSD 7,868 thousand represents the amount of prepaid leases and deposits placed for the ROU asset.

The effects of the first-time adoption of IFRS 16 on the Bank's statement of financial position items are presented below:

	ROU asset	Prepaid lease liabilities and deposits	Lease liability
Business premises	2,485,454	(7,868)	2,477,586
Storage and warehouse area	9,127	-	9,127
Parking spots	104,191	-	104,191
Automobiles	9,620	-	9,620
Balance at January 1, 2019	**2,608,392**	**(7,868)**	**2,600,524**

The accounting policies for lease recognition and measurement are presented in more detail in Note 3.(t).

(c) New and Revised IFRS Standards in Issue but not yet Effective

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

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021);
- Amendments to IFRS 3 "Business Combinations" - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period);
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after January 1, 2020); and
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after January 1, 2020).
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- „Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7" (effective for annual periods beginning on or after January 1, 2020).

The Bank's management has elected not to adopt these new standards, amendments to the existing standards and new interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application. The exception is „Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7" for which the Group has opted for early adoption in 2019, which the Bank's management has accepted. However, the amendments do not have an impact on the financial statements as of December 31, 2019, given that the Bank had micro fair value hedges in place (notes 23 and 25.4), where the hedging instrument is linked to the EURIBOR benchmark.

(d) Amendments to the Bank's Accounting Policies for Measurement of Property Used for Performance of the Bank's Own Business Activity (IAS 16) and Investment Property (IAS 40)

Upon preparation of the annual unconsolidated financial statements as of December 31, 2019, the Bank amended its accounting policies for the following classes of tangible assets:

- property used for performance of the Bank's own business activity (IAS 16 "Property, Plant and Equipment"), and
- investment property (IAS 40 "Investment Property").

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

(d) Amendments to the Bank's Accounting Policies for Measurement of Property Used for Performance of the Bank's Own Business Activity (IAS 16) and Investment Property (IAS 40) (Continued)

The said amendments entail the following:

- for property used for performance of the Bank's own business activity, transition from the cost model to the revaluation model for measurement subsequent to the initial recognition; and
- for investment property, transition from the cost model to the revaluation model.

Those amendments are consistent with the amendments to the accounting policies of UniCredit Group, made based on the management's assessment that, using the new measurement model will ensure a more fair presentation of the Group's financial position and performance.

Under the general rule set out in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (in further text: IAS 8), a new accounting policy need to be applied retrospectively, as if it had always been used, by restating the comparative figures. However, IAS 8 permits an exception to this rule. More precisely, under IAS 8.17, aa change in measurement of the property, plant and equipment is considered an accounting policy change that should be treated as revaluation in line with IAS 16. Accordingly, the Bank applied the revaluation model prospectively, without restating the comparative information.

As of December 31, 2019, the Bank hired a certified appraiser, Colliers International d.o.o., Beograd, to assess the fair values of properties the Bank uses for performance of its own business activity as well as of its investment properties for financial reporting purposes under IFRS 13. Upon fair value assessment, the appraiser used the valuation techniques for which there were sufficient available inputs and applied the comparative market transaction method and the income approach. Given that in the real estate market of the Republic of Serbia there are no quoted prices or prices achieved for properties identical to those owned by the Bank, the appraiser used Level 2 and Level 3 inputs in the fair value assessment. Level 2 inputs are observable from the market data such as publicly available information on the transactions reflecting the assumptions that the other market participants would use. Level 3 inputs are assumed (unobserved) inputs developed by the appraiser using the best information available in the current circumstances.

The Bank recorded the fair value appraisal effect in its books by adjusting the cost and accumulated depreciation, thus reconciling the carrying values of the properties with the appraised fair values thereof.

Effects of a Change of the Property Measurement Model

The change of the property measurement model used for both the properties for performance of the Bank's own activity and investment properties resulted in an increase in both the total Bank's assets and equity and liabilities by RSD 7,851 thousand in the Bank's statement of financial positions as of December 31, 2019, as follows:

- The properties used for performance of the Bank's own business operations were revalued in the total amount of RSD 5,622 thousand (the cost increased by RSD 14,654 thousand while the aggregate depreciation increased by RSD 9,032 thousand, Note 30.2). The positive revaluation effects of these properties were recorded within revaluation reserves in the amount of RSD 58,909 thousand gross, i.e., RSD 50,073 thousand net, accounting for the deferred tax effects (Note 20.3). The negative revaluation effects recorded under expenses in the income statements amount to RSD 53,287 thousand (Note 19.1).
- The Bank's investment properties were revalued in the total amount of RSD 2,230 thousand (Note 31), with the positive revaluation effects recognized within income in the income statement.

As the Bank replaced one measurement model with another at the end of the financial year, the depreciation charge for 2019 was calculated using the criteria applied in prior periods. Therefore, all the properties were depreciated until December 31, 2019 and all the depreciation charges were recognized in the Bank's income statement. As from 2020 onward, the Bank will depreciate the properties used for its own business operations (IAS 16) over their useful lives. The investment properties (IAS 40) will no longer be depreciated but measured at fair value through profit or loss instead. The Bank decreased the cost thereof by RSD 344 thousand (Note 31), which is the amount of their accumulated depreciation as of December 31, 2019.

The accounting policies for recognition and measurement of the Bank's property used for its own business and investment property are provided in greater detail in Notes 3.(q) and 3.(s).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

(e) Comparative Information

Comparative information in the accompanying financial statements represents the data from the Bank's unconsolidated financial statements for 2018. In accordance with the selected approach in the first-time adoption of IFRS 16, the Bank has not restated comparative information regarding recognition and measurement of lease contracts (Note 2.(b)). In addition, the Bank amended its accounting policies for recognition and measurement of the Bank's property used for its own business and investment property without restatement of the comparative figures (Note 2.(d)).

(f) Use of Estimates

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

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

(g) Statement of Compliance

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies presented hereinafter have been consistently applied by the Bank for all years presented in the accompanying financial statements, except for the exceptions permitted in the first-time adoption of IFRS 16 and exception permitted upon transition from the cost model to the revaluation model for subsequent valuation of the Bank's property and investment property. The Bank's main accounting policies applied to the current and previous reporting periods are presented in greater detail hereunder.

(a) Consolidation

The Bank holds sole (100%) equity interests in entities UniCredit Leasing Srbija d.o.o., Beograd and UniCredit Partner d.o.o., Beograd, each. Equity investments in subsidiaries are presented at cost in these unconsolidated financial statements. The Bank prepares and issues consolidated financial statements separately.

(b) Going Concern

The Bank's financial statements have been prepared on a going concern basis, assuming that the Bank will continue its operations for an indefinite period in the foreseeable future.

(c) Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official middle exchange rates effective at the date of each transaction.

Monetary assets and liabilities denominated in foreign currencies, as well as those indexed to a currency clause, are translated into dinars by applying the official middle exchange rates prevailing at the reporting date.

Foreign exchange positive or negative effects arising upon translation of transactions during the year, and translation of the assets and liabilities denominated in foreign currencies at the reporting date, are credited or charged to the Bank's income statement as net foreign exchange gains or losses and positive/negative currency clause effects.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign Exchange Translation (Continued)

The official exchange rates determined by the National Bank of Serbia and applied in the translation of the statement of financial position's components into dinars for the following major currencies were as follows:

	December 31, 2019	December 31, 2018
USD	104.9186	103.3893
EUR	117.5928	118.1946
CHF	108.4004	104.9779

(d) Interest Income and Expenses

(i) The Effective Interest Method

Interest income and expenses are recognized in the income statement in the period they relate and are calculated using the effective interest method for all interest-bearing financial instruments measured at amortized cost (AC), securities at fair value through other comprehensive income (FVtOCI), and securities measured at fair value through profit or loss (FVtPL) (interest on coupon securities held for trading).

The effective interest rate is the rate that precisely discounts estimated future payments or receipts over the expected life of the financial instrument or over a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. In calculation of the effective interest rate, the Bank estimates cash flows taking into account all the contractually agreed terms of the financial instrument but does not consider future credit losses.

The effective interest rate calculation includes all fees and amounts paid or received between the counterparties and transaction costs that form an integral part of the effective interest rate.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability. These include fees and commissions paid to agents, advisers, brokers and dealers, fees from regulatory agencies and stock exchanges, as well as taxes and fees related to the transfer. Transaction costs do not include premiums or discounts, financing costs or internal administrative costs or maintenance costs. Only transaction costs that are certain or determinable are included in the amortized cost at the initial recognition of a financial asset. If the Bank receives a fee from a client that offsets similar charges paid by the Bank, only the net amount is included in the amortized value of the asset. If transaction costs are not material compared to the fair value of the related financial asset at initial recognition, they can be recognized within expenses/income for the period.

Fees that are integral part of the effective interest rate of a financial instrument include:

a) "origination fees" – fees charged by the Bank in connection with issuance or acquisition of a financial asset; such fees include fees for evaluation of the financial position of borrowers, for evaluating and recording guarantees, collaterals and other security arrangements, for negotiating the terms of an instrument, preparing and processing documents and closing transactions;
b) "commitment fees" - fees received for the issue of a loan when it is probable that the loan arrangement will be realized,
c) "origination fees" - fees payable based on the issue of financial liabilities that are measured at amortized cost.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than those that are credit-impaired. Regular interest income from impaired financial assets is calculated based on the net value of the financial asset using the effective interest method. Calculation of default interest income from impaired financial assets is suspended from the moment when the client becomes credit-impaired and is recorded from then on within off-balance sheet items, except for a portion of the legally prescribed default interest penalty interest on written-off loans without debt acquittal, where the Bank has decided to cease further calculation and recording of interest within the off-balance sheet items as from the moment of write-off of loans without debt acquittal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses (Continued)

(i) The Effective Interest Method (Continued)

Impaired loans and receivables are those loans and receivables due from clients who are in the status of default (internal ratings 8-, 9 and 10), i.e., classified in Stage 3 under IFRS 9. If the status of a financial asset is improved so that it is no longer impaired, the Bank resumes calculation of interest income on a gross basis. For financial assets classified under IFRS 9 as POCI ("purchased or originated credit-impaired" assets), the Bank calculates interest income by applying the credit-adjusted effective interest rate on the amortized cost of an asset. Credit-adjusted effective interest rate is the interest rate that, on initial recognition, discounts expected cash flows including credit losses to the amortized value of the POCI financial asset.

(ii) Presentation

Interest income and expenses recognized in profit or loss include:

- interest on financial assets and financial liabilities that are measured at amortized cost (AC) calculated using the effective interest rate method;
- interest on securities measured at fair value through other comprehensive income (iFVtOCI) calculated using the effective interest rate method; and
- interest on coupon securities held for trading.

Interest income and expense from all trading assets and liabilities (other than interest on coupon securities) are deemed secondary to the trading activities of the Bank and are presented together with all other changes in the fair value of trading assets and liabilities within net gains on financial assets held for trading.

(e) Fee and Commission Income and Expenses

Fee and commission income and expenses that are integral part of the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate and therefore stated within interest income and expenses.

Fees that are not integral part of the effective interest rate of a financial instrument and are therefore accounted for in accordance with IFRS 15 include:

a) "monitoring" or "management" fees – fees charged by the Bank for loan servicing;
b) "commitment fees" – fees for issuing a loan when it is unlikely that the loan arrangement will be realized; and
c) syndicated loan fees received by the Bank as a transaction agent/arranger.

In accordance with IFRS 15, two approaches for the recognition of fee and commission income are provided: "at a point in time" and "over time". Fee and commission income includes revenues from international and domestic payment services, issuance of guarantees, letters of credit and other banking services.

Fee and commission expenses mostly relate to fees for transactions and services provided and are recorded upon receipt of services.

(f) Net Gains/Losses on Changes in the Fair Value of Financial Instruments

Net gains/losses on the change in the fair value of financial instruments include the effects of fair value adjustment of derivatives, except for derivatives designated as risk hedging instruments and fair value adjustment of financial assets and financial liabilities carried at fair value through profit or loss.

(g) Net Gains/Losses on Derecognition of Financial Instruments Measured at Fair Value

Net gains/losses from derecognition of the financial instruments measured at fair value include the effects of the derecognition of financial assets and financial liabilities measured at fair value through profit or loss, as well as financial assets measured at fair value through other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Net Gains/(Losses) on Risk Hedging

Net gains/(losses) on risk hedging include net gains on the value adjustment of financial derivatives designated as risk hedging instruments as well as on the fair value adjustment of loans, receivables and securities as hedged items, these adjustments arising from the risk against which the item is hedged.

(i) Net Gains/Losses on Derecognition of Financial Instruments Measured at Amortized Cost

Net gains/losses from derecognition of the financial instruments measured at amortized cost include the effects arising from derecognition of financial assets at amortized cost.

(j) Income Tax Expenses

Tax expenses comprise current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current income tax is an expected tax payable or receivable as per taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Current income tax represents an amount calculated in accordance with the Republic of Serbia Corporate Income Tax Law. The prescribed tax rate for 2019 equals 15%. The taxable income is the profit before taxes shown in the statutory statement of income, adjusted in accordance with the tax regulations of the Republic of Serbia.

The Republic of Serbia Corporate Income Tax Law was amended at the end of 2019, with most of the provisions pertaining to determination, calculation and payment of income taxes becoming effective as from 2020. Exceptionally, the new rules provisions on recognition of expenses as per write-off of receivables for CHF-indexed housing loans shall be applied to determination, calculation and payment of the tax liability as from 2019. In accordance with Article 22, para. 6 of the Law, the Bank shall recognize within expenses in its income statement the expenses arising from a debt decrease borne by the Bank in the amount determined in accordance with the law governing conversion of CHF housing loans.

(ii) Deferred Income Taxes

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

Based on their future tax consequences, temporary differences can be:

- taxable temporary differences, which will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset is recovered or the liability is settled in accordance with the appropriate tax regime; or
- deductible temporary differences, which will result in amounts that can be deducted in determining the taxable profit (tax loss) of the future period in which the carrying amount of the asset will be recovered or the liability settled in accordance with the appropriate tax regime.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes, contributions, and duties payable, such as property tax, payroll contributions charged to the employer and other public duties. These are included under other expenses within the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities

(i) Recognition and Initial Measurement

The Bank initially recognizes financial assets and liabilities at the settlement date.

A financial asset or liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities at fair value through profit or loss, whose measurement does not include such costs.

(ii) Classification and Subsequent Measurement

Financial Assets

Upon initial recognition, the Bank classifies its financial assets in one of the following three categories:
- financial assets at amortized cost (AC);
- financial assets at fair value through other comprehensive income (FVtOCI); and
- financial assets through profit or loss (FVtPL).

Please refer to accounting policies 3(o) and 3(p).

The requirements regarding the classification of debt and equity instruments are described below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the perspective of the issuer, such as loans, securities, and other similar receivables.

Classification and measurement of financial assets depend on the following two main criteria:
a) business model based on which the Bank manages a financial asset; and
b) characteristics of the contractual cash flows of a financial assets (the so-called SPPI criterion).

Business Model

The business model reflects the manner in which the Bank manages its financial assets in order to generate cash flows therefrom, i.e., the business model determines whether the cash flows will result from holding the assets (“hold to collect” business model) or from their holding as well as sales (“hold to collect and sell” business model). If neither of the aforesaid is applicable (e.g. a financial asset is held for trading), such an asset is held within the “other” business model and classified as measured at fair value through profit or loss (FVtPL). Business model assessment is performed at the level of a group of financial assets such as portfolio or sub-portfolio level, taking into account all the relevant and objective information such as sales of assets that were realized in the past, management's intentions regarding future sales, risk management, valuation the assets’ performance and reporting thereon to the management, etc. Business model assessment is based on realistic future expectations. Reclassification of a financial asset is made if the business model within which the asset is managed is changed. The Bank does not expect frequent changes of its business models.

SPPI Criterion

In instances of “hold to collect” or “hold to collect and sell” business models, the Bank assesses whether the contractual cash flows of the financial asset represent solely payments of the principal and interest payment ("SPPI test"). the purpose of this assessment, "principal" is defined as the fair value of a financial asset at the date of initial recognition. "Interest" is defined as consideration for the time value of money, the accepted level of credit risk of the borrower, other basic lending risks as well as an appropriate margin. If the contractual terms of a financial asset include exposure to risks that are not in accordance with the underlying loan arrangement, a financial asset is classified and measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

Debt Instruments (Continued)

Based on the above explained criteria, debt instruments are classified into the following asset categories:

1) Financial Assets at Amortized Cost (AC)

A financial asset that is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and contractual cash flows represent solely payments of principal and interest, and is not irrevocably classified as financial asset at fair value through profit or loss, is measured at amortized cost. The amortized value of these financial assets is subsequently adjusted for estimated impairment as explained in Note 3.(k)(viii). Interest income on these financial assets is recognized using the effective interest method and is included in the item of interest Income within in the income statement.

2) Financial Assets at Fair Value through Other Comprehensive Income (FVtOCI)

A financial asset that is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and whose contractual cash flows represent solely payments of principal and interest, and is not irrevocably classified as financial asset at fair value through profit or loss, is classified and measured at fair value through other comprehensive income. The effects of the change in fair value in the subsequent measurement of these assets are recorded in the other comprehensive income. As with financial assets at amortized cost, the impairment, interest income and foreign exchange gains/losses are recognized in the income statement. Upon derecognition, cumulative gains and losses previously recognized in the other comprehensive income are reclassified and presented within net gains/losses on derecognition of financial assets measured at fair value in the income statement. Interest income on these financial assets is recognized at the effective interest method and is included in the item of interest Income within the income statement.

3) Financial Assets at Fair Value through Profit or Loss (FVtPL)

A financial asset that does not meet the criteria for classification at amortized cost or at fair value through other comprehensive income is measured at fair value through profit or loss. In addition, the following assets are classified as FVtPL:

- held-for-trading financial assets if they are acquired for purpose of sale or repurchase in the near term or when they are initially recognized as part of a portfolio of financial instruments that are managed together in order to achieve short-term profits;
- financial assets that the Bank, upon initial recognition, designates as assets at fair value through profit or loss, irrespective of the business model and cash flow characteristics, in order to eliminate or significantly reduce the so-called "accounting mismatch".

Subsequent changes in the fair value of these assets are recorded through profit or loss within the line item of net gains/losses on the change in the fair value of financial instruments. Interest income on coupon securities held for trading is recognized using the effective interest method and included in the interest income within the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, i.e., instruments that do not contain the contractual obligation of payment and represent a share in the net assets of the issuer. The Bank's equity instruments are measured at fair value through other comprehensive income, except when they are traded, in which case they are measured at fair value through profit or loss. Such a classification is performed for each equity instrument individually. Equity instruments at fair value through other comprehensive income are initially recognized at fair value plus transaction costs directly attributable to their acquisition, unless the Bank assesses in some cases that the cost is the best estimate of their fair value.

Effects of the changes in the fair value of equity instruments that are measured at FVtOCI in subsequent measurement are recognized in the other comprehensive income and are never reclassified to the income statement, even when the asset is derecognized. The provisions of IFRS 9 regarding impairment of financial assets relate only to debt instruments. For equity instruments at FVtOCI, the effects of impairment are not recognized through the income statement. Instead, all changes in their fair value are recorded within the other comprehensive income. Dividends are recognized within the line item of other operating income in the income statement when the Bank's right to receive a dividend is established.

Effects of changes in the fair value of equity instruments at FVtPL are recorded under the item of net gains/losses on the change in the fair value of financial instruments in the income statement.

Financial Liabilities

The Bank classifies financial liabilities, except for irrevocable commitments for loans and financial guarantees, as liabilities measured at amortized cost or as fair value through profit or loss (please refer to Note 3.(v)).

Financial liabilities at fair value through profit or loss include derivatives, financial liabilities held for trading (e.g. short positions in a trading book) and other financial liabilities that are designated at FVtPL on initial recognition. However, in respect of the measurement of financial liabilities initially designated at FVtPL, IFRS 9 requires that the changes in the fair value of a financial liability that relate to changes in the Bank's own credit risk are presented in the other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk would cause or increase an accounting mismatch in the income statement. Changes in the fair value of liabilities arising from credit risk are not subsequently reclassified to the income statement.

(iii) Derecognition

Financial Assets

The Bank derecognizes a financial asset when:
- the contractual rights to the cash flows from the financial asset expire;
- when the Bank transfers substantially all the risks and rewards associated with ownership of the financial asset or it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but does not retain control over a financial asset;
- when contractual terms of a financial asset are significantly modified contractual terms (please refer to Note 3.(k)(iv)).

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset acquired less any new liability assumed) and (ii) any cumulative gain or loss that was previously recognized in other comprehensive income is recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(iii) Derecognition (Continued)

Financial Assets (Continued)

The Bank enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion thereof. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repo transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similarly to repo transactions since the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement in the asset, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expired

(iv) Modification

Derecognition due to Significant Modification of Contractual Terms

In instances of amendments to the contractual terms, the Bank assesses whether cash flows have been significantly modified. If the cash flows of a financial asset/liability are significantly modified in relation to originally contracted, asset/liability is derecognized and new financial asset/liability is recognized at fair value increased by any transaction costs. Any difference between the carrying amount of the existing asset/liability and fair value of a new financial asset/liability is recognized in the income statement within the net gains/losses on derecognition of the financial instruments recognized at fair value and net gains/losses on derecognition of the financial instruments recognized at amortized cost.

Under significant modification of cash flows, the Bank considers: changes of contracts due to commercial reasons that are in accordance with market conditions, changes in the currency or debtor, as well as changes that introduce contractual provisions resulting in non-compliance with the SPPI criteria. In accordance with IFRS 9, a new financial asset is classified in Stage 1 for ECL measurement, unless it is a POCI asset (purchased or originated credit-impaired asset).

Modifications of a Financial Asset that do not Lead to Derecognition

Amendments to the contracts due to the financial difficulties of the borrower are not considered a significant modification and do not lead to derecognition of a financial asset.

In accordance with IFRS 9, the Bank determines the new gross carrying amount of a financial asset and recognizes a modification gain/loss in the income statement (the line item of net gains/losses on impairment of financial assets not recognized at fair value through profit or loss). The gross carrying amount of the financial asset is determined as the present value of the modified cash flows discounted at the original effective interest rate. Any transaction costs adjust the carrying amount of a modified financial asset and are amortized over its useful life.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(v) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to offset the recognized amounts and it intends either to settle the liability on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is subsequently measured, minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initial amount recognized and the maturity amount, less any reduction for impairment.

(vii) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Whenever possible, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other optional models. The selected valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price. When the Bank has position with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received. However, in some cases, the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial recognition of the instrument. Otherwise the difference is not recognized in profit or loss immediately but over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(viii) Impairment Identification and Measurement

In accordance with IFRS 9, upon impairment of financial instruments existence of objective evidence of impairment is not necessary for recognition of credit losses. Expected credit losses are also recognized for unimpaired financial assets. In other words, the Bank calculates provisions for credit losses for all credit exposures other than those already measured at fair value through profit or loss (including both performing and non-performing financial assets).

Expected credit losses (ECL) are recalculated on each reporting date in order to reflect the changes occurred in the credit risk since the initial recognition of a financial instrument. Such an approach results in earlier recognition of credit losses as it is necessary to recalculate expected credit losses over a 12-month period for all credit exposures (the so-called Stage 1). It is necessary to recalculate lifetime expected credit losses for all exposures that have significant increase in the credit risk (the so-called Stage 2).

In ECL calculation, the Bank uses forward-looking information and macroeconomic factors, i.e., the Bank considers not only the historical information adjusted to reflect the effects of the present conditions and information providing objective evidence of the financial asset being impaired or actual losses incurred, but reasonable and supportable information as well, which include projections of future economic conditions in calculation of expected credit losses, both on individual and at collective bases. The amount of provisions for credit losses will increase with deterioration of the projected economic conditions and decrease with their improvement.

<u>The Basic Principles and Rules Used by the Bank in Calculation of Provisions under IFRS 9</u>

The Bank calculates 12-month expected credit loss or a lifetime expected credit loss of financial instruments depending on the significance of the change in its credit risk occurred since the instrument's initial recognition. For these purposes, the Bank uses the following three stages of impairment:

- Stage 1 includes all new financial assets at initial recognition and instruments without significant credit quality deterioration since their initial recognition or low-risk instruments;
- Stage 2 includes financial instruments with significant credit quality deterioration since their initial recognition yet with no objective evidence of impairment based on credit losses;
- Stage 3 includes financial instruments where objective evidence of impairment exists at the reporting date.

Stages 1 and 2 include only performing financial assets. Stage 3 includes only non-performing financial assets

For financial assets in Stage 1, the Bank calculates 12-month expected credit losses. For financial assets in Stage 2, the Bank calculates lifetime expected credit losses.

For financial assets in Stage 3, the Bank calculates lifetime expected credit losses and interest income is calculated based on the net exposure.

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments' initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to all the financial instruments. Deterioration of the probability of default (PD) is the key parameter underlying the quantitative criterion of the transfer logic. The following additional four qualitative criteria are applied after the said quantitative parameter:

- Forbearance status classification results in automatic classification to Stage 2 for the following 9 months (as from that status classification date). After that period, if there are no other significant indicators of credit risk deterioration, the transaction may be reclassified to Stage 1;
- 30 days past due – if a transaction reaches 30 days past due, it should be classified into Stage 2;
- All performing exposures included in Watch List 2 should be classified into Stage 2;
- All performing exposures transferred to the remit of the Loan Restructuring and Workout departments are automatically classified into Stage 2.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(viii) Impairment Identification and Measurement (Continued)

The Basic Principles and Rules Used by the Bank in Calculation of Provisions under IFRS 9 (Continued)

In the impairment process, the Bank applies a special treatment to the purchases of already impaired assets from the so-called NPL portfolios and to the approval of new loans to the borrowers with already impaired loans within its portfolio, i.e. those already in NPL status. In accordance with the Standard, such assets are defined as POCI (purchased and/or originated impaired credit assets) and are separately measured through cumulative changes in lifetime expected credit losses of the instruments after their initial recognition. Positive changes in the lifetime expected credit losses of the instrument are recognized as gains on the impairment of instruments if the expected credit loss in lower than the amount of expected credit losses included in the estimated cash flows upon initial recognition. Given its business model, the Bank currently has no assets identified in its portfolio that would be considered as POCI assets, i.e., there is no purchased NPL portfolio or additional materially significant financing of NPL clients already existing in its portfolio.

(ix) Write-Off

When certain financial assets are determined to be irrecoverable, these are written off. Write-off of an asset represents derecognition of that asset within the statement of financial position, where write-off of assets without debt acquittal is distinguished from write-off with debt acquittal.

Assets are written off without debt acquittal in instances where the Bank has estimated that the assets will not be collected, but does not waive its contractual and legal rights in respect of such assets except for a portion of the legally prescribed default interest to the accrual of which the Bank would still be entitled even after the conducted write-off without debt acquittal, but where the Bank has decided to cease further calculation and recording of interest as from the moment of such write-off. In such cases, the Bank estimates that it is economically justified to undertake further activities related to the collection of a financial asset (except for the aforesaid interest whose accrual and recording is suspended).). The Bank performs write-offs without debt acquittal (accounting write-offs) based on the decisions of its competent bodies and/or the relevant NBS decision for financial assets with low collectability rates that are fully impaired (100% provided for). Given that the Bank does not waive the right to collect financial assets, write-off without debt acquittal, (accounting write-off) represents derecognition of the financial assets in the statement of financial position and recording those within the off-balance sheet items. When the Bank estimates that there is no justification for undertaking further activities related to the collection of a financial asset (completed bankruptcy or liquidation procedure, court ruling and the like), the Bank's competent bodies enact a decision on derecognition of the asset from the off-balance sheet items.

The Bank writes off financial assets with debt acquittal when these are estimated as irrecoverable and that it is not economically justifiable to take further actions toward their collection. In such instances, the written-off financial assets are derecognized from the statement of financial position without any further recording.

In the event that the Bank collects a financial asset previously written-off, the income is recognized in the income statement under the net gains/losses on impairment of financial assets not recognized at fair value through profit or loss.

(l) Cash and Balances Held with the Central Bank

Cash and balances held with the central bank include cash on hand, balances held on the Bank's gyro account, other cash funds and the obligatory foreign currency reserve held with the central bank. Cash and balances held with the central bank are stated at amortized cost within the statement of financial position.

For the purposes of cash flow statement preparation, cash and cash equivalents include funds held on the accounts with foreign banks, while the obligatory foreign currency reserve held with the central bank is not included in the cash flow statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Receivables and Liabilities under Derivatives

Derivatives are derivative financial instruments or other contracts that have three basic characteristics: their value changes depending on changes in some basic or underlying value, they require no or relatively little initial net investment, and they are settled on a specific future date. Derivatives include forward transactions, currency swaps, interest rate swaps as well as interest options. In the statement of financial position they are presented within assets if their fair value is positive and within liabilities if their fair value is negative. They are initially recognized at fair value and the effects of the change in fair value on subsequent measurement are presented in the income statement, within the line item of net gains/losses on the change in the fair value of financial instruments.

(n) Derivatives Held as Risks Hedging Instruments and Hedge Accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedge, along with the method that will be used to assess the effectiveness of the hedging relationship. The Bank assesses, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range from 80% to 125%.

(i) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge against a change in the fair value of a recognized asset or liability that could affect the profit or loss, changes in the fair value of the derivative are recognized immediately in the profit or loss (income) statement, together with changes in the fair value of the hedged item that are attributable to the risk hedged.

If only certain risks attributable to hedged items are subject to hedging, the recognized changes in fair value of the hedged items that are not associated with the risk subject to hedging are recognized in accordance with the Bank's policy on financial instrument measurement depending on the instrument classification.

(o) Loans and Receivables

Line items "loans and receivables due from banks and other financial institutions" and "loans and receivables due from customers" in the Bank's statement of financial position include financial assets that are measured at amortized cost or at fair value through profit or loss (please refer to Note 3(k)(ii)). If they are measured at amortized cost, loans and receivables are presented net of allowances for impairment in the statement of financial position (Note 3(k)(viii)). Allowance for impairment is made by reducing the carrying amount of a loan or receivable identified as being impaired in order to reduce their values to the recoverable amounts. If, in a subsequent period, the amount of impairment loss decreases, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the income statement within the line item of net gains/losses on the reversal of impairment/impairment of financial assets not measured at fair value through profit or loss.

(p) Securities

The line item of securities in the statement of financial position includes debt securities that can be classified into all three categories of financial assets depending on the business model and SPPI criteria. For classification and measurement, please refer to Note 3(k)(ii).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property and equipment are initially measured at cost or purchase price. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of such equipment.

In 2018, after initial recognition, the Bank measured its property and equipment at cost less accumulated depreciation and any accumulated impairment losses.

After amending this accounting policy, as of December 31, 2019, subsequent to the initial recognition:

- the Bank measures equipment at cost net of accumulated depreciation and any accumulated impairment losses,
- while property items are measured at revalued amounts, being their fair values at the revaluation date net of accumulated depreciation and any accumulated impairment losses.

Revaluation is made with sufficient regularity to ensure that the carrying value of the property does not depart materially from the fair value thereof at the end of the reporting period. According to the instructions received from the Group, the “local office” revaluations should be performed by certified appraisers on a semi-annual basis. If such a revaluation reveals that fair value departs by more than 10% from the carrying value, the “full” fair value assessment is to be undertaken.

Recording of the revaluation effects depends on whether the difference between the carrying value and the fair value is positive or negative at the revaluation date. Positive revaluation effects are recognized as increase in the revaluation reserves and/or gains on the change in the fair value of the asset to the extent of the of the decrease previously charged for the same property due to revaluation. Negative revaluation effects are recognized as decrease in the previously made revaluation reserves and/or losses on the change in the fair value of the asset. Revaluation reserves made in this respect are fully reclassified to the retained earnings upon derecognition of the property. Revaluation reserves are reclassified/transferred to the retained earnings even during the use of the property, on a straight-line basis. However, revaluation reserves cannot be reclassified to the profit or loss.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and the difference is recognized net within other income/expenses in the profit or loss statement.

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits thereof will flow to the Bank.

The cost of replacing part of an item of property or equipment is recognized within the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the month following the month when they become available for use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (Continued)

(iii) Depreciation (Continued)

The depreciation rates used for the current and comparative periods are as follows:

Assets	Estimated Useful Life (Years)	Minimum Annual Rate %
Buildings	Maximum 50	2%
Furniture	Maximum 25	4%
IT equipment and electronic systems	Maximum 15	6.67%
Other	Maximum 10	10%

The base for depreciation calculation is the cost of assets or., in case of property, the revalued amount of property as from December 31, 2019.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

(r) Intangible Assets

The Bank's intangible assets comprise software, licenses and other intangible assets.

Intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in the profit or loss on a straight-line basis over the estimated useful life of an intangible asset, from the month following the month when the asset becomes available for its intended use. The estimated useful life of intangible assets is five years and amortization rate used equals 20%, except for the assets whose usage periods are contractually defined, when these assets are amortized over the contractually defined periods.

Amortization methods, useful lives and residual values of intangible assets are reassessed at each financial year-end and adjusted as appropriate.

(s) Investment Property

Investment property is property held by the owner either to earn rental income or for capital appreciation or both.

Upon acquisition, investment property is initially measured at cost or purchase price. For subsequent measurement of investment property, in 2018 the Bank used the cost model. In other words, the Bank measured its investment property at cost net of accumulated depreciation and any accumulated impairment losses. As of December 31, 2019, after the Bank's accounting policy amendment, the Bank's commenced using the fair value model for investment property measurement. The Bank's investment property is no longer depreciated or subject to impairment assessment Gains or losses arising from the fair value adjustment of investment property are recognized as income or expenses in the period when realized/incurred.

(t) Leases

The Bank implemented IFRS 16 as of January 1, 2019 using the modified retrospective approach. The Bank presented the comparative data in accordance with the previously effective IAS 17 and other relevant international guidelines and interpretations regarding leases. The Bank's accounting policies for recognition and measurement of lease arrangements applied in the current and previous periods are presented below:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Leases (Continued)

The Accounting Policy Applicable since January 1, 2019

(i) The Bank as the Lessee

IFRS 16 defines a lease as a contract or a part of a contract that conveys the right to control the use an identified assets for a period time in exchange for a consideration. A right-of-use (ROU) asset is recognized if the following conditions are cumulatively met:
- the underlying assets may be either explicitly or implicitly identified;
- the lessee has the right to obtain substantially all of the economic benefits from the use of the asset throughout the lease period; and
- the lessee has the right to direct the use of the identified asset, i.e., decide about how and for what purpose the asset will be used throughout the period of use.

The Bank does not apply the requirements of IFRS 16 to leases with low-value underlying assets, short-term leases (with lease terms of up to a year) and leases of intangible assets. Typical low-value underlying assets are: printers, water dispensers, POS terminals, tablets, computers, telephones and small office furniture items. Such leases are recognized as expenses in the Bank's income statement on a straight-line basis.

When a contract is assessed to be/contain a lease, the right-of-use asset is recognized within assets, while the lease liability is recognized within equity and liabilities on the Bank's statement of financial position. The right-of-use asset is initially measured at cost, which comprises:
- the amount of the initial measurement of the lease liability;
- any lease payments made and deposits placed at or before the commencement date;
- any initial direct costs incurred by the lessee;
- decrease for any lease incentives received from the lessor; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to its original condition.

After the initial recognition, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. ROU assets are depreciated on a straight-line basis. Calculation of the depreciation charge commences on the first calendar following the month when the asset became available to the Bank.

The lease liability is initially measured at the net present value of the future lease payments (net of value added tax), discounted using the interest rate implicit in the lease, or, if it cannot be readily determined, at the Bank's incremental borrowing rate. The incremental borrowing rate is determined based on the cost of financing of liabilities with a similar term and with a similar security to the liability defined by the lease contract.

Future lease payments that are included in the amount of the lease liability after discounting encompass:
- fixed lease payments less any lease incentives received;
- variable lease payments, which depend on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the Bank, as the lessee, is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank, as the lessee, exercising an option to terminate the lease.

After initial recognition, the lease liability is decreased by the amount of the lease payments made and increased by the interest accrued on the lease liability and adjusted for the following:
- a change in future lease payments resulting from a change in an index or a rate initially used to determine those payments,
- a change in the assessment of an option to purchase the underlying asset;
- a change in the amounts expected to be payable under a residual value guarantee; and
- a change in the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Leases (Continued)

The Accounting Policy Applicable since January 1, 2019 (Continued)

(i) The Bank as the Lessee (Continued)

Adjustment to the amount of the lease liability requires a corresponding adjustment of the right-of-use assets. In respect of each lease, the Bank recognizes depreciation charge and interest expenses in its income statement.

(ii) The Bank as the Lessor

As a lessor, the Bank needs to assess whether a lease is a finance or an operating lease. If the Bank assesses that a lease contract transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, such a lease is classified as a finance lease. Otherwise, it will be an operating lease. IFRS 16 does not introduce any significant changes for the lessor lease accounting in comparison to IAS 17.

The Accounting Policy Applicable until January 1, 2019

In accordance with IAS 17, leases are classified as finance leases if all the risks and reward associated with the ownership of the asset leased are transferred to the Bank as the lessee. Contrarily, leases are classified as operating leases when the risks and rewards arising from ownership of the asset leased are not transferred to the Bank.

(i) Operating Leases

All payments made during the year under an operating lease are recorded as expenses in the income statement, on a straight-line basis over the lease term. Lease incentives received are recognized as part of the total lease expenses, over the term of the lease.

(ii) Finance Leases – the Bank as the Lessee

A lease where the Bank takes over substantially all the risks and rewards of ownership is classified as a finance lease. An asset acquired under a finance lease is initially measured at the lower of its fair value and present value of the minimum lease payments. Subsequent to initial recognition, the asset is recorded in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and a decrease in the outstanding finance lease liability. The finance expenses are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Finance Leases – the Bank as the Lessor

The Bank recognizes finance lease investment in its statement of financial position in the amount equal to the net investment in the lease. The Bank transfers the risks associated with ownership to the lessees so that the lease receivables are regarded as repayment of principal and portion of the related finance income.

Recognition of finance income is based on the pattern that reflects the constant periodic rate of interest on the finance lease net investment outstanding. Lease payments related to the current period, net of service fees, are charged to the gross investment in the lease as the reduction in the principal and finance income unearned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite useful life are tested for impairment on annual basis. An impairment loss is recognized in the amount that the carrying value of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount (as the difference between the two). Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(v) Deposits, Borrowings and Subordinated Liabilities

Deposits, borrowings and subordinated liabilities are the Bank's main source of debt funding.

The Bank classifies equity instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, borrowings and subordinated liabilities are initially measured at fair value increased by directly attributable transaction costs and are subsequently measured at their amortized cost using the effective interest method.

(w) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Bank does not perform discounting of the future cash flows that are, as per the best estimates, expected to arise in the near term.

(x) Financial Guarantees

Financial guarantees represent contracts whereby the Bank is obligated to make the designated payment to the guarantee holder for the loss incurred due to the designated debtor's failure to make the relevant payment in timely manner in accordance with the debt instrument terms.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within contingent liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Employee Benefits

In accordance with regulatory requirements of the Republic of Serbia, the Bank is under obligation to pay contributions to tax authorities and state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of contributions by the employer, in amounts computed by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and, on behalf of its employees, transfer the withheld portions directly to the government funds. These taxes and contributions payable on behalf of the employee and employer are charged to employee salaries and personal expenses in the period in which they arise.

Pursuant to the Labor Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfillment of the prescribed criteria reported at December 31, 2019 represent the present value of the expected future payments to employees determined by actuarial assessment using actuarial assumptions. In determining provisions for retirement benefits, the Bank used data and assumptions such as the official statistical mortality rate tables, employee turnover and disability rates, the projected annual salary growth rate of 2%, and an annual discount rate of 4%. In addition, in 2019, the Bank accrued expenses for unused annual leaves (vacations).

(z) Investments in Subsidiaries

A subsidiary is an entity under the Bank's control. Control over subsidiaries is achieved if the Bank has exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of returns. Investments in subsidiaries are initially measured at cost in accordance with IFRS 10 and IAS 27. At each reporting date, the Bank assesses whether there is objective evidence that investments in subsidiaries are impaired. Impairment losses are recognized in the income statement.

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

In its operations the Bank is particularly exposed to the following risks:

- Credit risk;
- Market risk;
- Operational risk
- Liquidity risk,
- Compliance risk;
- Money laundering and terrorist financing risks;
- Strategic risk;
- Business risk;
- Reputational risk;
- Interest rate risk in the banking book;
- IT risks; and
- Model risk.

4. FINANCIAL RISK MANAGEMENT (Continued)

Risk Management Framework

The most important role in the risk management as part of the internal control system is assigned to the Supervisory Board of the Bank, which is responsible for risk management system establishment and oversight. The Supervisory Board defines strategies and policies for managing key risk types that the Bank is exposed to in its operations. In addition, the Supervisory Board is in charge of prior approval of large exposures to a single entity or a group of related entities exceeding 10% of the Bank's own equity as well as of increase of such exposures to above 20% of the Bank's own equity. The Bank's Audit Committee assists the Supervisory Board in performance of its function by considering the Bank's most important internal bylaws and enactments before these are adopted by the Supervisory Board. The Management Board of the Bank is in charge of implementation of the approved risk management strategies and policies, and adoption and implementation of the procedures for risk identification, measurement and assessment. Important role in the loan approval process is assigned to the Credit Committee, which assesses loan applications and makes about those within its competence level, or refers those and provides recommendations to a higher loan approval competence level.

Internal organization of the Bank ensures functional and organizational separation of risk management and other regular business activities. The Bank has a separate Risk Management Division in its organizational structure.

The Risk Management Division covers risk management through the activities of five departments and one team: Strategic Risk Management and Control, Retail Credit Operations, Corporate Underwriting, Corporate Special Credit, and Financial and Operational Risk Departments and the Internal Validation Team. All departments and the team report directly to the member of the Management Board in charge of risk management, thereby ensuring avoidance of conflicts of interest and separation of the risk management and regular operating activities.

Internal Audit Department

The Internal Audit Department conducts its activities based on the annual operating plan and strategic five year internal audit plan approved by the Supervisory Board. Regularity of internal audit (frequency or length of an audit cycle) of a particular business area varies from one to five years and directly depends on the estimated risk level. The Internal Audit Department regularly monitors implementation of recommendations provided in its reports (action plans) and reports to the Management Board, Audit Committee and the Supervisory Board on all potential delays in the implementation of the measures.

(b) Credit Risk

Credit risk is the risk of possible adverse effects on the Bank's financial performance and capital due to counterparty failure to perform their obligations towards the Bank or potential deterioration of the clients' credit quality.

Credit process in the Bank is based on strict segregation of the competences and responsibilities in credit operations between risk assuming activities in charge of the business (sales) function, and risk managing activities. Business function is comprised of departments in charge of the client acquisition and client relationship management, while the risk management function encompasses departments within the Risk Management Division, which are in charge of loan underwriting, monitoring, restructuring and collection. According to the "four eye" principle, a decision on a loan application is proposed by the business function (first vote) and the final decision or recommendation for loan approval decision is given by the risk management function (second vote). Exceptions can be made for certain standardized products in the retail segment – individuals and SMEs, when, due to a large number of relatively small loan amounts and simplification of the procedure, the approval process can be completely realized within the business function, with mandatory application of the "four-eye" principle in accordance with predefined criteria and parameters approved by the risk management function.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

With the aim to ensure adequate and timely risk management in the area of crediting activity, the Bank applies the following internal bylaws: Risk Management Rulebook, Rules on Competences for Credit Business, documents which define rules for internal credit rating assignment, Rules of Procedure for the Credit Committee, Credit Risk Mitigation Policy, Policy, Real Estate Valuation Policy, Guidelines for the Management of Corporate Special Credit Clients, Rules on the IAS/IFRS Provisioning and other enactments. The Bank's goal is to protect itself against the risks and to optimize the level of the risks assumed by defining adequate procedures and individual responsibilities in the risk management process.

In order to define consistent guidelines for the credit activity and a general framework for risk management, the Bank enacts credit risk management strategies for the retail and corporate segments for each financial year. The strategies include general guidelines for the basic parameters of risk management, principles for analysis of the creditworthiness of each customer segment, and definition of the direction of development of individual products, as well as detailed strategy direction of portfolio development per certain industries. In this manner, the Bank ensures that the adopted business policies are implemented resulting in acceptable credit risk exposure at the level of individual loans, as well as adequate diversification and general quality of the loan portfolio.

The Bank also considers analysis of the money laundering and terrorist financing risk in making decisions on the credit risk assumption.

Competences, responsibilities and authorities of persons involved in the risk management system are defined by the Rules on Competences for Crediting Business. In credit process decision making, the "four eye" principle has to be followed irrespective of the decision-making level in order to ensure that the two sides involved in the credit process check each other – the one proposing and the other approving a loan.

Credit Risk Reporting

The Bank manages credit risk, sets credit risk limits and controls it in all segments of its business and for all relevant types of corporate and retail loans. Timely identification, measuring, monitoring and managing of the credit risk on the Bank's portfolio level is supported by the Risk Management Information System ("RMIS"). By reporting at the total portfolio level or at the individual client level, RMIS provides complete, accurate and timely information about the balance, quality and movements of the loan portfolio.

RMIS has to fulfil the following four main functions:

1. Collect and process data and credit risk indicators;
2. Analyze movements and changes of the entire loan portfolio and its structural characteristics;
3. Continuously monitor credit risk; and
4. Provide a basis for the process of decision-making on the credit risk management.

The scope of credit risk monitoring, management and reporting on a portfolio level includes monitoring of loan loss provisions (impairment allowances of balance sheet assets and provisions for probable losses per off-balance sheet items).

Credit Risk Parameters

Credit risk is quantified by measuring the expected credit losses (ECL). Main indicators that are used to monitor credit risk and to calculate expected credit losses are as follows:

- Exposure of the Bank at default (EaD);
- Probability of default (PD); and
- Loss given default (LGD).

The Bank uses internal credit rating models. Rating models define specific rating for clients with similar credit risk levels. Each rating grade is related to a certain PD parameter value on the master rating scale. The Bank also internally calculates other credit risk parameters.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Credit Risk Parameters (Continued)

Internal credit risk assessment models, credit risk parameters and collaterals are used for loan loss provisions calculation in line with the International Financial reporting Standards ("IFRS"), as defined by the Bank's special bylaws.

In order to fulfil the aforesaid functions, RMIS uses IT systems of UniCredit Group and internally generated databases with information about the portfolio at the individual loan facility level. The Group's systems provide rating and past-due days data as important client's credit risk parameters.

Limits

The Bank manages credit risk concentration of the portfolio by setting appropriate limits. Limits are defined by the Bank's internal bylaws and/or NBS regulations and compliance with those is monitored and reported on an ongoing basis, as explained in greater detail in the section on the exposure risk of this Note.

Reports

In monitoring of the credit risk on the portfolio level, the following reports are used:

Report	Organizational unit in charge	Dynamics	Report user				
			CRO Division	Credit Committee	Management Board	Audit Committee	Supervisory Board
CRO Report / SB presentation	CFO/Strategic Risk Management Department	quarterly (or more often)	+	-	+*	+*	+
Credit Risk Dashboard	Credit Risk Control Unit	monthly***	+	-	-	-	-
Credit Portfolio Overview	Risk Management Division	quarterly	+	+**	+	-	-

*the report is presented for consideration and analysis before final presentation to the Supervisory Board
**the report is submitted to the Credit Committees after its presentation to the Management Board
***predefined report template is updated on a monthly basis according to the availability of the most recent accounting data and is submitted to the Head of the Risk Management Division and Heads of departments and units within CRO Function.

CRO Report to the Supervisory Board is prepared quarterly or more frequently if necessary, depending on the schedule of the Supervisory Board's meetings. All organizational units within the Risk Management Division participate in preparation of the report while the Strategic Risk Management and Control Department is responsible for coordination and delivery of the report. The report is prepared in the form of a presentation and includes, among other things, the following:

- Status overview of the most relevant activities of the Risk Management Division;
- Information on the structure and movements of the loan portfolio;
- Information on the key indicators of the portfolio quality, balance and movements of non-performing loans (NPLs), provisions for credit losses, risk costs and coverage of NPLs with credit loss provisions;
- Basic information on the portfolio concentration and compliance with the set limits, including the list of 10 largest client groups and 10 largest non-performing clients by their overall exposure.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

Credit Risk Dashboard Report is updated on a monthly basis by the Strategic Risk Management and Control Department and delivered to the Management Board member in charge of the Risk Management Division and Directors of all departments within this division. The information is presented at the sub-segment level (large corporate clients, middle-sized corporate clients, real estate financing, business clients and entrepreneurs and individuals) with comparative data for the previous month and previous year-end. The report includes the following information:

- Loan structure (type and currency);
- Portfolio structure per internal credit rating categories;
- Portfolio structure per (non)-default client status;
- Data on the asset quality at the sub-segment level (exposure, NPL volume and ratio, amount of credit loss provisions, NPLs coverage with credit loss provisions);
- PD and LGD per segment;
- Credit loss provisioning costs per sub-segment (charge and release/reversal as compared to the beginning of year and previous month); and
- cost of risk per sub-segment.

Credit Portfolio Overview is prepared on a quarterly basis and is presented to the Bank's Management Board and thereafter to the Bank's Credit Committees for their information. All organizational units dealing with the credit risk management within the Risk Management Division participate in preparation of the report. Among other things, the report includes the following information:

- detailed information on the structure and movements of the loan portfolio, overall and per segment;
- data on the key portfolio quality indicators and movements of NPLs, provisions for credit losses, costs of risk, NPLs coverage with credit loss provisions, portfolio distribution per rating, etc.;
- the list of 10 largest client groups and 10 largest non-performing clients by their overall exposure;
- portfolio status and overview of the key activities and results according to the internal portfolio classification (Standard, WL, Restructuring, Workout);
- information on the portfolio concentration and compliance with the set limits.

In addition to the standardized reports, there are many activities undertaken in order to provide accurate parameters used in credit risk monitoring: *ad hoc* analyses and reporting and other activities that contribute to the accuracy of the credit risk parameters.

Ad hoc analyses and reporting are applied in cases of the Bank's higher risk exposure, especially if the credit risk level is changing drastically and abruptly and when timely reaction is expected – for example: deterioration of internally assigned rating grades, significant need for additional provisions, signs of mismatching in organization, implemented system or procedures, change of any of the credit risk parameters or in calculation of provisions.

Other activities conducted by the Bank include: quality verification of data used in monitoring, managing of and reporting on the credit risk, improvement of the existing systems and procedures, annual process of budgeting and subsequent control and any adjustments of the budgeted parameters.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Credit Risk Exposure

The table below shows the Bank's maximum credit risk exposure per financial instrument type:

	Cash and balances held with the central bank (Note 21)		Securities (Note 23)		Loans and receivables due from banks and other fin. institutions (Note 24)		Loans and receivables due from customers (Note 25)		Other assets (Note 33)		Off-balance sheet items	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Individually impaired												
Corporate clients, rating 10	-	-	-	-	-	-	1,330,965	1,649,611	7,344	4,699	2,984	2,984
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans *	-	-	-	-	-	-	5,694,873	5,342,760	7,594	6,407	127,856	138,752
Retail clients, > 90 days past due	-	-	-	-	-	-	2,474,833	2,084,885	10,549	5,496	1,364	1,642
Gross loans	-	-	-	-	-	-	9,500,671	9,077,256	25,487	16,602	132,204	143,378
Impairment allowance		-		-	-		5,527,680	5,058,607	18,984	13,952	58,504	89,729
Carrying value	-	-	-	-	-	-	3,972,991	4,018,649	6,503	2,650	73,700	53,649
Group-level impaired												
Corporate clients, rating 1 - 6	29,869,709	23,788,821	105,078,854	101,001,908	2,909,899	20,981,215	164,037,392	165,420,012	157,012	111,073	167,016,116	148,856,844
Corporate clients, rating 7	-	-	-	-	-	10,911	7,524,311	1,894,008	793	622	2,780,679	829,633
Corporate clients, rating 8	-	-	-	9,140	220	172	5,150,371	2,040,926	527	386	6,590,798	465,448
Retail clients, < 90 days past due	-	-	-	-	-	-	86,018,821	84,127,598	1,308	1,653	1,643,075	1,580,678
Gross loans	29,869,709	23,788,821	105,078,854	101,011,048	2,910,119	20,992,298	262,730,895	253,482,544	159,640	113,734	178,030,668	151,732,603
Impairment allowance	153	211	344,977	577,307	1,714	17,362	2,202,453	1,858,373	786	794	136,488	152,438
Carrying value	29,869,556	23,788,610	104,733,877	100,433,741	2,908,405	20,974,936	260,528,442	251,624,171	158,854	112,940	177,894,180	151,580,165
Carrying value of rated assets	29,869,556	23,788,610	104,733,877	100,433,741	2,908,405	20,974,936	264,501,433	255,642,820	165,357	115,590	177,967,880	151,633,814
Carrying value of non-rated assets	29,840,622	29,616,699	1,542,912	1,493,552	-	-	-	-	882,867	867,341	-	-
Total carrying value	**59,710,178**	**53,405,309**	**106,276,789**	**101,927,293**	**2,908,405**	**20,974,936**	**264,501,433**	**255,642,820**	**1,048,224**	**982,931**	**177,967,880**	**151,633,814**

* Category "corporate clients – restructured loans" includes corporate customers with internal rating 8-, whose impairment allowance was made on a group-level and not individually.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Implementation of Basel Standards

In the area of Basel Standard implementation, the focus of activities was placed mainly on confirming the predictive capabilities of the internally developed rating models in use and appropriate credit risk parameters for corporate, retail, entrepreneur and small entity segments. According to the resulting internal validation recommendations, and due to inadequate model performance, in 2019 the Bank developed anew an application model for the retail segment and re-performed calibration of the credit rating model for the retail segment, the full implementation of which is expected during 2020.

Internal Rating System (Rating Scale)

The ranking rules for customers are established at the level of UniCredit Group and as such are uniform for each member of the Group. The Bank's rating system was developed and has been in use since 2004 at the group level for clients in the corporate segment. For retail clients and entrepreneurs, the rating system was internally developed and has been in use since 2010. The Bank uses the Group's rating models for multinational companies, banks, insurance companies and exposures to states/governments. The master rating scale is used as a unique rating assignment method, which ensures that customers with the same rating have the same credit characteristics and the same probability that they will not settle their liabilities, in part or in full, within the period of 1 year.

The master scale is divided into 10 rating classes that are further broken down into a total of 26 rating subgroups.

The internal master scale is compliant with Basel Standards, meaning that each rating subgroup has a PD parameter associated with it, with probability that a customer with particular characteristics will be unable to settle liabilities toward the Bank and enter the default status. For the first 23 subgroups the probability of default ranges between 0.02% and 20.00%, where those clients are rated between 1+ and 8. Their probability of default is based on the statistical analyses of the historical data.

Ratings from 1+ to 6-: These rating notches are reserved for customers determined in an internal credit assessment to have a credit standing of very good to just acceptable. For customers with this rating periodic review of creditworthiness is performed once a year.

Ratings 7+ to 7-: These cover three subgroups for transactions with low credit rating clients. Customers assigned these rating notches have substantially higher risk factors and must be constantly monitored.

Ratings 8+ and 8- cover those clients that are not determined for individual provisioning but are subject to special loan restructuring or debt reduction measures.

Rating 8- relates to customers in default according to the Basel Standards criteria.

Rating 9 refers to customers with loans provided for on an individual basis or those where a portion of the receivables has been written off.

Rating 10 is assigned to the clients in the process of liquidation or bankruptcy.

Ratings 8-, 9 and 10 are by definition assigned to customers in default in accordance with Basel Standards criteria, with special credit loss provisioning calculation.

Methodology for Calculation of Expected Credit Losses

In accordance with the current Rulebook on IFRS Loan Loss Provisioning, the Bank calculates 12-month expected credit loss or a lifetime expected credit loss of a financial instruments depending on the significance of the change in its credit risk occurred since the instrument's initial recognition. For these purposes, the Bank uses the following three stages of impairment:

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

- Stage 1 includes all new financial assets at initial recognition and instruments without significant credit quality deterioration since their initial recognition, or instrument with low-level credit risk;
- Stage 2 includes financial instruments with significant credit quality deterioration since their initial recognition yet with no objective evidence of impairment based on credit losses;
- Stage 3 includes financial instruments where objective evidence of impairment exists at the reporting date.

Stages 1 and 2 include only performing financial assets. Stage 3 includes only non-performing financial assets. For financial assets in Stage 1, the Bank calculates 12-month expected credit losses. For financial assets in Stage 2, the Bank calculates lifetime expected credit losses.

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments' initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to all the financial instruments. Deterioration of the probability of default (PD) is the key parameter underlying the quantitative criterion of the transfer logic. The following additional four qualitative criteria are applied after the said quantitative parameter:

- Forbearance status classification results in automatic classification to Stage 2 for the following 9 months (as from that status classification date). After that period, if there are no other significant indicators of credit risk deterioration, the transaction may be reclassified to Stage 1;
- 30 days past due – if a transaction reaches 30 days past due, it should be classified into Stage 2;
- All performing exposures included in Watch List 2 should be classified into Stage 2;
- All performing exposures transferred to the remit of the Loan Restructuring and Workout departments are automatically classified into Stage 2.

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3

In accordance with the current Rulebook on IFRS Loan Loss Provisioning, if there is objective evidence of impairment (default status) on the financial statements' preparation date, all financial assets are classified into Stage 3. For financial instruments classified into Stage 3, the rule is that impairment is based on the calculation of lifetime ECL. In this process, the Bank specifically treats clients in the default status whose exposure is considered significant and such loans or clients are individually assessed by the Bank on a case by case basis, whereas the loans that are not individually significant are assessed on a collective basis.

A financial asset is impaired and impairment has occurred if there is objective evidence of impairment arising from one or more events that occurred after the date of initial recognition of the asset, which have an impact on the estimated future cash flows of that financial asset. If any such evidence exists, the Bank is required to calculate the amount of such impairment in order to determine whether the impairment loss should be recognized. In other words, if there is any evidence of impairment, the Bank should estimate the amount that can be recovered for that asset or group of assets and recognize the impairment losses.

When determining the adequate amount of the provision, the Bank must differentiate the need to calculate the specific provision on an individual basis and the specific provision on a collective basis for clients that are grouped into categories with similar risk characteristics, based on the segment to which the client belongs and the total amount of exposure at the client level. The total exposure of the client is comprised of the balance sheet and off-balance sheet receivables, including undrawn loan funds.

The process of determining a specific provision on an individual basis is intended to measure the impairment loss at the client level. An individual provision is assessed as the difference between the carrying amount of the receivable and the present value of the expected future cash flows (excluding future impairment losses that are not identified as incurred) discounted at the effective interest rate of the financial asset (e.g., the effective interest rate specified when upon contract execution). In other words, the provision will be determined in the amount of an individual receivable that is not expected to be recovered.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3 (Continued)

In the event that the effective interest rate is not available, an alternative interest rate that is defined in accordance with the Bank's bylaws will be used to calculate the provision. When determining the present value of the receivables, the discounted cash flow from the repayment of principal, interest or any other cash flow from a loan is calculated first. Thereafter, the discounted cash flow from the net realizable value of collateral for that loan is calculated. The final net present value of future cash flows of the loan is compared to its carrying amount and the amount of provision for impairment losses for the given loan that are recognized in the profit or loss statement is determined.

The calculation of provisions for exposures with impairment that are not classified as individually significant is carried out on a collective basis by grouping the default status clients into homogeneous categories with similar risk characteristics. When defining homogeneous categories, the Bank applies the criteria used for segmentation when developing a model for calculating the loss rate due to default status (LGD model).

The calculation of collective provisions in Stage 3 is performed for the default status clients that do not meet the requirements for an individual assessment of the provision. Calculation of the provision on the collective basis is made using the following calculation formula:

ECL = unsecEAD x LGDs3 (time in default)

Where:
- unsecEAD designates exposure in default reduced by the value of the collateral, and
- LGDs3 (time in default) designates loss at the moment of default.

If a receivable is fully collateralized and for this reason unsecEAD is equal to 0, the following formula is applied:

ECL = EAD x provisioning weight for Stage 1

The provisioning weight for Stage 1 is determined semi-annually, by recalculating this value based on the average level of provisions per portfolio segments.

Values of LGDs3 (time in default) depend on the client segment, the amount of EAD, number of years the repayment lasts, and the period that the client has spent in the default status.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3 (Continued)

The table below shows a breakdown of gross and net non-performing loans due from banks and customers. Non-performing loans are loans with at least one repayment instalment over 90 days past due. Such loans are impaired and provided for in full (100%), after considering collection from operating cash flows and/or collateral foreclosure.

	Securities (Note 23)		Loans and receivables due from banks and other financial institutions (Note 24)		Loans and receivables due from customers (Note 25)		Other assets (Note 33)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2019										
Corporate clients, rating 10	-	-	-	-	1,330,965	262,287	7,344	741	2,984	-
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	5,694,873	2,584,830	7,594	1,760	127,856	72,987
Retail clients, > 90 days past due	-	-	-	-	2,474,833	1,125,874	10,549	4,002	1,364	713
Total	**-**	**-**	**-**	**-**	**9,500,671**	**3,972,991**	**25,487**	**6,503**	**132,204**	**73,700**
December 31, 2018										
Corporate clients, rating 10	-	-	-	-	1,649,611	315,518	4,699	568	2,984	-
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	5,342,760	2,539,173	6,407	1,515	138,752	52,540
Retail clients, > 90 days past due	-	-	-	-	2,084,885	1,163,958	5,496	567	1,642	1,109
Total	**-**	**-**	**-**	**-**	**9,077,256**	**4,018,649**	**16,602**	**2,650**	**143,378**	**53,649**

The aging structure of matured and unimpaired loans as of December 31, 2019 is provided in the table below:

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
Loans and receivables due from customers					
Gross carrying value	2,900,706	725,688	268,378	-	3,894,772
Impairment allowance	(127,405)	(73,354)	(50,162)	-	(250,921)
Net carrying value	**2,773,301**	**652,334**	**218,216**	**-**	**3,643,851**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage

(i) Cash and balances held with the central bank

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2019**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2019**
Stage 1	53,405,520	6,304,811	-	-	-	-	-	-			-	-	59,710,331
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**53,405,520**	**6,304,811**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**59,710,331**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2018**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2018**
Stage 1	29,661,213	23,744,307	-	-	-	-	-	-			-	-	53,405,520
Stage 2	-	-	-	-	-	-			-	-		-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**29,661,213**	**23,744,307**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53,405,520**

(ii) Securities at amortized cost (AC) and at fair value though other comprehensive income (FVtOCI)

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2019**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2019**
Stage 1	101,011,048	12,789,172	(7,890,234)	-	-	-	-	-			(891,359)	60,228	105,078,855
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**101,011,048**	**12,789,172**	**(7,890,234)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(891,359)**	**60,228**	**105,078,855**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2018**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2018**
Stage 1	82,138,449	25,906,329	(4,374,729)	-	-	-	-	-			(3,996,946)	1,337,945	101,011,048
Stage 2	112,721	-	-	-	-	-			-	-	(112,721)	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**82,251,170**	**25,906,329**	**(4,374,729)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,109,667)**	**1,337,945**	**101,011,048**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage (Continued)

(iii) Loans and receivables due from banks and other financial institutions

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2019**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2019**
Stage 1	20,964,633	1,056,537	(593,436)	18,476	-	18,476	-	-			(19,191,178)	638,170	2,893,202
Stage 2	27,665	185	(29)	(10,911)	-	(10,911)			-	-	(1)	8	16,917
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**20,992,298**	**1,056,722**	**(593,465)**	**7,565**	**-**	**7,565**	**-**	**-**	**-**	**-**	**(19,191,179)**	**638,178**	**2,910,119**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2018**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2018**
Stage 1	11,820,749	6,832,246	(1,716,582)	1,609	(382)	1,991	-	-			(1,834,648)	5,861,259	20,964,633
Stage 2	13,418	496	-	9,003	10,912	(1,909)			-	-	-	4,748	27,665
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**11,834,167**	**6,832,742**	**(1,716,582)**	**10,612**	**10,530**	**82**	**-**	**-**	**-**	**-**	**(1,834,648)**	**5,866,007**	**20,992,298**

(iv) Loans and receivables due from customers

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2019**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2019**
Stage 1	231,376,060	12,106,308	(49,796,262)	(11,314,006)	(16,731,212)	7,562,463	(2,271,958)	126,701			(45,131,049)	87,264,043	224,505,094
Stage 2	22,106,484	159,313	(2,257,318)	2,575,115	12,144,558	(8,416,270)			(1,389,080)	235,907	(4,545,482)	20,187,689	38,225,801
Stage 3	9,077,256	23,662	(1,972,686)	2,326,747			1,877,330	(152,774)	1,189,597	(587,406)	(432,374)	478,066	9,500,671
Total	**262,559,800**	**12,289,283**	**(54,026,266)**	**(6,412,144)**	**(4,586,654)**	**(853,807)**	**(394,628)**	**(26,073)**	**(199,483)**	**(351,499)**	**(50,108,905)**	**107,929,798**	**272,231,566**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2018**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2018**
Stage 1	219,570,171	109,626,829	(41,415,501)	(14,899,546)	(15,679,844)	1,993,805	(1,213,521)	14			(42,504,389)	998,496	231,376,060
Stage 2	8,660,521	58,322	(666,593)	15,925,129	18,557,603	(2,404,063)			(667,760)	439,349	(2,023,266)	152,371	22,106,484
Stage 3	13,696,125	19,956	(1,139,868)	3,973,589			4,585,747	(36)	581,213	(1,193,335)	(7,473,337)	791	9,077,256
Total	**241,926,817**	**109,705,107**	**(43,221,962)**	**4,999,172**	**2,877,759**	**(410,258)**	**3,372,226**	**(22)**	**(86,547)**	**(753,986)**	**(52,000,992)**	**1,151,658**	**262,559,800**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage (Continued)

(v) Other assets

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2019**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2019**
Stage 1	997,677	70,317	-	-	-	-	-	-			-	-	1,067,994
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**997,677**	**70,317**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,067,994**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2018**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2018**
Stage 1	1,010,139	-	(12,462)	-	-	-	-	-			-	-	997,677
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**1,010,139**	**-**	**(12,462)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**997,677**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage

(i) Cash and balances held with the central bank

	Changes within the Stage				Transfers among Stages								
Stage	January 1, 2019	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2019
Stage 1	211	-	(58)	-	-	-	-	-			-	-	153
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**211**	**-**	**(58)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**153**

	Changes within the Stage				Transfers among Stages								
Stage	January 1, 2018	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2018
Stage 1	153	58	-	-	-	-	-	-			-	-	211
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**153**	**58**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**211**

*The opening balance of impairment allowance at January 1, 2018 includes IFRS 9 FAT effects

(ii) Securities at amortized cost (AC) and at fair value though other comprehensive income (FVtOCI)

	Changes within the Stage				Transfers among Stages								
Stage	January 1, 2019	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2019
Stage 1	577,307	3,753	(234,942)	-	-	-	-	-			(1,343)	202	344,977
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**577,307**	**3,753**	**(234,942)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,343)**	**202**	**344,977**

	Changes within the Stage				Transfers among Stages								
Stage	January 1, 2018	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2018
Stage 1	319,308	274,762	(5,203)	-	-	-	-	-			(19,415)	7,855	577,307
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**319,308**	**274,762**	**(5,203)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,415)**	**7,855**	**577,307**

*The opening balance of impairment allowance at January 1, 2018 includes IFRS 9 FTA effects

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage (Continued)

(iii) Loans and receivables due from banks and other financial institutions

		Changes within the Stage					Transfers among Stages						
Stage	January 1, 2019	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2019
Stage 1	16,485	626	(940)	76	-	76	-	-			(15,062)	510	1,695
Stage 2	877	-	(153)	(705)	-	(705)			-	-	-	-	19
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**17,362**	**626**	**(1,093)**	**(629)**	**-**	**(629)**	**-**	**-**	**-**	**-**	**(15,062)**	**510**	**1,714**

		Changes within the Stage					Transfers among Stages						
Stage	January 1, 2018	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2018
Stage 1	10,639	5,561	(798)	840	-	840	-	-			(511)	754	16,485
Stage 2	4	142	-	703	705	(2)			-	-	-	28	877
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**10,643**	**5,703**	**(798)**	**1,543**	**705**	**838**	**-**	**-**	**-**	**-**	**(511)**	**782**	**17,362**

*The opening balance of impairment allowance at January 1, 2018 includes IFRS 9 FTA effects

(iv) Loans and receivables due from customers

		Changes within the Stage					Transfers among Stages						
Stage	January 1, 2019	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2019
Stage 1	875,299	108,027	(305,220)	(65,076)	(87,927)	39,023	(18,799)	2,627			(171,860)	253,319	694,489
Stage 2	983,074	87,908	(107,706)	312,035	682,636	(265,748)			(136,685)	31,832	(171,636)	404,290	1,507,965
Stage 3	5,058,607	395,050	(1,119,168)	1,126,941			794,555	(49,731)	621,708	(239,591)	(212,726)	278,975	5,527,679
Total	**6,916,980**	**590,985**	**(1,532,094)**	**1,373,900**	**594,709**	**(226,725)**	**775,756**	**(47,104)**	**485,023**	**(207,759)**	**(556,222)**	**936,584**	**7,730,133**

		Changes within the Stage					Transfers among Stages						
Stage	January 1, 2018	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2018
Stage 1	753,708	614,462	(225,758)	(96,001)	(55,480)	26,108	(66,629)	-			(173,462)	2,350	875,299
Stage 2	475,130	95,538	(34,546)	529,539	734,540	(158,475)			(69,185)	22,659	(83,041)	454	983,074
Stage 3	8,280,747	272,612	(790,679)	2,659,180			2,461,146	(12)	260,016	(61,970)	(5,363,523)	270	5,058,607
Total	**9,509,585**	**982,612**	**(1,050,983)**	**3,092,718**	**679,060**	**(132,367)**	**2,394,517**	**(12)**	**190,831**	**(39,311)**	**(5,620,026)**	**3,074**	**6,916,980**

The opening balance of impairment allowance at January 1, 2018 includes IFRS 9 FTA effects

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage (Continued)

(v) Other assets

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2019**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2019**
Stage 1	127	19,643	-	-	-	-	-	-			-	-	19,770
Stage 2	664	-	(664)	-	-	-			-	-	-	-	-
Stage 3	13,955	-	(13,955)	-			-	-	-	-	-	-	-
Total	**14,746**	**19,643**	**(14,619)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,770**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2018**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2018**
Stage 1	104	23	-	-	-	-	-	-			-	-	127
Stage 2	500	164	-	-	-	-			-	-	-	-	664
Stage 3	33,031	-	(19,076)	-			-	-	-	-	-	-	13,955
Total	**33,635**	**187**	**(19,076)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,746**

The opening balance of impairment allowance at January 1, 2018 includes IFRS 9 FTA effects

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments - Collaterals

Credit risk is mitigated through adequate collateral management process. The purpose of acquiring all available collaterals, proper booking, assessment and monitoring is to minimize the risk as much as possible. Therefore, the Bank is especially dedicated to the management of collaterals in order to maintain the acceptable relationship between the undertaken risk and the realistic rate of the collateral recovery, control and mitigation of risks related to quality, concentration, or securitization of the receivables, maturity, currency, etc. Aiming at further enhancement of processes and systems with regards to credit risk mitigation, the Bank set up a special organizational unit, whose activities include collateral appraisal, process of collateral monitoring, accurate reporting, management of the relationships with external associates (licensed certified valuers and appraisers, insurance companies and supervisors), preparations of expert opinions, internal appraisal reports and the overall legal and economic collateral assessment, improvement of data quality and statistical monitoring of collaterals.

The Bank uses relevant policies and procedures for collateral management. The most significant collaterals accepted and used by the Bank for minimizing credit risk comprise:

- financial collaterals (cash deposits), allowed to be recognized in full amounts;
- payment guarantees issued by first-class banks and governments, allowed to be recognized at full amounts;
- mortgages on residential or commercial property, recognized up to 70% and 60%, respectively, of the appraised value of the property; and
- securities issued by governments, central banks or institutions with adequate credit rating.

In the event that the currency of a security instrument differs from the currency of the loan for which it provides security, the value of the security instrument must be further reduced using a factor defined for every currency combination, as prescribed by the Bank's internal bylaws governing the process of credit risk mitigation.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments - Collaterals

Appraised fair values of collaterals securitizing the Bank's loans up to the credit risk exposure level as of December 31, 2019 and 2018 are presented in the table below:

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Off-balance sheet assets	
	2019	2018	2019	2018	2019	2018
Corporate clients, rating 10	**-**	**-**	**300,199**	**470,620**	**-**	**-**
Real estate	-	-	299,303	470,620	-	-
Other	-	-	896	-	-	-
Corporate clients, rating 9	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients, restructured loans	**-**	**-**	**4,268,617**	**773,446**	**42,455**	**24,631**
Real estate	-	-	3,888,501	743,205	27,200	5,184
Other	-	-	380,116	30,241	15,255	19,447
Retail clients, > 90 days past due	**-**	**-**	**243,518**	**228,427**	**-**	**-**
Real estate	-	-	243,518	228,427	-	-
Other	-	-	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**588,129**	**592,478**	**82,242,481**	**45,596,671**	**9,608,228**	**7,978,701**
Real estate	-	878	74,438,884	40,808,961	5,444,393	4,013,898
Other	588,129	591,600	7,803,597	4,787,710	4,163,835	3,964,803
Total	**588,129**	**592,478**	**87,054,815**	**47,069,164**	**9,650,683**	**8,003,332**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks

Market risks represent the possibility of adverse effects on the financial performance and the Bank's capital due to changes in the value of on-balance sheet and off-balance sheet items that arise from the fluctuations of market prices. The market risks include foreign exchange risk, price risks in respect of debt and equity securities and commodity risk.

The set up system of limits for the Bank's exposure to the market risks establishes threshold for the total absorption of economic capital as well as the acceptable level of economic loss both for the activities carried out through the trading book and for the overall business activity of the Bank in accordance with its risk-taking capacities.

Some of the basic indicators for monitoring of the Bank's exposure to the market risks during 2019 are:

- VaR – a potential loss of portfolio value in one day with 99% confidence interval; VaR is calculated based on the historical simulation approach and is monitored daily. The main risk factors that are covered by this calculation are: interest rate risk, credit spread risk, foreign exchange risk, volatility and inflation,
- Stressed VaR – the historical simulation approach is further stressed by parameters that were characteristic for periods of major economic crises.

In addition to these basic indicators, when monitoring and managing exposure to market risks, the Bank also uses some additional granular limits - aimed at preventing increased exposure within individual risk factors, as well as in risk factors that are not sufficiently taken into account in VaR analyses. The most important of these indicators are sensitivity analyses - BPV and CPV.

During 2019, the Bank's exposure to market risks was within defined limits and in accordance with its risk-taking capacities.

Breakdown of VaR position of the Bank's trading portfolio includes only the trading book items of the Bank:

	At December 31	Average	Maximum	Minimum
2019				
Foreign exchange risk	1,615	4,841	11,978	226
Interest rate risk	2,131	2,275	6,364	417
Credit spread risk	9,804	4,926	12,532	1,635
Covariance	1,872	-	-	-
Total	15,422	14,224	36,926	2,611
2018				
Foreign exchange risk	5,542	4,459	9,095	200
Interest rate risk	914	1,963	4,707	681
Credit spread risk	3,086	4,301	7,395	1,648
Covariance	(3,220)	-	-	-
Total	6,322	6,592	10,577	1,683

An analysis of the interest rate gap sensitivity to an interest rate increase/decrease, assuming a parallel change in the yield curve and static banking book is shown in the table below:

	December 31, 2019	December 31, 2018
	The effect of a parallel change in the interest rate by 1 bp	The effect of a parallel change in the interest rate by 1 bp
RSD	(22,807)	(17,292)
EUR	7,520	5,878
USD	(165)	(287)
GBP	-	-
CHF	(51)	(457)
Other currencies	-	-
Total effect*	**30,543**	**23,914**

* The total effect is equal to the sum of the absolute values by currencies.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk

Foreign exchange (currency) risk is the risk of potential negative effects on the Bank's performance and capital due to fluctuations in the foreign currency exchange rates.

The foreign currency risk ratio is the total open foreign currency position relative to the Bank's capital, calculated in accordance with the relevant regulator's decision on the capital adequacy of banks. The Bank is under obligation to maintain the ratio between assets and liabilities in such a way that its total open foreign currency position at the end of a working day must not exceed 20% of its capital. The Financial and Operational Risk Department prepares a report on the Bank's foreign exchange risk for the purposes of NBS on an intradaily basis (the report is sent at noon at 2 p.m.), as well as on daily and monthly bases.

The Bank is exposed to the effects of exchange rate fluctuations for major foreign currencies on its financial position and cash flows. The Bank's management sets limits for the risk exposure per particular foreign currencies and constantly monitors whether balances (positions) in various foreign currencies are within the prescribed limits. Limits apply to all the relevant foreign currency products within the Markets Department. They cover trading items as well as selected strategic foreign currency ALM items and balances. All sensitivities that result from foreign currency balances are limited by the general VaR limit set level, both at the Bank aggregate level and for the Markets and ALM departments individually.

In order to protect itself against the risk of fluctuations in the foreign currency exchange rates, the Bank executes derivative contracts and loan contracts with a foreign currency index clause.

The Bank's foreign currency risk management at the operating level is the responsibility of the Markets Department.

	2019	2018
Foreign exchange risk ratio:		
- as at December 31	2.11	1.05
- maximum for the period – December	4.33	4.48
- minimum for the period – December	0.28	0.33

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Bank's net currency position as at December 31, 2019:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and balances held with the central bank	258,122	25,768,605	126,223	127,921	33,429,307	59,710,178
Receivables under derivative financial instruments	2,178	1,116,618	-	-	48,520	1,167,316
Securities	1,825,032	12,896,540	-	-	91,555,217	106,276,789
Loans and receivables due from banks and other financial institutions	134,042	2,174,653	113,229	478,568	7,913	2,908,405
Loans and receivables due from customers	487,237	190,310,908	141,546	-	73,561,742	264,501,433
Investments in subsidiaries	-	-	-	-	112,644	112,644
Intangible assets	-	-	-	-	1,901,383	1,901,383
Property, plant and equipment	-	-	-	-	3,888,486	3,888,486
Investment property	-	-	-	-	3,528	3,528
Current tax assets	-	-	-	-	58,867	58,867
Other assets	995	75,093	-	2	972,134	1,048,224
Total assets	**2,707,606**	**232,342,417**	**380,998**	**606,491**	**205,539,741**	**441,577,253**
Liabilities under derivative financial instruments	2,178	1,148,546	-	-	56,072	1,206,796
Deposits and other liabilities due to banks, other financial institutions and the central bank	38,089	101,057,277	166,985	376,992	14,694,433	116,333,776
Deposits and other liabilities due to customers	7,782,529	121,484,941	2,148,360	1,694,653	97,568,614	230,679,097
Liabilities under derivatives designated as risk hedging instruments	-	158,188	-	-	-	158,188
Provisions	-	-	-	-	1,288,884	1,288,884
Deferred tax liabilities	-	-	-	-	411,884	411,884
Other liabilities	121,237	3,633,706	71,550	16,693	1,808,457	5,651,643
Equity	-	-	-	-	85,846,985	85,846,985
Total liabilities and equity	**7,944,033**	**227,482,658**	**2,386,895**	**2,088,338**	**201,675,329**	**441,577,253**
Off-balance sheet financial instruments	5,298,010	(5,994,920)	2,005,562	1,561,639	(2,987,537)	(117,246)
Net currency position as of December 31, 2019	**61,583**	**(1,135,161)**	**(335)**	**79,792**	**876,875**	**(117,246)**

**Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed*

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Bank's net currency position as at December 31, 2018:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and balances held with the central bank	145,772	14,924,268	173,224	68,397	38,093,648	53,405,309
Receivables under derivative financial instruments	-	624,660	-	-	58,163	682,823
Securities	2,112,792	20,564,386	-	-	79,250,115	101,927,293
Loans and receivables due from banks and other financial institutions	322,053	15,419,289	15,669	213,736	5,004,189	20,974,936
Loans and receivables due from customers	444,835	190,718,451	4,414,382	-	60,065,152	255,642,820
Changes in the fair value of hedged items	-	1	222,772	-	-	222,773
Receivables under derivatives designated as risk hedging instruments	-	2	-	-	-	2
Investments in subsidiaries	-	-	-	-	112,644	112,644
Intangible assets	-	-	-	-	1,617,855	1,617,855
Property, plant and equipment	-	-	-	-	1,589,673	1,589,673
Investment property	-	-	-	-	1,331	1,331
Deferred tax assets	-	-	-	-	239,899	239,899
Other assets	1,597	44,932	105	3	936,294	982,931
Total assets	**3,027,049**	**242,295,989**	**4,826,152**	**282,136**	**186,968,963**	**437,400,289**
Liabilities under derivative financial instruments	-	651,294	-	-	72,338	723,632
Deposits and other liabilities due to banks, other financial institutions and the central bank	450,417	120,506,759	479,611	1,993	11,639,355	133,078,135
Deposits and other liabilities due to customers	15,558,121	101,127,525	1,780,158	1,725,130	100,740,102	220,931,036
Liabilities under derivatives designated as risk hedging instruments	-	170,554	318,026	-	-	488,580
Provisions	-	-	-	-	1,131,110	1,131,110
Current tax liabilities	-	-	-	-	461,958	461,958
Deferred tax liabilities	-	-	-	-	381	381
Other liabilities	108,529	1,113,117	911	9,658	1,524,744	2,756,959
Equity	-	-	-	-	77,828,498	77,828,498
Total liabilities and equity	**16,117,067**	**223,569,249**	**2,578,706**	**1,736,781**	**193,398,486**	**437,400,289**
Off-balance sheet financial instruments	13,096,064	(17,574,823)	(2,246,527)	1,520,309	5,124,285	(80,692)
Net currency position as of December 31, 2019	**6,046**	**1,151,917**	**919**	**65,664**	**(1,305,238)**	**(80,692)**

**Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed*

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational Risks

Operational risk is the risk of loss resulting from errors, breaches, interruptions or damages caused by internal processes, employees or systems or external events. Operational risk is defined as an event occurring as a result of inappropriate or unsuccessful internal processes, actions of employees and systems or systemic and other external events: internal or external embezzlement, employment practice and safety at work, receivables from clients, distribution of products, fines and penalties for injury, damage to property, disruption in operations and system errors and failures in the process management. Strategic risks, business risks and reputational risks differ from operational risks, while legal risk and compliance risk are included in the definition of operational risk.

The Financial and Operational Risk Department is responsible for recording, monitoring and managing the Bank's operational risks and is directly accountable to the Chief Risk Officer (CRO).This Department's basic task is to coordinate and cooperate with operating risk managers and to communicate with colleagues at the Operational Risk Team in Milan, in order to ensure the information for efficient monitoring of operational risks at all levels. The Department monitors changes in specially defined accounts and on a weekly basis it reports to members of the Management Board on all significant operational risk movements. For the purpose of efficient operational risk monitoring within the Bank, Operational Risk Managers and Deputy Managers have been appointed in various organizational units as responsible for the accuracy and timeliness of recording data on all harmful events in their organizational unit into a database. All events that have occurred are recorded in the Group's ARGO application.

The Operational Risk Committee meets quarterly in order to improve the process of operational risk management. The Bank's Management Board is responsible for decision making on operational risks. It is under remit of the Department to calculate the capital requirement for operational risks, which is computed using the standardized approach and to prepare reports for local management and the Group.

(e) Liquidity Risk

Liquidity risk is a risk of adverse effects on the Bank's financial performance and capital caused by the Bank's inability to settle its matured liabilities due to drawdown of the existing sources of financing, i.e., the Bank's inability to obtain new sources of financing or difficult conversion of assets into liquid funds because of market disruptions.

The main objective of the overall liquidity management of the Bank is to maintain adequate liquidity and financing position, which will enable the Bank to fulfil its payment obligations not only in regular business, but in stressful circumstances as well.

The liquidity risk that the Bank is faced with in everyday business may have different forms:

- Intraday liquidity risk – the liquidity risk during the day occurs when the Bank is unable to meet its payment obligations in a timely manner, both under normal and stress conditions;
- Short-term liquidity risk refers to a risk of mismatch between the amounts and/or the maturities of cash inflows and outflows over a short period of time (up to one year);
- Market liquidity risk is a risk that the Bank may face a significant loss of its liquid assets' value whenever it is necessary to liquidate them through sales or repo transactions;
- Structural liquidity risk is defined as the inability to obtain the necessary funds to maintain an adequate relationship between mid-term and long-term (over one year) assets and liabilities at reasonable price levels, in a stable and sustainable manner, without affecting the daily operations or the financial position of the Bank;
- The risk of unforeseen or stressful circumstances relates to future and unexpected obligations that could require the Bank to maintain higher liquidity than what is considered a sufficient amount for conducting regular business operations;
- Financing concentration risk occurs when the Bank uses a limited number of sources of financing, so that they become such that a withdrawal of one or more of them could cause liquidity problems;
- Foreign currency liquidity risk (FX risk) arises from the current and projected liquidity mismatch between the cash inflows and outflows in foreign currencies, or a different allocation of assets and liabilities in foreign currencies within a time horizon.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Within the liquidity risk management, the Bank addresses each of the above listed sources of liquidity risk through the appropriately set up system of limits.

The limit system used in daily liquidity risk management ensures that the Bank maintains liquidity and financing position that is strong enough to bear the potential effects of unfavorable scenarios in which the above listed risks can be materialized. The limit system for the Group is defined in the Risk Appetite Framework (RAF) as well as other granular limits. RAF defines the level of risk that the Bank is willing to take in achieving its strategic goals and business plan, taking into account the interest of its shareholders, as well as capital and other regulatory and legal requirements. As such, RAF is approved by the Supervisory Board, while the granular limits (or other form of limitation) are derived from RAF: their approval and escalation process, however, includes other Bank's committees or functions that are set at a lower hierarchy level in the Bank's organization.

Some of the main liquidity indicators included in RAF for 2019 were:
- the Bank's liquidity ratio,
- the Bank's rigid liquidity ratio,
- the liquidity coverage ratio (LCR), and
- the net stable funding ratio (NSFR).

During 2019, the Bank's liquidity was at an adequate level and there was no breach of any of the defined limits.

The Bank's liquidity ratio and the rigid/cash liquidity ratio

The Bank is under obligation to maintain the ratio between the sum of liquid receivables of the first order and liquid receivables of the second order, on one hand, and the sum of the Bank's demand deposit liabilities and deposits without contractual maturity and deposits with contracted maturity, as follows:

- at least 1.0 – when calculated as an average of all working days in a month;
- not below 0.9 – for over three consecutive working days; and
- at least 0.8 – when calculated for one working day.

In addition, the Bank is obligated to maintain the liquidity levels so that the rigid/cash liquidity ratios are as follows:

- at least 0.7 – when calculated as an average of all working days in a month;
- not below 0.6 – for over three consecutive working days; and
- at least 0.5 – when calculated for one working day.

The Bank is under obligation to report to the National Bank of Serbia if the liquidity ratios are non-compliant with the prescribed parameters for two consecutive working days, and must do so on the next working day. If the Bank determines a critically low liquidity ratio, it must report this to the National Bank of Serbia at the latest by the next working day. Such a report should contain information on the amount of shortfall liquid assets, on the reasons for the lack of liquidity and on the activities planned for resolving the causes of illiquidity. The Financial and Operational Risk Department prepares a report on daily liquidity for the National Bank of Serbia on a daily basis.

The Bank's realized values of the liquidity and rigid liquidity ratios indicate a high level of liquidity maintained during 2019:

	2019	2018
The Bank's liquidity ratio		
- as at 31 December	1.80	1.53
- average for the period – December	1.84	1.57
- maximum for the period – December	1.96	2.02
- minimum for the period – December	1.66	1.37

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

	2019	2018
The Bank's rigid liquidity ratio		
- as at 31 December	1.54	1.19
- average for the period – December	1.58	1.29
- maximum for the period – December	1.71	1.44
- minimum for the period – December	1.31	1.12

Liquidity Coverage Ratio (LCR)

This indicator represents the ratio of the Bank's high quality liquid assets (liquidity buffer) to the net outflows of its liquid assets that would occur during the next 30 days from this indicator calculation date under the assumed stress conditions. This ratio is calculated on a monthly basis for the Bank and twice annually for at the Group's consolidation level. The Bank is required to maintain the liquidity coverage ratio observing the total in all currencies at a level not lower than 100%.

The Bank's realized LCR values indicate a high level of liquidity maintained during 2019:

As at December 31	2019	2018
Liquidity buffer	120,390,432	125,544,812
Net outflows of liquid assets	90,706,701	85,018,851
Liquid assets coverage ratio	133%	148%

The liquidity risk management system also defines specific limits that ensure that the liquidity reserves are high enough to cover even the intense stress periods.

The liquidity risk stress test is carried out on a weekly basis and is based on the scenario analyses. The objective of the scenario analysis is testing of the Bank's ability to continue its business activities while facing a stressful event. Three basic scenarios are analyzed:

- Market scenario (stressful circumstances caused by market events);
- The name crisis (stressful circumstances caused by unfavorable news in the media or events related to the Bank); and
- Combined scenario (combination of the above two scenarios).

In order to ensure timely and adequate actions in cases of increased liquidity risk, the Bank has adopted the Business Continuity Plan, which is tested on an annual basis and which:
- Precisely defines procedures for early detection of the Bank's liquidity problems, including a list of early warning indicators;
- Clearly defines activities, obligations and responsibilities in liquidity crisis management; and
- Precisely defines the manner of accessing available or potential sources of liquidity, as well as procedures for securing access to supplementary sources of financing, or sources that are not used in regular business.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as of December 31, 2019:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and balances held with the central bank	59,710,178	-	-	-	-	59,710,178
Receivables under derivative financial instruments	13,553	-	10,488	269,882	873,393	1,167,316
Securities	1,574,143	1,650,460	10,153,839	79,731,562	13,166,785	106,276,789
Loans and receivables due from banks and other financial institutions	2,048,645	-	588,116	271,644	-	2,908,405
Loans and receivables due from customers	5,227,420	4,650,346	37,757,725	99,058,363	117,807,579	264,501,433
Current tax assets	58,867	-	-	-	-	58,867
Other assets	1,048,224	-	-	-	-	1,048,224
Total assets	**69,681,030**	**6,300,806**	**48,510,168**	**179,331,451**	**131,847,757**	**435,671,212**
Liabilities						
Liabilities under derivative financial instruments	15,095	16,095	33,920	236,366	905,320	1,206,796
Deposits and other liabilities due to banks, other financial institutions and the central bank	23,458,741	9,259,543	16,888,294	43,958,378	22,768,820	116,333,776
Deposits and other liabilities due to customers	192,080,747	10,550,422	13,012,774	13,289,537	1,745,617	230,679,097
Liabilities under derivatives designated as risk hedging instruments	-	-	-	158,188	-	158,188
Other liabilities	3,361,078	66,643	292,765	1,409,457	521,700	5,651,643
Total liabilities	**218,915,661**	**19,892,703**	**30,227,753**	**59,051,926**	**25,941,457**	**354,029,500**
Net liquidity gap as at December 31, 2019	**(149,234,631)**	**(13,591,897)**	**18,282,415**	**120,279,525**	**105,906,300**	**81,641,712**

The structure of asset and liability maturities as at December 31, 2019 is indicative of maturity mismatch between the outstanding maturities of assets and those of liabilities in the time buckets, with marked negative mismatch in the buckets of up to a month and from one to three months, primarily due to maturity structure of deposits, i.e., a significant share of demand deposits in the total deposits due to banks and customers. Such customer behavior, i.e., focus on shorter maturities is a logical consequence of the current decline in the market interest rates on savings deposits, where the customers prefer demand to term deposits. However, based on historical data and experience, a significant portion of demand deposits may be considered a long-term source of financing given their stability, growth rate and withdrawal rate. At the same time, we underline that the Bank is in possession of liquid instruments, i.e., securities and other liquidity reserves, that can be pledged with the National Bank of Serbia at any time, or sold on a secondary market, and has at its disposal funds from the parent bank and international financial institutions in accordance with the adopted financing plan for the current year, all of which can be used to cover potential outflows of funds at any time, even in the stress scenarios. The stress scenario analyses are performed and analyzed by the relevant Bank's units and teams on an ongoing basis.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as of December 31, 2018:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and balances held with the central bank	53,405,309	-	-	-	-	53,405,309
Receivables under derivative financial instruments	42,646	2,442	7,202	153,228	477,305	682,823
Securities	2,288,192	10,392,019	6,453,726	79,354,801	3,438,555	101,927,293
Loans and receivables due from banks and other financial institutions	20,170,018	-	591,567	213,351	-	20,974,936
Loans and receivables due from customers	3,612,637	4,606,855	41,869,545	95,221,440	110,332,343	255,642,820
Receivables under derivatives designated as hedging instruments	-	-	-	2	-	2
Other assets	982,931	-	-	-	-	982,931
Total assets	**80,501,733**	**15,001,316**	**48,922,040**	**174,942,822**	**114,248,203**	**433,616,114**
Liabilities						
Liabilities under derivative financial instruments	19,764	7,914	36,314	155,702	503,938	723,632
Deposits and other liabilities due to banks, other financial institutions and the central bank	41,610,519	7,765,703	19,793,638	51,231,904	12,676,371	133,078,135
Deposits and other liabilities due to customers	183,014,573	12,972,449	13,909,807	9,771,850	1,262,357	220,931,036
Liabilities under derivatives designated as risk hedging instruments	-	-	-	170,553	318,027	488,580
Current tax liabilities	461,958	-	-	-	-	461,958
Other liabilities	2,756,959	-	-	-	-	2,756,959
Total liabilities	**227,863,773**	**20,746,066**	**33,739,759**	**61,330,009**	**14,760,693**	**358,440,300**
Net liquidity gap as at December 31, 2018	**(147,362,040)**	**(5,744,750)**	**15,182,281**	**113,612,813**	**99,487,510**	**75,175,814**

4. FINANCIAL RISK MANAGEMENT (Continued)

(f) Compliance Risks

Compliance risk represents a possibility of adverse effects on the Bank's financial performance and capital due to the failure of the Bank to align its operations with the effective laws and regulations, professional standards, procedures for prevention of money laundering and terrorist financing and other procedures, best business practices, business ethics and the Bank's internal bylaws and other enactments governing banking operations. It particularly relates to the risk of regulatory sanctions, the risk of financial losses and reputational risk. The Bank has organized a special organizational unit whose competence covers compliance review.

The primary task of the Compliance Department is to identify and asses the Bank's compliance risk and report thereon to the Management Board and Audit Committee and, as appropriate, the Supervisory Board and to propose plans on management of the main compliance risks. The Compliance Department assess risks in accordance with the adopted Methodology and Annual Activity Plan.

Moreover, the Bank's compliance function supports other organizational units of the Bank in defining procedures, introducing new products or modifying the existing ones, in implementation of the laws and bylaws, rules, standards and the Bank's internal bylaws and enactments specifically governing the following areas: prevention of money laundering and terrorist financing, financial sanctions, banking secrets, protection of personal data, insider information and market abuse, professional market conduct standards, conflict of interests, corruption, loansharking, professional conduct with clients and provision of adequate advice to clients in accordance with the Code of Conduct and Ethical Principles, application of standards on the protection of financial service users and transparency in behavior, protection of competition and other regulatory areas in accordance with the rules of UniCredit Group and the adopted program for the Bank's compliance function.

Within the Compliance Directorate a separate organizational unit has been formed – Unit for Prevention of Money Laundering and Terrorist Financing, where the number of staff members who perform the tasks of identification, measurement and monitoring and managing the risk of money laundering and terrorist financing is proportionate to the volume, type and complexity of the Bank's organizational structure, its risk profile and its exposure to this risk.

(g) The Risk of Money Laundering and Terrorist Financing

The risk of money laundering and terrorist financing is a risk of possible adverse effects on the Bank's financial performance, capital or reputation due to the use of the Bank for money laundering and/or terrorist financing.

The risk of money laundering and terrorist financing arises particularly as a result of the failure of the Bank to align its business operations with the effective legislation, regulations and internal bylaws governing prevention of money laundering and terrorist financing, or as a result of mutual non-alignment of the Bank's internal bylaws governing this matter.

The Bank has in place adequate policies and procedures for identification, measurement, assessment and management of the risk of money laundering and terrorist financing. The Bank protects itself from this risk by means of an internal control system in place in its competent organizational units, timely information and high-quality training and education as well as testing of its employees, which is a key factor in the management of the risk of money laundering and terrorist financing.

Within the Compliance Directorate a separate organizational unit has been formed – Unit for Prevention of Money Laundering and Terrorist Financing – to take care of the improvement and continuous implementation of the policies and procedures for managing the risk of money laundering and terrorist financing. The Bank has provided the staff of the Unit with appropriate HR, material, technical , IT and other resources for work as well as with ongoing professional education and trainings.

4. FINANCIAL RISK MANAGEMENT (Continued)

(h) Strategic Risks

Strategic risk is a risk of adverse effects on the Bank's financial performance and capital due to a lack of adequate strategies and policies in place and/or their inadequate implementation as well as due to changes in the environment the Bank operates in or the Bank's failure to respond appropriately to such changes.

Each and every employee within the Bank's risk management system is responsible for strategic risk management, with the Supervisory Board having the key role in this system establishment, while the Management Board is in charge of its implementation, as well as for the risk identification, measurement and assessment. Among other things, the Bank's governing bodies monitor the strategic risk through creation and monitoring of the budget, which is prepared annually, as well as through preparation of the multiannual strategic plan, which allows them, at least quarterly, to get to know and be able to respond to all the changes in the environment the Bank operates in. The system of reporting to the Bank's management, which is in place in all the operating segments, ensures an adequate and timely set of information required for the decision-making process on the part of the Bank's management in order to enable prompt responses to the changes in the business environment.

The Bank's organizational structure, set up by the above said governing bodies, is defined and adjusted in such a manner that there are resources dedicated to the preparation and application of policies and strategies, development and implementation of the Bank's methodologies, rulebooks and other bylaws. The Bank continuously monitors, assesses and adjusts all the relevant bylaws and processes and proposes improvements or actions to be taken in response to the changes in the environment in order to adequately alleviate their impact on the Bank's financial performance and capital.

The critical element of the strategic risk management is the Bank's internal control system, which enables continuous monitoring of all the risks the Bank is or may be exposed to in its operations. The said system ensures implementation of adequate strategies and policies in the Bank's practice and elimination of weaknesses or inconsistences, if any, which represents additional monitoring and management of the strategic risk that the Bank is exposed to.

(i) Business Risk

Business risk is defined as a measure of the difference between unexpected and expected unwanted changes in future revenues of the Bank.

Business risk may result from extremely unfavorable developments in the market environment, changes in competition or client behavior, as well as changes in the legal framework. Sources of such information represent a series of financial statements that include items whose variability is assessed within other types of risk (credit, market, operational risks). Therefore, in order to avoid overlapping with the assessment of other types of risks (e.g. credit, market, operational), the focus here is on specific types of income and expenses of the Bank, which, after assessment, are identified and aggregated with other types of risks in order to obtain the total assessment of the risk profile through the economic capital of the Bank.

(j) Reputational Risk

Reputational risk is a current or future risk of falling profits as a result of the negative perception of the Bank's image by clients, contracting parties, shareholders, investors or the regulator.

In order to adequately organize the risk management process and clearly segregate the responsibilities of the employees within the Risk Management Division, as well as define and implement risk mitigation measures in this area, the Bank has adopted and implemented policies and other subordinate bylaws.

(k) Interest Rate Risk in the Banking Book

Interest rate risk is defined as a possibility of adverse effects on the Bank's financial performance and equity per items in the Bank's banking book due to changes in interest rates.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Bank's exposure to the interest rate risk is considered from two perspectives:

- Impact on the economic value - when changes in interest rates affect the basic value of assets. liabilities and off-balance sheet instruments, because the economic value of future cash flows changes (and in some cases. The cash flows themselves); and
- Impact on the financial result - when changes in interest rates affect earnings by changing the net interest income.

The system of limits for measuring exposure to the interest rate risk is used for monitoring potential changes in the economic value (EV) and changes in the expected net interest income (NII) or profit, addressing all the material sources of risk, in particular:

- Repricing risk - arises from the structure of the banking book and relates to timing mismatch in the maturity and repricing period of assets and liabilities;
- Yield curve risk - arising from changes in the yield curve shape and or slope;
- Basis risk to which the Bank is exposed due to different reference interest rates applicable to the interest-sensitive items with similar characteristics in terms of maturity or repricing; and
- Optionality risk to which the Bank is exposed due to embedded options in relation to interest rate-sensitive positions (loans with the option of early repayment, deposits with the option of early withdrawal).

The Bank has implemented the framework of interest rate risk scenarios that address all the aforesaid sources of interest rate risk and, depending on the strength of the assumptions used, those can be divided into two basic groups:

- regular business scenarios, and
- stress test scenarios.

The scenarios vary depending on the specific risk generator, whose parameters are changed or stressed:

- assumptions of stress on interest rates (parallel, non-parallel changes in interest rates);
- assumptions of stress on the balance sheet (dynamic balance sheet, constant balance sheet);
- single-factor analysis; and
- multifactor analysis.

The effects of all scenarios are analyzed from the viewpoint of the change in the economic value and net interest income.

Interest rate risk scenarios included in RAF 2019:

- Economic value (EV) sensitivity, and
- Sensitivity of net interest income (NII).

One of the tasks of the Bank's Finance Department is to establish procedures for the Bank to comply with the defined limits for the interest rate risk. This is accomplished through activities in the financial markets (through interbank transactions, securities transactions) conducted in cooperation with the Markets Department as well as other ALM activities used to manage interest gaps for protection against the interest rate risk, in line with the Bank's preferred risk profile. At the same time, the Finance Department and the Markets Department are involved in the management of the Bank's investment portfolio, which, together with the approved instruments, enables the achievement of a strategic position that ensures stability of interest income from the banking book. For protection against the interest rate risk, the Finance Department and the Markets Department undertake hedging transactions to hedge certain portfolios or transactions.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

An analysis of the Bank's sensitivity to increases or decreases in the market interest rates in respect of the positions in the banking book (EV), assuming no asymmetric trends in yield curves, is presented as follows:

	Parallel increase of 200 bp	Parallel decrease of 200 bp
2019		
As at December 31	(3,254,751)	2,964,146
Average for the year	(2,862,488)	2,992,996
Maximum for the year	(2,162,014)	3,523,669
Minimum for the year	(3,648,181)	2,426,899
2018		
As at December 31	(2,258,022)	2,551,880
Average for the year	(2,235,410)	2,683,621
Maximum for the year	(1,953,384)	3,174,515
Minimum for the year	(2,352,775)	1,943,336

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Bank's exposure to interest rate changes as at December 31, 2019 is presented for the entire interest-bearing portion of the statement of the financial position:

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and balances held with the central bank	59,710,178	24,310,803	-	-	-	-	35,399,375
Receivables under derivative financial instruments	1,167,316	-	-	-	-	-	1,167,316
Securities	106,276,789	31,232	1,650,460	10,153,839	80,890,366	13,550,892	-
Loans and receivables due from banks and other financial institutions	2,908,405	1,812,830	-	853,363	450	-	241,762
Loans and receivables due from customers	264,501,433	44,232,696	52,988,873	158,538,118	4,102,003	3,850,680	789,063
Current tax assets	58,867	-	-	-	-	-	58,867
Other assets	1,048,224	-	-	-	-	-	1,048,224
Total assets	**435,671,212**	**70,387,561**	**54,639,333**	**169,545,320**	**84,992,819**	**17,401,572**	**38,704,607**
Liabilities under derivative financial instruments	1,206,796	-	-	-	-	-	1,206,796
Deposits and other liabilities due to banks, other financial institutions and the central bank	116,333,776	17,570,234	30,733,824	34,698,787	26,893,416	284,107	6,153,408
Deposits and other liabilities due to customers	230,679,097	84,922,997	14,352,239	16,621,181	9,349,262	-	105,433,418
Liabilities under derivatives designated as risk hedging instruments	158,188	-	-	-	-	-	158,188
Other liabilities	5,651,643	-	-	-	-	-	5,651,643
Total liabilities	**354,029,500**	**102,493,231**	**45,086,063**	**51,319,968**	**36,242,678**	**284,107**	**118,603,453**
Net interest rate risk exposure at December 31, 2019	**81,641,712**	**(32,105,670)**	**9,553,270**	**118,225,352**	**48,750,141**	**17,117,465**	**(79,898,846)**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Bank's exposure to interest rate changes as at December 31, 2018 is presented for the entire interest-bearing portion of the statement of the financial position:

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and balances held with the central bank	53,405,309	18,945,448	-	-	-	-	34,459,861
Receivables under derivative financial instruments	682,823	-	-	-	-	-	682,823
Securities	101,927,293	3,781,744	10,392,019	87,753,530	-	-	-
Loans and receivables due from banks and other financial institutions	20,974,936	20,164,960	-	804,874	-	-	5,102
Loans and receivables due from customers	255,642,820	3,759,029	5,948,073	235,441,345	3,984,342	5,756,802	753,229
Receivables under derivatives designated as risk hedging instruments	2	-	-	-	-	-	2
Other assets	982,931	-	-	-	-	-	982,931
Total assets	**433,616,114**	**46,651,181**	**16,340,092**	**323,999,749**	**3,984,342**	**5,756,802**	**36,883,948**
Liabilities under derivative financial instruments	723,632	-	-	-	-	-	723,632
Deposits and other liabilities due to banks, other financial institutions and the central bank	133,078,135	40,951,782	23,801,512	19,342,253	47,259,926	1,447,884	274,778
Deposits and other liabilities due to customers	220,931,036	60,223,289	20,587,164	15,385,259	7,556,718	23,200	117,155,406
Liabilities under derivatives designated as risk hedging instruments	488,580	-	-	-	-	-	488,580
Current tax liabilities	461,958	-	-	-	-	-	461,958
Other liabilities	2,756,959	-	-	-	-	-	2,756,959
Total liabilities	**358,440,300**	**101,175,071**	**44,388,676**	**34,727,512**	**54,816,644**	**1,471,084**	**121,861,313**
Net interest rate risk exposure at December 31, 2018	**75,175,814**	**(54,523,890)**	**(28,048,584)**	**289,272,237**	**(50,832,302)**	**4,285,718**	**(84,977,365)**

4. FINANCIAL RISK MANAGEMENT (Continued)

(l) IT Risks

IT risks refer to a possible occurrence of adverse effects on the Bank's financial performance and capital, achievement of its business goals, regulatory compliance and reputation due to inadequate information system management and/or other weaknesses in the Bank's information system that adversely affect its functionality or safety and compromises the Bank's business continuity.

In order to control and mitigate this type of risks and improve its management, the Bank has adopted and implemented the Information System Development Strategy. For adequate organization of the IT risk management process as well as for clear segregation of the employees' responsibilities and definition and application of the risk mitigation measures, the Bank implements work rules, procedures and other subordinate bylaws in this area.

(m) Model Risk

The model risk pertains to potential errors in modeling for the main types of risks the Bank is exposed to (credit risk, market risks and operational risk), such as inadequate modelling methodology, improper model application, lacking parameters and inputs. Model risk analysis is based on the assessment of the risk model components arising from various types of risks.

In order to ensure adequate model risk management and define and implement measures for risk mitigation in this area, the Bank applies and regularly evaluates an appropriate set of internal bylaws.

(n) Capital Management

As the Bank's regulator, the National Bank of Serbia (NBS) defines the method of calculating capital and capital adequacy based on Basel III Regulatory Framework. The regulatory capital, capital adequacy ratios and calculation of risk-weighted assets are defined by the Decision on Capital Adequacy of Banks effective as from June 30. 2017 (the "Decision"). The Bank monitors its capital adequacy ratio on a quarterly basis using the standardized approach.

The Bank is required to calculate the following capital adequacy ratios:

1. the Common Equity Tier 1 capital ratio (CET 1 ratio) represents the Bank's common equity tier 1 capital relative to the risk-weighted assets, expressed as percentage. The minimum CET 1 ratio defined by the Decision is 4.5%;
2. the Tier 1 capital ratio (T1 ratio) is the Bank's core capital adequacy ratio, representing the core capital relative to the risk-weighted assets, expressed as percentage. The minimum T1 ratio defined by the Decision is 6%;
3. the total capital adequacy ratio (CAR) represents the Bank's capital relative to the risk-weighted assets, expressed as percentage. The minimum CAR defined by the Decision is 8%.

The Bank is required to maintain its core capital in RSD equivalent amount of EUR 10,000,000 at all times, using the official middle exchange rate of NBS effective as at the calculation date. In addition, the Bank is required to maintain at all times its capital in the amount necessary for coverage of all risks the Bank is or may be exposed to in its operations, yet no less than the amount required to maintain the minimum capital adequacy ratios or increased capital adequacy ratios – in case NBS orders the Bank to achieve and maintain capital adequacy ratios higher than the prescribed ones. In 2019 NBS did not impose on the Bank capital adequacy ratios higher than the prescribed ones.

The Bank's capital is the sum of the core capital (Tier 1) and supplementary capital (Tier 2). The core capital is the sum of the common equity Tier 1 capital and additional Tier 1 capital.

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

- shares and other equity instruments;
- relevant share premium with the common equity Tier 1 instruments;
- the Bank's profit;
- revaluation reserves and other unrealized gains;
- reserves from profit and other reserves of the Bank;
- reserve funds for general banking risks.

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

Regulatory adjustments – When calculating the value of its capital components, the Bank is bound to exclude from any capital component any increase in equity determined under IFRS/IAS resulting from securitization of exposures. Since the Republic of Serbia has no regulations enacted to govern this area, the said regulatory adjustment is not applicable.

The Bank does not include in its capital the following:

- fair value reserves relating to gains or losses in cash flow hedging instruments for financial instruments measured at other than fair value, including the projected cash flows;
- gains or losses on the Bank's liabilities measured at fair value, resulting from the changes in the Bank's credit quality;
- gains or losses arising from the credit risk for liabilities per derivatives measured at fair value, where the Bank may not offset such gains or losses against those arising from its counterparty credit risk.

Unrealized gains or losses on assets or liabilities measured at fair value, except for the above listed gains or losses, are included in the calculation of capital.

Deductible from the common equity Tier 1 capital are:

- current and prior year's losses and unrealized losses;
- intangible assets, including goodwill, decreased for the amount of deferred tax liabilities that would be derecognized in case of impairment or derecognition of intangible assets under IFRS/IAS;
- deferred tax assets dependable on the Bank's future profitability in line with the effective regulations;
- defined benefit pension fund assets on the Bank's balance sheet;
- the Bank's direct, indirect and synthetic holdings of its own common equity Tier 1 instruments, including those that the Bank is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
- the Bank's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where those entities have reciprocal holdings in the Bank, designed to artificially inflate the bank's capital;
- the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds no significant investments in accordance with Articles 19 and 20 of the Decision;
- the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments in accordance with Sections 19 and 20 of the Decision;
- the amount for which the Bank's additional Tier 1 capital deductible items exceed the Bank's additional Tier 1 capital;
- the amount of exposures qualifying for application of a risk weight of 1.25%, where the Bank decides to deduct the exposure from the common equity Tier 1 rather than apply the said risk weight, such as:
    - o holdings in non-FSI entities exceeding 10% of their capital and/or holdings enabling effective exertion of significant influence on the management of such entities or their business policies;
    - o securitized items in accordance with Section 201, paragraph 1, item 2), Section 202, paragraph 1, item 2), and Section 234 of the Decision;
    - o free deliveries, if the counterparty has failed to settle its liability within four working days from the agreed delivery/payment date, in accordance with Section 299 of the Decision;
- any tax charge relating to the common equity Tier 1 items foreseeable at the moment of its calculation, except where the Bank has previously suitably adjusted the amount of common equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to absorb risks or losses;
- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans recorded on accounts 102, 107 and 108 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, where the credit indebtedness of the debtor prior to the loan approval was higher than the percentage rate defined in line with NBS decision governing classification of the balance sheet assets and off-balance sheet items of banks, or the said percentage rate will be higher due to the loan approval, where this item will be deducted regardless of whether after the loan approval, the debtor's credit indebtedness decreased below the said percentage rate;

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans approved, except for the loans specified under the bullet above, which are recorded on accounts 102, 107 and 108, for which the contractually defined maturity is over 2,920 days, if such loans were approved from January 1, 2019 up to December 31, 2019;
- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans approved for purchase of motor vehicles, which are recorded on account 102, for which the contractually defined maturity is over 2,920 days, if such loans have been approved as from January 1, 2019; and
- amount of the required reserve for estimated losses in accordance with NBS regulations, if such regulations prescribe the Bank's obligation to form such a reserve.

Upon determining deductible deferred tax assets items and the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments, the Bank is not required to deduct from the common equity Tier 1 capital the amounts of items that in the aggregate are equal to or lower than the limit which is arrived at by multiplying the common equity Tier 1 items remaining after the regulatory adjustments and decrease for deductible items by 17.65%:

- deferred tax assets dependable on the Bank's future profitability, arising from the temporary differences in the amount lower than or equal to 10% of the Bank's common equity Tier 1 capital calculated in accordance with Section 21, paragraph 2 of the Decision;
- the Bank's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments in the amount lower than or equal to 10% of the Bank's common equity Tier 1 capital calculated in accordance with Section 21, paragraph 2 of the Decision.

As of December 31, 2019, the Bank did not reduce its common equity Tier 1 capital for the amount of direct holdings of common equity Tier 1 instruments or for deferred tax assets dependable on the Bank's future profitability, arising from the temporary differences since their aggregate amount was below the defined limit.

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

- shares and other equity instruments that meet the requirements referred to in Section 23 of the Decision;
- relevant share premium.

As of December 31, 2019, the Bank had no additional Tier 1 capital.

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

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

The amount in which the supplementary Tier 2 capital instruments, i.e., subordinated liabilities, are included in the calculation of the supplementary Tier 2 capital during the final five years before they mature, is calculated as follows: the quotient their nominal value and/or the principal amount on the first day of the final five-year period before their mature and he number of calendar days in that period is multiplied by the number of the calendar days remaining to maturity of the instruments or subordinated liabilities at the calculation date.

As of December 31, 2019, the Bank had no supplementary Tier 2 capital.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

The following table presents the Bank's balance of capital and total risk-weighted assets as of December 31, 2019 and 2018:

	2019	2018
Common equity Tier 1 capital - CET1		
Paid in common equity Tier 1 instruments	23,607,620	23,607,620
Relevant share premium with the common equity Tier 1 instruments	562,156	562,156
Current year's profit qualifying for inclusion into CET 1 capital	-	-
Revaluation reserves and other unrealized gains	4,074,793	2,517,701
(-) Unrealized losses	(17,727)	(620)
Other reserves	49,296,640	41,919,994
(-) Intangible assets, including goodwill, decreased for the amount of deferred tax liabilities)	(1,901,383)	(1,617,855)
(-) Tax charge relating to the common equity Tier 1 items foreseeable at the moment of its calculation, except where the Bank has previously suitably adjusted the amount of common equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to absorb risks or losses	-	(377,655)
(-) Gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans recorded on accounts 102, 107 and 108 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, where the credit indebtedness of the debtor prior to the loan approval was higher than the percentage rate defined in line with NBS decision governing classification of the balance sheet assets and off-balance sheet items of banks, or the said percentage rate will be higher due to the loan approval, where this item will be deducted regardless of whether after the loan approval, the debtor's credit indebtedness decreased below the said percentage rate	(17,289)	-
(-) Gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans approved, except for the loans specified under the bullet above, which are recorded on accounts 102, 107 and 108, for which the contractually defined maturity is over 2,920 days, if such loans were approved from January 1, 2019 up to December 31, 2019, qualifying as per the maturity criterion for deduction from CET 1 capital	(103,515)	-
(-) Amount of the required reserve for estimated losses in accordance with NBS regulations (if such regulations prescribe the Bank's obligation to form such a reserve)*	-	(9,958,131)
Total common equity Tier 1 capital - CET1	**75,501,295**	**56,653,210**
Additional Tier 1 capital - AT1	-	-
Total core Tier 1 capital - T1 (CET1 + AT1)	**75,501,295**	**56,653,210**
Supplementary capital - T2	-	-
Total regulatory capital (T1 + T2)	**75,501,295**	**56,653,210**

*The figure for 2018 is the amount of the required reserves for estimated losses per balance sheet assets and off-balance sheet items, determined in accordance with the regulations that were in effect as of December 31, 2018.

In both 2019 and 2018 the Bank achieved capital adequacy ratios within the limits prescribed by NBS Decision on Capital Adequacy of Banks and Decision on Risk Management.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

These disclosures supplement the comments on financial risk management (Note 4).

(a) Key Sources of Estimation Uncertainty

i) Provisions for Credit Losses

Impairment of financial assets is assessed in the manner described in accounting policy 3(k)(viii).

Under IFRS 9, measurement of impairment losses for all categories of financial assets requires estimates and judgements to be made, particularly those relating to determining the amount and expected timing of the future cash flows, both from operation and from collateral foreclosure upon determining the impairment losses and assessing whether there has been a significant credit risk increase. The said estimates are based on a number of factors, the combination and interaction of which may result in different amounts of credit loss provisions in different scenarios analyzed.

The Bank's expected credit loss (ECL) calculations are a result of complex models involving a number of assumptions concerning a selection of input variables and their interdependence. Elements of ECL models that are included in the accounting judgments and estimates include the following:

- the Bank's internal model for assessing credit quality, which is used to assign PD values to individual credit rating categories;
- the Bank's criteria for assessing whether there has been a significant credit risk increase, which consequently result in lifetime ECL calculation using the quantitative criteria (a change in PD compared to the initial recognition date of a financial asset) as well as qualitative assessments (forbearance or restructuring classification, 30 days past due or watch list 2 classification);
- segmentation of the financial assets when their ECL need to be assessed on a collective basis;
- development of ECL models, including various formulas and inputs to be selected;
- establishing relations between macroeconomic scenarios and economic inputs, such as GDP movements, movements in unemployment rates, salaries and interest rates and modelling of their relations and impacts on the used PD and LGD; and
- selection of macroeconomic forward-looking scenarios in collaboration with UniCredit Group and probability-weighting of those scenarios in order to arrive at the relation between the ECL models and possible economic trends.

In line with its internal policies, the Bank will regularly review, maintain and adjust its models within the context of its actually experienced credit losses when necessary.

The Bank assess impairment of financial assets and probable losses per off-balance sheet items for individually significant receivables on an individual basis. The individual impairment assessment involves determining whether there is objective evidence of impairment, i.e., whether the default status exists. The amount of impairment of financial assets is determined as the difference between the carrying value of each receivable and the present value of the expected future cash flows from the receivable, while the assessment of probable losses per off-balance sheet items entails assessing recoverability of the future cash flows for each off-balance sheet commitment.

The Bank assess impairment of financial assets and probable losses per off-balance sheet items on a collective basis for all receivables where the impairment losses cannot be directly linked to the receivables, but may be estimated to be present in the loan portfolio based on the experience.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

(a) Key Sources of Estimation Uncertainty (Continued)

i) Provisions for Credit Losses (Continued)

Upon performing the said assessment, the Bank groups receivables according to their similar credit risk characteristics, which reflect the ability of the borrowers to settle their liabilities in accordance with contractual terms (portfolio segments, rating categories, etc.). collective impairment assessment represents a joint estimate of the future cash flows for a group of receivables based on the historical information on the losses incurred in prior periods per receivables with credit risk characteristics similar to those in that group, in accordance with the Bank's methodology.

ii) Fair Value Estimates

Determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(k)(vii). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Critical Accounting Judgments in Applying the Bank's Accounting Policies

Critical accounting judgments made in applying the Bank's accounting policies include the following:

i) Measurement of Financial Instruments

The Bank's accounting policy on fair value measurement is disclosed in accounting policy 3(k)(vii).

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on inputs other than quoted prices for identical instruments, observable either directly (as prices) or indirectly (e.g., derived from prices). This category includes instruments measured using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs are not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are measured based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include the net present value and discounted cash flows, comparison to similar instruments for which observable market prices are available and other methods. Assumptions and inputs used in valuation techniques include risk-free and key policy interest rates, credit spreads and other factors used in estimating discount rates, prices of bonds or equity, foreign exchange rates, equity and equity price indexes and the expected instability of prices and correlations. The objective of the use of valuation techniques is to determine the fair value that reflects the price of a financial instrument at the reporting date, which would be determined by market participants in an arm's length transaction.

The Bank uses generally accepted models for determining the fair values of regular and common financial instruments such as interest rate and currency swaps, for which exclusively observable inputs are used, requiring less estimates and assumptions to be made by the management. Observable model inputs are mostly available on the market of the quoted debt and equity instruments, trading derivatives and simple derivatives such as interest rate swaps.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Critical Accounting Judgments in Applying the Bank's Accounting Policies (Continued)

i) Measurement of Financial Instruments (Continued)

Availability of observable market prices and model inputs reduces the need for estimates and assumptions made by management and reduces uncertainty associated with determining fair value. Availability of observable market prices and inputs varies depending on the products and market; it is prone to changes caused by various events and general conditions prevailing in the future markets.

ii) Business Model Assessment and SPPI Test

Classification and measurement of financial debt instruments in line with IFRS 9 depends on the Bank's business model and SPP test results, as described in accounting policy 3(k)(ii).

The business model reflects the manner in which the Bank manages its financial assets in order to generate cash flows therefrom, Business model assessment is performed at the level of a group of financial assets such as portfolio or sub-portfolio level, taking into account all the relevant and objective information such as sales of assets that were realized in the past, management's intentions regarding future sales, valuation the assets' performance and reporting thereon to the management, etc. The Bank has in place a process of ongoing monitoring of financial assets at amortized cost and financial assets at FVtOCI that were derecognized before maturity with the aim to determine the reasons for their disposal and whether those reasons are consistent with the model within which the assets were held.

In the event of the "hold to collect" business model and "hold to collect and sell" business model, it is assessed at the individual contract level, or at the level of a group of contracts, whether the contractual cash flows of a financial asset represent solely payments of principal and interest (SPPI test).

If the contractual terms of a financial asset include exposures to risks that are not consistent with the underlying crediting arrangement, such an asset is classified and measured at fair value through profit or loss (FVtPL).

iii) Estimated Useful Lives of Intangible Assets, Property and Equipment and Amortization/Depreciation Rates Used

The calculation of amortization/depreciation charge and amortization/depreciation rates applied are based on the estimated useful lives of intangible assets, property and equipment, which are subject to an ongoing review. The estimated useful lives are reviewed for adequacy at least annually, or more frequently if there is any indication that significant changes have occurred to the factors determining the previously defined estimated useful lives or other events affecting the estimated useful lives. Useful life estimates require the management to make significant estimates and judgments based on the historical experience with similar assets, as well as anticipated technical advancement and changes in economic and industrial factors that may affect the useful lives of assets.

iv) Impairment of Non-Financial Assets

At each reporting date, the Bank's management reviews the carrying amounts of the its non-financial assets other than investment property and deferred tax assets in order to determine the indications of impairment losses. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. If the estimated recoverable amount of an asset is below its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense of the current period. Assessment of indicators and objective evidence of impairment requires the management to make significant estimates regarding the expected cash flows, discount rates and usage capacity of the assets subject to review.

v) Deferred Tax Assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which such deferred tax assets may utilized. The Bank's management needs to make prudent assessments of deferred tax assets which may be recognized, based on their period of inception and mounts, as well as on the amount of future taxable income and tax policy planning strategy.

All amounts expressed in thousands of RSD, unless otherwise stated.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Critical Accounting Judgments in Applying the Bank's Accounting Policies (Continued)

vi) Provisions for Litigations

The Bank is involved in a number of lawsuits and labor disputes. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Estimating of the provisions for legal suits requires the Bank's management and Legal Unit to make significant estimates and judgments, including the estimate of the probability of negative suit outcomes and probable and reasonable estimates of loss amounts. The required provision amounts represent the best estimates made by the management based on the information available as at the reporting date. However, they may be subject to future changes due to new events taking place or new information obtained.

vii) Provisions for Employee Benefits

The costs of provisions for employee retirement benefits determined by actuarial calculation. The actuarial calculation includes an assessment of the discount rate, future salary growth rate, future employee turnover rate and mortality rates. Actual outcome may vary significantly from the said estimates, particularly given the long term they relate to.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following tables show the breakdown of financial instruments measured at fair value at the end of the reporting period, grouped in fair value hierarchy levels:

	Note	Level 1	Level 2	Level 3	Total
2019					
Receivables under derivatives	22	-	1,167,316	-	1,167,316
Securities					
- at FVtPL	23	361,990*	1,180,921	-	1,542,911
- at FVtOCI	23	1,825,032*	102,860,562	-	104,685,594
		2,187,022	**105,208,799**	**-**	**107,395,821**
Liabilities under derivatives	34	-	1,206,790	6	1,206,796
Liabilities per derivatives designated as risk hedging instruments	37	-	158,188	-	158,188
		-	**1,364,978**	**6**	**1,364,984**

* Securities at FVtPL and at FVtOCI – Level 1 include bonds issued by the Republic of Serbia, denominated in EUR and USD and listed in EU Stock Exchanges as highly liquid assets.

	Note	Level 1	Level 2	Level 3	Total
2018					
Receivables under derivatives	22	-	682,823	-	682,823
Securities					
- at FVtPL	23	-	1,493,552	-	1,493,552
- at FVtOCI	23	2,112,792*	98,284,026	-	100,396,818
Changes in the fair value of risk hedged items	26	-	-	222,773	222,773
Receivables per derivatives designated as risk hedging instruments	27	-	2	-	2
		2,112,792	**100,460,403**	**222,773**	**102,795,968**
Liabilities under derivatives	34	-	723,632	-	723,632
Liabilities per derivatives designated as risk hedging instruments	37	-	488,580	-	488,580
		-	**1,212,212**	**-**	**1,212,212**

* Securities at FVtOCI – Level 1 include bonds issued by the Republic of Serbia, denominated in USD and listed in EU Stock Exchanges as highly liquid assets.

All amounts expressed in thousands of RSD, unless otherwise stated.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

(i) Fair Value Hierarchy for Assets and Liabilities Other than Measured at Fair Value

Estimated fair values of financial assets and liabilities other than measured at fair value are provided in the table below, according to the fair value hierarchy levels under IFRS 13:

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2019.						
Cash and balances held with the central bank	21	-	59,710,178	-	59,710,178	59,710,178
Securities						
- securities measured at amortized cost (AC)	23	-	-	48,306	48,306	48,284
Loans and receivables due from banks and other financial institutions	24	-	-	2,915,844	2,915,844	2,908,405
Loans and receivables due from customers	25	-	-	270,217,806	270,217,806	264,501,433
Other assets	33	-	-	1,048,224	1,048,224	1,048,224
		-	**59,710,178**	**274,230,180**	**333,940,358**	**328,216,524**
Deposits and other liabilities due to banks, other financial institutions and the central bank	35	-	-	118,108,418	118,108,418	116,333,776
Deposits and other liabilities due to customers	36	-	-	230,914,622	230,914,622	230,679,097
Other liabilities	39	-	-	5,651,643	5,651,643	5,651,643
		-	**-**	**354,674,683**	**354,674,683**	**352,664,516**

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2018.						
Cash and balances held with the central bank	21	-	53,405,309	-	53,405,309	53,405,309
Securities						
- securities measured at amortized cost (AC)	23	-	-	36,923	36,923	36,923
Loans and receivables due from banks and other financial institutions	24	-	-	20,968,275	20,968,275	20,974,936
Loans and receivables due from customers	25	-	-	260,254,925	260,254,925	255,642,820
Other assets	33	-	-	982,931	982,931	982,931
		-	**53,405,309**	**282,243,054**	**335,648,363**	**331,042,919**
Deposits and other liabilities due to banks, other financial institutions and the central bank	35	-	-	132,731,824	132,731,824	133,078,135
Deposits and other liabilities due to customers	36	-	-	221,637,099	221,637,099	220,931,036
Other liabilities	39	-	-	2,756,959	2,756,959	2,756,959
		-	**-**	**357,125,882**	**357,125,882**	**356,766,130**

All amounts expressed in thousands of RSD, unless otherwise stated.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

(i) Fair Value Hierarchy for Assets and Liabilities Other than Measured at Fair Value (Continued)

Valuation techniques and models the Bank uses for fair value calculations are disclosed in Note 5b(i).

(ii) Assets The Fair Values of which Approximate their Carrying Values

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amounts approximate their fair values. The basic assumption used here is that in the near term, for highly liquid assets, no significant market changes will occur that can affect the fair value. This assumption is also applied to demand deposits, savings accounts without specified maturity and all variable interest rate financial instruments.

(iii) Financial Instruments with Fixed Interest Rates

The fair values of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair values of fixed interest bearing financial instruments are based on discounted cash flows using prevailing money-market interest rates for financial instruments with similar credit risk characteristics and maturities.

Financial assets held to maturity and loans and deposits include a portion of the loan portfolio at fixed interest rates, which causes differences between the carrying amounts and fair values of such instruments.

7. NET INTEREST INCOME

Net interest income includes:

	2019	2018
Interest income from		
Cash and balances held with the central bank	310,263	276,749
Receivables under derivative financial instruments	292,663	195,295
Securities at fair value through profit or loss	205,708	175,682
Securities at fair value through OCI	3,815,579	3,764,954
Securities at amortized cost	1,647	3,294
Loans and receivables due from banks and other financial institutions	149,463	125,448
Loans and receivables due from customers	11,658,138	11,385,237
Financial derivatives and assets held for risk hedging purposes	220,593	284,378
Total interest income	16,654,054	16,211,037
Interest expenses from		
Liabilities under derivative financial instruments	283,211	188,959
Liabilities per financial derivatives designated as risk hedging instruments	116,438	75,676
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,164,754	985,309
Deposits and other liabilities due to customers	1,263,745	1,114,553
Subordinated liabilities	-	167,191
Lease liabilities	51,544	-
Total interest expenses	2,879,692	2,531,688
Net interest income	**13,774,362**	**13,679,349**

In accordance with the Bank's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 737,484 thousand in 2019 (2018: RSD 970,534 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

8. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	2019	2018
Fee and commission income		
Payment transfer activities	1,416,289	1,263,559
Fees on issued guarantees and other contingent liabilities	700,748	656,019
Brokerage fees	109,598	31,471
Custody fees	435,057	391,242
Fees arising from card operations	1,295,109	1,284,121
Fees per deposits	445,432	408,551
Loan origination and processing fees	615,523	454,875
Other fees and commissions	273,243	292,413
Total fee and commission income	5,290,999	4,782,251
Fee and commission expenses		
Payment transfer activities	195,132	179,098
Fees arising on guarantees, sureties and letters of credit	10,812	8,467
Fees arising from card operations	921,361	973,219
Other fees and commissions	112,537	128,653
Total fee and commission expenses	1,239,842	1,289,437
Net fee and commission income	**4,051,157**	**3,492,814**

9. NET GAINS ON THE CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains on the changes in the fair value of financial instruments include:

	2019	2018
Net gains on the changes in the fair value of derivatives at FVtPL	204,281	148,895
Net gains/(losses) on the changes in the fair value of securities at FVtPL	13,919	(3,333)
Net gains on the changes in the fair value of financial instruments	**218,200**	**145,562**

10. NET GAINS ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT FAIR VALUE

Net gains on derecognition of financial instruments measured at fair value include:

	2019	2018
Net gains on the sales of securities measured at FVtOCI	390,619	105,318
Net gains on the sales of securities measured at FVtPL	112,902	67,188
Net gains on derecognition of financial assets measured at fair value	**503,521**	**172,506**

All amounts expressed in thousands of RSD, unless otherwise stated.

11. NET LOSSES ON RISK HEDGING

Net losses on risk hedging include:

	2019	2018
Net (losses)/gains on the change in the value of hedged loans, receivables and securities	(224,773)	35,249
Net (losses)/gains on the change in the value of derivatives designated as risk hedging instruments	(16,579)	(45,954)
Net losses on risk hedging	**(241,352)**	**(10,705)**

Net losses on risk hedging of RSD 241,352 thousand include the net losses on macro fair value hedging in the amount of RSD 257,905 thousand that the Bank terminated in 2019 (Note 25.4), while it realized a gain on the fair value micro hedging of RSD 16,553 thousand.

12. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

Net foreign exchange gains and positive currency clause effects include:

	2019	2018
Foreign exchange gains and positive currency clause effects	25,534,233	46,726,986
Foreign exchange losses and negative currency clause effects	(23,851,999)	(45,311,054)
Net foreign exchange gains	**1,682,234**	**1,415,932**

13. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Net losses on impairment of financial assets not measured at fair value through profit or loss include:

	2019	2018
Loans and receivables due from customers		
Net increase in individual impairment allowance	299,677	2,007,273
Net increase in collectively assessed impairment	1,588,202	1,069,893
	1,887,879	3,077,166
Net (reversal of)/additional impairment charge per securities measured at FVtOCI	(127,589)	309,024
Contingent liabilities		
Net decrease in individual impairment allowance (Note 38)	(31,225)	(36,848)
Net decrease in collectively assessed impairment (Note 38)	(15,951)	(39,398)
	(47,176)	(76,246)
Losses/(gains) on modification	6,978	(46)
Write-offs	9,932	444
Recovery of the receivables previously written off	(313,675)	(406,117)
Total net losses	**1,416,349**	**2,904,225**

All amounts expressed in thousands of RSD, unless otherwise stated.

14. NET (LOSSES)/GAINS ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

Net (losses)/gains on derecognition of financial assets measured at amortized cost include:

	2019	2018
Losses on conversion of CHF-indexed housing loans (Note 25.1)	(516,198)	-
Gains on the sales of loans measured at amortized cost	-	2,099,033
Total net (losses)/gains	**(516,198)**	**2,099,033**

In accordance with the Law on Conversion of Housing Loans Indexed in Swiss Francs, the Bank recorded 23% of the borrowers' debt outstanding, and other receivables per such loans to be incurred by the Bank, totaling RSD 963,147 thousand partly within the previously made provisions in this respect – in the amount of RSD 319,603 thousand (Note 38.2) and partly within the previously made impairment allowance by closing deferral accounts – in the amount of RSD 127,346 thousand so that the net effect on the income statement amounted to RSD 516,198 thousand.

15. OTHER OPERATING INCOME

Other operating income includes:

	2019	2018
Other operating income	53,018	46,642
Total other operating income	**53,018**	**46,642**

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Salaries, salary compensations and other personal expenses include:

	2019	2018
Employee salaries, net	1,919,432	1,806,566
Payroll taxes and contributions	731,196	685,744
Net expenses per provisions for employee retirement benefits and unused annual leaves	16,506	15,889
Other personnel expenses	411,233	513,255
Total personnel expenses	**3,078,367**	**3,021,454**

17. DEPRECIATION/AMORTIZATION CHARGE

Depreciation/amortization charge includes:

	2019	2018
Amortization charge for intangible assets (Notes 29.2; 29.3)	394,395	314,064
Depreciation charge for investment property (Note 31)	33	33
Depreciation charge for property, plant and equipment (Notes 30.2; 30.3)	279,621	265,782
Depreciation charge for right-of-use assets (Note 30.2)	420,395	-
Total depreciation/amortization charge	**1,094,444**	**579,879**

All amounts expressed in thousands of RSD, unless otherwise stated.

18. OTHER INCOME

Other income includes:

	2019	2018
Reversal of provisions for litigations (Note 38)	69,813	35,750
Reversal of provisions for other liabilities (Note 38)	24,387	-
Gains on the valuation of investment property (Notes 31; 2.d)	2,230	-
Other income	96,969	52,980
Total other income	**193,399**	**88,730**

19. OTHER EXPENSES

19.1. Other expenses include:

	2019	2018
Business premises costs	116,034	115,444
Office and other supplies	64,113	54,153
Rental costs (Note 19.2)	360,233	723,624
Information system maintenance	762,947	753,842
Property and equipment maintenance	71,061	67,157
Marketing, advertising, entertainment, culture and donations	206,088	248,837
Lawyer fees, other consultant and research services and auditing fees	355,129	202,908
Telecommunications and postage services	139,762	134,775
Insurance premiums	1,167,577	843,152
Security services – for property and money transport and handling	170,598	125,860
Professional training costs	26,887	23,205
Servicing costs	88,435	115,355
Transportation services	13,859	16,135
Employee commuting allowances	40,462	39,803
Accommodation and meal allowances – business travel costs	28,908	32,770
Other taxes and contributions	485,470	482,999
Provisions for litigations and other provisions (Note 38)	600,766	194,204
Losses on the valuation of property and investment property (Note 2.d)	53,287	-
Losses on disposal and retirement of property, equipment and intangible assets	43,717	40,447
Other costs	377,138	368,059
Total other expenses	**5,172,471**	**4,582,729**

19.2. Rental costs of RSD 360,233 thousand incurred in 2019 relate to the costs which, in line with IFRS 16 and the Bank's accounting policy (Note 3.t) are not included in the measurement of the lease liability. The breakdown of the said rental costs is provided in the table below:

	2019
Rental cost per leases with low-value underlying assets	150,218
Rental costs per short-term leases	20,301
VAT payable per leases recognized in accordance with IFRS 16	69,965
Assets not identifiable in accordance with IFRS 16	119,255
Variable lease payments	494
Total	**360,233**

All amounts expressed in thousands of RSD, unless otherwise stated.

20. INCOME TAXES

20.1. Basic components of income taxes as at December 31 were as follows:

	2019	2018
Current income tax expense	(756,285)	(889,257)
Increase in deferred tax assets and decrease in deferred tax liabilities	73,006	76,575
Decrease in deferred tax assets and increase in deferred tax liabilities	-	(7,247)
Total	**(683,279)**	**(819,929)**

20.2. Numerical reconciliation of the effective tax rate is provided below:

	2019	2018
Profit before taxes	8,956,710	10,041,576
Income tax at the legally prescribed tax rate of 15%	1,343,507	1,506,236
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	10,106	10,982
Tax effects of income adjustment	(635,790)	(618,384)
Tax effects of temporary differences:		
Tax effects of taxable temporary differences	89,863	(24,256)
Effects of tax reductions:		
Tax effects of the first-time adoption of IFRS 9	(40,987)	(54,649)
Tax effects of conversion of CHF-indexed housing loans	(83,420)	-
Tax effects presented in the income statement	**683,279**	**819,929**
Effective tax rate	***7.63%***	***8.17%***

20.3 Income taxes recognized within other comprehensive income are provided below:

	2019			2018		
	Before taxes	Tax expense	After taxes	Before taxes	Tax expense	After taxes
Gains on the change in the fair value of debt instruments at FVtOCI	4,793,874	(719,081)	4,074,793	-	-	-
Increase in revaluation reserves based on intangible assets and fixed assets (Notes 2.d; 41.3)	58,909	(8,836)	50,073	-	-	-
Actuarial(losses)/gains	(23,395)	3,509	(19,886)	6,593	(989)	5,604
Balance at December 31	**4,829,388**	**(724,408)**	**4,104,980**	**6,593**	**(989)**	**5,604**

20.4 The calculated current income tax payable for the year 2019 amounted to RSD 756,285 thousand. Given that the calculated amount of the tax payable was below the sum of the monthly income tax advance payments the Bank paid during the year, as of December 31, 2019, the Bank reported current tax assets in the amount of RSD 58,867 thousand. The calculated current income tax payable for the year 2018 amounted to RSD 889,257 thousand, of which RSD 427,299 thousand was settled through several tax advance payments. The outstanding current tax liabilities as of December 31, 2018 hence amounted to RSD 461,958 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

21. CASH AND BALANCES HELD WITH THE CENTRAL BANK

21.1 Cash and balances held with the central bank include:

	2019	2018
RSD cash on hand	4,242,996	3,163,419
Gyro account balance	24,180,540	24,920,533
Foreign currency cash on hand	1,411,454	1,523,538
Other foreign currency cash funds	45,793	35,899
Liquid surplus funds deposited with NBS	5,000,138	10,000,000
Obligatory foreign currency reserve held with NBS	24,829,410	13,762,131
	59,710,331	53,405,520
Impairment allowance	(153)	(211)
Balance at December 31	**59,710,178**	**53,405,309**

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans, securities and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. The reserve is thereafter held on the Bank's gyro account. In 2019 NBS paid interest on the balance of the Bank's obligatory RSD reserve at the annual interest rate of 1.25% until July 2019, at the rate of 1.0% p.a. until October 2019 and at the rate of 0.75% p.a. from November up to the year-end.

The obligatory foreign currency reserve with the National Bank of Serbia represent the minimum foreign currency reserve amount allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month. The obligatory foreign currency reserve rates remained unaltered during 2019 and equaled 20% for foreign currency deposits with maturities of up to 2 years and 13% for foreign currency deposits with maturities of over 2 years. The rate applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index was100%.

The Bank is under obligation to maintain the average daily balance of the allocated foreign currency reserve in the amount of the calculated foreign currency obligatory reserve on the foreign currency accounts held with NBS. Foreign currency obligatory reserve does not accrue interest.

As of December 31, 2019, the Bank deposited surplus liquid funds in the amount of RSD 5,000,000 thousand on the account held with NBS, while RSD 138 thousand refers to accrued interest on the said deposited funds, which will mature in the following accounting period.

21.2 Movements on the account of impairment allowance of cash and balances held with the central bank during the year are provided in the table below:

	Individual		Collective	
	2019	2018	2019	2018
Balance at January 1	-	-	(211)	(196)
Effects of the first-time adoption of IFRS 9	-	-	-	43
Opening balance after IFRS 9 FTA	-	-	(211)	(153)
Impairment losses:				
Reversal/(charge for the year)	-	-	54	(59)
Foreign exchange effects	-	-	4	1
Total for the year	-	-	58	(58)
Balance at December 31	**-**	**-**	**(153)**	**(211)**

All amounts expressed in thousands of RSD, unless otherwise stated.

22. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Receivables under derivative financial instruments include:

	2019	2018
Receivables per spot and forward revaluation and currency swaps	48,520	58,163
Receivables per interest rate swaps	1,067,728	599,401
Receivables per interest rate options	44,231	25,259
Receivables per commodity swaps	6,837	-
Balance at December 31	**1,167,316**	**682,823**

23. SECURITIES

23.1. Securities include:

	2019	2018
Securities measured at amortized cost	48,292	36,928
Securities measured at fair value through OCI	105,030,563	100,974,120
Securities measured at fair value through profit or loss	1,542,911	1,493,552
Total	106,621,766	102,504,600
Impairment allowance	(344,977)	(577,307)
Balance at December 31	**106,276,789**	**101,927,293**

In accordance with the Law on Conversion of Housing Loans Indexed in Swiss Francs (Official Gazette of RS no. 31/2019), on October 1, 2019, the Bank became owner of RS bonds totaling RSD 627,397 thousand, with a 5-year maturity and an annual coupon interest payment in the amount of 4% (Note 25.1). the Bank classified these securities as securities measured at FVtOCI.

23.2. Movements on the account of impairment allowance of securities at AC and at FVtOCI during the year are provided in the table below:

	Individual		Collective	
	2019	2018	2019	2018
Balance at January 1	-	-	(577,307)	(1,648)
Effects of the first-time adoption of IFRS 9	-	-		(317,660)
Opening balance after IFRS 9 FTA	-	-	(577,307)	(319,308)
Impairment losses:				
Reversal/(charge for the year)	-	-	127,588	(257,231)
Foreign exchange effects	-	-	304	(768)
Effects of the sales of securities	-	-	104,438	-
Total for the year	-	-	232,330	(257,999)
Balance at December 31	**-**	**-**	**(344,977)**	**(577,307)**

23.3. Breakdown of securities per measurement and issuer is presented in the table below:

	Measurement	2019	2018
Receivables discounted bills of exchange	AC	48,284	36,923
Treasury bulls issued by the Republic of Serbia	FVtOCI	98,232,719	93,445,489
	FVtPL	1,542,911	1,493,552
Municipal bonds	FVtOCI	29,207	44,035
Treasury bills of the Republic of Serbia and municipal bonds – hedged items	FVtOCI	6,423,668	6,907,294
Balance at December 31		**106,276,789**	**101,927,293**

All amounts expressed in thousands of RSD, unless otherwise stated.

23. SECURITIES (Continued)

As of December 31, 2019, the Bank's receivables per discounted bills of exchange of RSD 48,284 thousand represent investments with maturities of up to a year and at a discount rate equal to 1-month or 6-month BELIBOR plus 2% to 2.5% per annum.

As of December 31, 2019, the Bank's securities measured at fair value through profit or loss of RSD 1,542,911 thousand pertain to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2028.

As of December 31, 2019, the Bank's securities measured at fair value through other comprehensive income totaling RSD 6,423,668 thousand refer to the investments in the local governance (municipal) bonds and Treasury bills issued by the Republic of Serbia as hedged items, with maturities up to 2023, while the amount of RSD 29,207 thousand refers to the municipal bonds maturing up to 2021, and RSD 98,232,719 thousand represents investments in the Treasury bills issued by the Republic of Serbia maturing up to 2028.

For protection of the municipal bonds and Treasury bills of the Republic of Serbia against the interest rate risk, the Bank implemented fair value micro hedging, i.e., it designated as hedged items its investments in the municipal bonds and Treasury bills of the Republic of Serbia with the total nominal value of EUR 51.6 million whereas interest rate swops with the total nominal value of EUR 51.6 million were designated as hedging instruments. As of December 31, 2019, the Bank performed a hedge effectiveness test, which demonstrated that the hedge was highly effective.

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

24.1. Loans and receivables due from banks and other financial institutions include:

	2019	2018
Foreign currency accounts held with:		
- other banks within UniCredit Group	1,299,175	562,392
- other foreign banks	364,342	419,488
Total foreign currency accounts	1,663,517	981,880
Overnight deposits:		
- in foreign currencies	-	14,183,352
Total overnight deposits	-	14,183,352
Guarantee foreign currency deposit placed for purchase and sale of securities	4,704	4,728
Short-term foreign currency deposits	367,896	-
Foreign currency earmarked deposits	12,183	12,006
Short-term loans:		
- in RSD	590,263	591,697
Total short-term loans	590,263	591,697
Long-term loans:		
- in RSD	271,556	214,644
Total long-term loans	271,556	214,644
Investments in RSD repo transactions with NBS	-	5,002,000
Other foreign currency receivables	-	1,991
Total	2,910,119	20,992,298
Impairment allowance	(1,714)	(17,362)
Balance at December 31	**2,908,405**	**20,974,936**

All amounts expressed in thousands of RSD, unless otherwise stated.

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

24.2. Movements on the account of impairment allowance of loans and receivables due from banks during the year are provided in the table below:

	Individual		Collective	
	2019	2018	2019	2018
Balance at January 1	-	-	(17,362)	(8,517)
Effects of the first-time adoption of IFRS 9	-	-	-	(2,126)
Opening balance after IFRS 9 FTA	-	-	(17,362)	(10,643)
Impairment losses:				
Reversal/(charge for the year)	-	-	14,619	(6,802)
Foreign exchange effects	-	-	(44)	69
Write-off with debt acquittal	-	-	1,073	-
Write-off without debt acquittal	-	-	-	14
Total for the year	-	-	15,648	(6,719)
Balance at December 31	**-**	**-**	**(1,714)**	**(17,362)**

24.3. The Bank's balances/foreign currency accounts held with banks members of UniCredit Group are listed below:

	2019	2018
UniCredit Bank Austria AG, Vienna	1,060,118	418,828
UniCredit Bank AG, Munich	36,498	27,526
UniCredit Bank Hungary Z.r.t., Hungary	9,118	13,640
UniCredit Bank Czech Republic and Slovakia A.S.	1,091	181
UniCredit S.P.A. Milan	178,663	89,003
Zagrebačka banka d.d.	2,409	4,361
UniCredit Bank BIH	5,907	2,221
UniCredit Bulbank, Sofia	24	128
UniCredit Bank ZAO Moscow	5,347	6,504
Balance at December 31	**1,299,175**	**562,392**

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

25.1 Loans and receivables due from customers include:

	2019	2018
Short-term loans:		
- in RSD	31,239,867	26,682,876
- in foreign currencies	564,577	338,104
Total short-term loans	31,804,444	27,020,980
Long-term loans:		
- in RSD	226,702,059	212,576,946
- in foreign currencies	12,546,929	20,083,265
Total long-term loans	239,248,988	232,660,211
Receivables in respect of acceptances, sureties and payments made per guarantees:		
- in RSD	19,349	9,612
- in foreign currencies	27,758	5,457
Total	47,107	15,069
RSD factoring receivables	935,477	890,364
Other RSD loans and receivables	195,550	1,973,176
Total	272,231,566	262,559,800
Impairment allowance	(7,730,133)	(6,916,980)
Balance at December 31	**264,501,433**	**255,642,820**

All amounts expressed in thousands of RSD, unless otherwise stated.

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Loans with a currency clause index (EUR, CHF, USD) are presented within RSD loans in the table on the previous page.

In 2019, the Law on Conversion of Housing Loans Indexed in Swiss Francs (Official Gazette of RS no. 31/2019) became effective. The said Law governs the rights and obligations of banks and individuals with whom the banks executed housing loan agreements for loans with CHF index in process of CHF-indexed debt conversion into EUR-indexed debt. Pursuant to the Law, the debt amount subject to conversion comprises the amount of the principal outstanding at the conversion date, plus the amount of uncollected regular interest matured at the conversion date. The aforesaid conversion covered 1,356 CHF-indexed housing loan facilities for which the total debt amounted to RSD 4,171,008 thousand, as calculated using the exchange rate effective at the conversion date.

The Bank reduced the aforesaid debt by 38%, of which reduction 23% should be incurred by the Bank (Note 14), while the remaining 15% of the debt reduction was to be compensated by the Republic of Serbia, in line with the special agreement executed by the Bank and RS Ministry of Finance. In order to compensate the conversion expenses to banks, the Republic of Serbia Government enacted the Decision on the Issue of Long-Term Securities (Official Gazette of RS no. 68/2019). On October 1, 2019, the Bank became owner of RS bonds totaling RSD 627,397 thousand, with a 5-year maturity and an annual coupon interest payment in the amount of 4% (Note 23.1). in accordance with the Law, the Bank is entitled to a tax credit in the amount of 2% of the remaining debt and it therefore recognized deferred tax assets in this respect in the amount of RSD 83,420 thousand.

25.2. Movements on the account of impairment allowance of loans and receivables due from customers during the year are provided in the table below:

	Individual		Collective	
	2019	2018	2019	2018
Balance at January 1	(3,883,544)	(7,480,787)	(3,033,436)	(1,892,923)
Effects of the first-time adoption of IFRS 9	-	-	-	(135,875)
Opening balance after IFRS 9 FTA	(3,883,544)	(7,480,787)	(3,033,436)	(2,028,798)
Impairment losses:				
Reversal/(charge for the year)	(432,708)	(2,103,457)	(1,547,619)	(1,005,064)
Foreign exchange effects	16,032	24,256	2,731	426
Unwinding (time value)	13,367	3,352	-	-
Effects of the portfolio sales	81,331	5,123,296	-	-
Write-off with debt acquittal	-	36	122,019	-
Write-off without debt acquittal	348,239	549,760	583,455	-
Total for the year	26,261	3,597,243	(839,414)	(1,004,638)
Balance at December 31	**(3,857,283)**	**(3,883,544)**	**(3,872,850)**	**(3,033,436)**

*Write-off without debt acquittal, i.e., accounting write-off, is a write-off of receivables made in accordance with the Decision on the Accounting Write-Off of Bank Balance Sheet Assets of the National Bank of Serbia (Official Gazette of RS no. 77/2017), effective as from September 30, 2017. in line with the said Decision, the Bank writes off balance sheet assets with highly unlikely recoverability, i.e., makes a full accounting write-off of impaired receivables. Within the meaning of the aforesaid Decision, the accounting write-off entails transfer of the written-off receivables from the Bank's balance sheet assets to its off-balance sheet items.

All amounts expressed in thousands of RSD, unless otherwise stated.

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

25.3. Breakdown of loans and receivables due from customers is provided below:

	2019			2018		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	2,831,524	(13,110)	2,818,414	5,361,551	(7,240)	5,354,311
Corporate customers	173,673,433	(4,775,970)	168,897,463	164,768,207	(4,684,550)	160,083,657
Retail customers	95,726,609	(2,941,053)	92,785,556	92,430,042	(2,225,190)	90,204,852
Balance at December 31	**272,231,566**	**(7,730,133)**	**264,501,433**	**262,559,800**	**(6,916,980)**	**255,642,820**

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

25.4. Corporate loans were mostly approved for maintaining current liquidity (current account overdrafts), financing working capital, imports and investments. They were used for funding business activities in trade and services, manufacturing industry, construction industry, agriculture and food industry and other purposes. Short-term loans were approved for periods ranging from 30 days to a year. Interest rates on short-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 2.38%, on the average, while RSD short-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 0.77% on the average.

Long-term loans were approved for periods up to 10 years. Interest rate applied to long-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 3.17% annually on the average, while RSD long-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 0.99% annually on the average, in line with the other costs and the Bank's interest rate policy.

In its product mix, the Bank has housing loans at fixed, variable and combined interest rates. Retail housing loans were approved for periods of 5 to 30 years, at the nominal interest rates ranging from 6-month EURIBOR plus 2.6% to 3.8% annually for loans at variable rates, while the fixed interest rates ranged from 2.09% to 3.99% per annum.

In May 2019, the Bank initiated a campaign in which clients had the opportunity to apply for cash loans with a repayment period of up to 95 months, both with variable and fixed interest rates, thus responding to customer needs when it comes to interest rate variability for this type of loans. Interest rates on cash loans at variable interest rates ranged from 3-month BELIBOR increased by 3.56% to 9.0% annually while those applied to cash loans at fixed interest rates were in the range between 5.74% and 13.5% annually.

In 2019, interest rates applied to investment foreign currency funding of small entities and entrepreneurs equaled 6/12-month EURIBOR plus 3% to 5.75% per annum, or, in instances of fixed-interest rate loans, from 3.99% to 4.79%. interest rates applied to RSD investments loans were in the range between 1-month or 3-month BELIBOR increased by 1.8% to 3.9% annually.

Interest rates applicable to loans for financing of the working capital were set in the range from 6-month/12-month EURIBOR plus 1.9% to 7.3% p.a. and, in instances of fixed-interest-rate loans, from 3% to 7.5%. Annual interest rates on RSD working capital loans equaled 1-mont/2-month BELIBOR plus 1.5% to 8% or ranged from 4.25% to 10.6% if fixed.

As a hedge against interest rate risk, the Bank implemented micro fair value hedging, i.e., it designated as a hedged item a customer loan with the carrying value of EUR 691,496.12 as of December 31, 2019, while an interest swap of the same nominal value was designated as a hedging instrument.

In 2019, the Bank terminated macro fair value hedging, where it had designated as the hedged items CHF-indexed and EUR-indexed loan portfolios with fixed interest rates, while interest rate swops were designated as hedging instruments. Since in 2019 the Bank carried out conversion of CHF-indexed housing loans that were designated as hedged items, the hedge was no longer effective. Hence the conditions were met for termination of that hedging relationship and the Bank performed all the necessary activities for hedge termination and recognized the one-off effects thereof within expenses in its income statement (Note 11). As for the EUR-indexed loans, which were also designated as hedged items, the Bank's management assessed that economically justified reasons for this hedge no longer existed and decided to terminate it.

All amounts expressed in thousands of RSD, unless otherwise stated.

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

25.5. The concentration of total loans and receivables due from customers per industry was as follows

	2019	2018
Corporate customers		
- Energy	4,717,738	4,315,114
- Agriculture	6,341,824	5,883,494
- Construction industry	27,538,341	13,724,439
- Mining and industry	43,804,100	53,026,400
- Trade	37,862,098	41,393,072
- Services	26,276,071	20,972,285
- Transportation and logistics	17,651,514	16,515,129
- Other	9,481,747	8,938,274
	173,673,433	164,768,207
Public sector	2,831,524	5,361,551
Retail customers		
- Private individuals	90,983,719	87,831,210
- Entrepreneurs	4,742,890	4,598,832
	95,726,609	92,430,042
Total	**272,231,566**	**262,559,800**
Impairment allowance	(7,730,133)	(6,916,980)
Balance at December 31	**264,501,433**	**255,642,820**

The Bank' management defines the levels of credit risk it assumes by setting credit risk exposure limits for a single borrower or a group of borrowers as well as per geographic area and industry segments. This risk is monitored on an ongoing basis and is subject to an annual or more frequent review. Exposure to credit risk is managed by the regular solvency analysis, i.e., analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations, and by changing the limits set for a single borrower, as appropriate. Exposure to credit risk is also partially managed by obtaining collaterals.

26. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS

Changes in the fair value of hedged items include:

	2019	2018
Changes in the fair value of hedged items	-	222,773
Balance at December 31	**-**	**222,773**

In 2018, changes in the fair value (fair value adjustment) of hedged items pertained to the macro fair value hedging the Bank implemented to protect CHF-indexed and EUR-indexed loans at fixed interest rates. In 2019, the Bank terminated the previously established macro hedging of the fair value (Note 25.4).

27. RECEIVABLES UNDER DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Receivables under derivatives designated as risk hedging instruments comprise:

	2019	2018
Changes in the value of derivatives designated as risk hedging instruments:		
- macro hedging	-	2
Balance at December 31	**-**	**2**

All amounts expressed in thousands of RSD, unless otherwise stated.

27. RECEIVABLES UNDER DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS (Continued)

In 2018, changes in the fair value (fair value adjustment) of derivatives designated as hedging instruments pertained to the macro fair value hedging the Bank implemented to protect as a hedged item a portfolio EUR-indexed loans at fixed interest rates. In 2019, the Bank terminated the previously established macro hedging of the fair value (Note 25.4).

28. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries represent equity investments in the following entities, where the Bank holds 100% equity interests:

	2019	2018
UniCredit Leasing Srbija d.o.o.	-	-
UniCredit Partner d.o.o.	112,644	112,644
	112,644	112,644
Impairment allowance	-	-
Balance at December 31	**112,644**	**112,644**

29. INTANGIBLE ASSETS

29.1 Intangible assets, net:

	2019	2018
Intangible assets	1,361,799	1,229,188
Investments in progress	539,584	388,667
Balance at December 31	**1,901,383**	**1,617,855**

29.2 Movements on the account of intangible assets in 2019 are presented in the table below:

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2019	3,856,854	388,667	4,245,521
Additions	583,053	159,790	742,843
Impairment losses	(54,603)	(8,873)	(63,476)
Other	(26,294)	-	(26,294)
Balance at December 31, 2019	4,359,010	539,584	4,898,594
Accumulated amortization and impairment losses			
Balance at January 1, 2019	2,627,666	-	2,627,666
Amortization charge for the year	394,395	-	394,395
Impairment losses	(21,865)	-	(21,865)
Other	(2,985)	-	(2,985)
Balance at December 31, 2019	2,997,211	-	2,997,211
Net book value at December 31, 2019	**1,361,799**	**539,584**	**1,901,383**
Net book value at January 1, 2019	**1,229,188**	**388,667**	**1,617,855**

All amounts expressed in thousands of RSD, unless otherwise stated.

29. INTANGIBLE ASSETS (Continued)

29.3 Movements on the account of intangible assets in 2018 are presented in the table below:

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2018	3,324,128	161,141	3,485,269
Additions	558,046	240,980	799,026
Disposal and retirement	(25,320)	(13,454)	(38,774)
Balance at December 31, 2018	3,856,854	388,667	4,245,521
Accumulated amortization and impairment losses			
Balance at January 1, 2018	2,322,811	-	2,322,811
Amortization charge for the year	314,064	-	314,064
Disposal and retirement	(9,209)	-	(9,209)
Balance at December 31, 2018	2,627,666	-	2,627,666
Net book value at December 31, 2018	**1,229,188**	**388,667**	**1,617,855**
Net book value at January 1, 2018	**1,001,317**	**161,141**	**1,162,458**

30. PROPERTY, PLANT AND EQUIPMENT

30.1 Property, plant and equipment comprise:

	2019	2018
Buildings	543,044	551,776
Equipment and other assets	689,984	739,870
Leasehold improvements	191,456	175,376
Investments in progress	143,719	122,651
Right-of-use assets (Note 2.b)	2,320,283	-
Balance at December 31	**3,888,486**	**1,589,673**

All amounts expressed in thousands of RSD, unless otherwise stated.

30. PROPERTY, PLANT AND EQUIPMENT (Continued)

30.2 Movements on the account of property and equipment in 2019 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Right-of-use assets	Total
Cost						
Balance at January 1, 2019	671,034	1,783,651	489,320	122,651	-	3,066,656
Effects of the first-time adoption of IFRS 16 (Note 2.b)	-	-	-	-	2,608,392	2,608,392
Opening balance after the first time adoption of IFRS 16	671,034	1,783,651	489,320	122,651	2,608,392	5,675,048
Additions	-	-	-	258,343	162,649	420,992
Transfer from investments in progress	906	176,648	59,581	(237,135)	-	-
Disposal and retirement	(906)	(40,493)	(9,805)	(140)	-	(51,344)
Effect of the change in the accounting policy (Note 2.d)	14,654	-	-	-	-	14,654
Other	-	(13,508)	-	-	-	(13,508)
Modifications	-	-	-	-	(35,480)	(35,480)
Balance at December 31, 2019	685,688	1,906,298	539,096	143,719	2,735,561	6,010,362
Accumulated depreciation and impairment losses						
Balance at January 1, 2017	119,258	1,043,781	313,944	-	-	1,476,983
Depreciation charge for the year	14,513	225,378	39,730	-	420,395	700,016
Disposal and retirement	(159)	(39,440)	(6,034)	-	-	(45,633)
Effect of the change in the accounting policy (Note 2.d)	9,032	-	-	-	-	9,032
Other	-	(13,405)	-	-	-	(13,405)
Modifications	-	-	-	-	(5,117)	(5,117)
Balance at December 31, 2019	142,644	1,216,314	347,640	-	415,278	2,121,876
Net book value at December 31, 2019	**543,044**	**689,984**	**191,456**	**143,719**	**2,320,283**	**3,888,486**
Net book value at January 1, 2019	**551,776**	**739,870**	**175,376**	**122,651**	**2,608,392**	**4,198,065**

All amounts expressed in thousands of RSD, unless otherwise stated.

30. PROPERTY, PLANT AND EQUIPMENT (Continued)

30.3 Movements on the account of property and equipment in 2018 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance at January 1, 2018	671,034	1,649,707	481,944	55,768	2,858,453
Additions	-	-	-	319,101	319,101
Transfer from investments in progress	-	237,731	14,487	(252,218)	-
Disposal and retirement	-	(103,704)	(7,111)	-	(110,815)
Other	-	(83)	-	-	(83)
Balance at December 31, 2018	671,034	1,783,651	489,320	122,651	3,066,656
Accumulated depreciation and impairment losses					
Balance at January 1, 2018	104,746	920,949	281,369	-	1,307,064
Depreciation charge for the year	14,512	211,585	39,685	-	265,782
Impairment losses	-	-	-	-	-
Disposal and retirement	-	(88,715)	(7,110)	-	(95,825)
Other	-	(38)	-	-	(38)
Balance at December 31, 2018	119,258	1,043,781	313,944	-	1,476,983
Net book value at December 31, 2018	**551,776**	**739,870**	**175,376**	**122,651**	**1,589,673**
Net book value at January 1, 2018	**566,288**	**728,758**	**200,575**	**55,768**	**1,551,389**

All amounts expressed in thousands of RSD, unless otherwise stated.

30. PROPERTY, PLANT AND EQUIPMENT (Continued)

30.4 As of December 31, 2019, the right-of-use assets include:

	2019
Business premises	2,218,058
Storage and warehouse area	4,242
Parking spots	90,951
Automobiles	6,393
Other equipment	639
Balance at December 31	**2,320,283**

30.5 Movements on the right-of-use assets during the year were as follows:

	Business premises	Storage and warehouse	Parking spots	Automobiles	Other equipment	Total
Gross carrying value						
Balance at January 1, 2019	2,485,454	9,127	104,191	9,620	-	2,608,392
Additions	157,987	3,064	-	-	1,598	162,649
Modifications						
- positive effects	25,606	21	1,217	-	-	26,844
- negative effects	(54,915)	(7,409)	-	-	-	(62,324)
	(29,309)	(7,388)	1,217	-	-	(35,480)
Balance at December 31, 2019	2,614,132	4,803	105,408	9,620	1,598	2,735,561
Accumulated depreciation						
Depreciation charge	398,721	3,031	14,457	3,227	959	420,395
Modifications	(2,647)	(2,470)	-	-	-	(5,117)
Balance at December 31, 2019	396,074	561	14,457	3,227	959	415,278
Net book value at December 31, 2019	**2,218,058**	**4,242**	**90,951**	**6,393**	**639**	**2,320,283**

All amounts expressed in thousands of RSD, unless otherwise stated.

31. INVESTMENT PROPERTY

Movements on the account of investment property in 2019 are presented below:

	Investment property	Investments in progress	Total
Cost			
Balance at January 1, 2019	1,642	-	1,642
Effect of the change in the accounting policy (Note 2.d)	2.230		2,230
Reclassifications (Note 2.d)	(344)		(344)
Balance at December 31, 2019	3,528	-	3,528
Accumulated depreciation and impairment losses			
Balance at January 1, 2019	311	-	311
Depreciation charge for the year	33	-	33
Reclassifications (Note 2.d)	(344)		(344)
Balance at December 31, 2019	-	-	-
Net book value at December 31, 2019	**3,528**	**-**	**3,528**
Net book value at January 1, 2019	**1,331**	**-**	**1,331**

32. DEFERRED TAX ASSETS AND LIABILITIES

32.1 Deferred tax assets and liabilities relate to:

	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	66,248	-	66,248	20,160	-	20,160
Deferred tax assets in respect of unrecognized current year expenses	122,251	-	122,251	165,090	-	165,090
Deferred tax assets in respect of the first-time adoption of IFRS	40,986	-	40,986	54,649	-	54,649
Deferred tax assets in line with the Law on Conversion of Housing Loans Indexed to CHF	83,420	-	83,420	-	-	-
Deferred tax liabilities as per change in the value of fixed assets	-	(8,836)	(8,836)	-	-	-
Deferred tax liabilities arising from revaluation of securities	-	(719,081)	(719,081)	-	-	-
Deferred tax assets/(liabilities) in respect of actuarial gains on defined benefit plans	3,128	-	3,128	-	(381)	(381)
Total	**316,033**	**(727,917)**	**(411,884)**	**239,899**	**(381)**	**239,518**

All amounts expressed in thousands of RSD, unless otherwise stated.

32. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

32.2 Movements on temporary differences during 2019 are presented as follows:

	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	20,160	46,088		66,248
Deferred tax assets in respect of unrecognized current year expenses	165,090	(42,839)		122,251
Deferred tax assets in respect of the first-time adoption of IFRS	54,649	(13,663)	-	40,986
Deferred tax assets in line with the Law on Conversion of Housing Loans Indexed to CHF	-	83,420	-	83,420
Deferred tax liabilities as per change in the value of fixed assets	-		(8,836)	(8,836)
Deferred tax liabilities arising from revaluation of securities	-		(719,081)	(719,081)
Deferred tax (liabilities)/assets in respect of actuarial gains on defined benefit plans	(381)	-	3,509	3,128
Total	**239,518**	**73,006**	**(724,408)**	**(411,884)**

33. OTHER ASSETS

33.1. Other assets relate to:

	2019	2018
Other assets in RSD:		
Fee and commission receivables calculated per other assets	69,659	58,376
Advances paid, deposits and retainers	11,295	14,085
Receivables per actual costs incurred	317,211	428,324
Receivables from the RS Health Insurance Fund	30,341	51,528
Other receivables from operations	480,718	342,590
Assets acquired in lieu of debt collection	4,927	4,927
Accrued other income receivables	19,030	16,430
Deferred other expenses	106,590	76,209
	1,039,771	992,469
Other assets in foreign currencies:		
Fee and commission receivables calculated per other assets	670	685
Advances paid, deposits and retainers	87	-
Other receivables from operations	27,260	4,201
Accrued other income receivables	206	322
	28,223	5,208
Total	1,067,994	997,677
Impairment allowance	(19,770)	(14,746)
Balance at December 31	**1,048,224**	**982,931**

All amounts expressed in thousands of RSD, unless otherwise stated.

33. OTHER ASSETS (Continued)

33.2. Movements on the impairment allowance accounts of other assets during the year are provided in the table below:

	Individual		Collective	
	2019	2018	2019	2018
Balance at January 1	(784)	(252)	(13,962)	(32,160)
Effects of the first-time adoption of IFRS 9	-	-	-	(1,223)
Opening balance after IFRS 9 FTA	(784)	(252)	(13,962)	(33,383)
Impairment losses:				
Reversal/(charge for the year)	(11,868)	(2,023)	(55,253)	(58,089)
Foreign exchange effects	3	9	-	3
Write-off with debt acquittal	-	64	76	-
Write-off without debt acquittal	10,151	1,418	51,867	77,507
Total for the year	(1,714)	(532)	(3,310)	19,421
Balance at December 31	**(2,498)**	**(784)**	**(17,272)**	**(13,962)**

34. LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Liabilities under derivative financial instruments include:

	2019	2018
Types of instruments:		
- currency swaps and forwards	56,072	72,338
- interest rate swaps	1,099,656	626,035
- interest rate options	44,231	25,259
- commodity swap	6,837	-
Balance at December 31	**1,206,796**	**723,632**

All amounts expressed in thousands of RSD, unless otherwise stated.

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

35.1. Deposits and other liabilities due to banks, other financial institutions and the central bank include:

	2019	2018
Demand deposits:		
- in RSD	4,187,251	4,369,333
- in foreign currencies	1,564,697	420,030
Total demand deposits	5,751,948	4,789,363
Overnight deposits:		
- in RSD	478,598	349,849
- in foreign currencies	12,465,078	28,240,795
Total overnight deposits	12,943,676	28,590,644
Short-term deposits:		
- in RSD	5,423,619	4,894,074
- in foreign currencies	5,095,785	19,135,850
Total short-term deposits	10,519,404	24,029,924
Long-term deposits:		
- in RSD	2,003,915	1,533,901
- in foreign currencies	60,345,958	58,334,268
Total long-term deposits	62,349,873	59,868,169
Long-term borrowings:		
- in RSD	2,683,593	601,027
- in foreign currencies	21,694,421	14,967,422
Total long-term borrowings	24,378,014	15,568,449
Other financial liabilities:		
- in foreign currencies	390,861	231,586
Total other financial liabilities	390,861	231,586
Balance at December 31	**116,333,776**	**133,078,135**

Short-term RSD deposits were placed by other banks for periods of up to a year at annual interest rates from 1.94% to 2.27%, while short-term foreign currency deposits of other banks maturing within a year accrued interest at the rates ranging from -1.08% to 2.33% annually, depending on the currency. The Bank received long-term foreign currency deposits placed by banks for periods from 1.5 to 15 years at interest rates ranging from 0.06% to 1.61% per annum.

35.2. Breakdown of foreign currency long-term borrowings from banks is provided below:

	2019	2018
European Bank for Reconstruction and Development (EBRD)	7,708,956	1,424,820
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	2,364,232	444,023
International Finance Corporation, Washington	687,739	1,036,687
European Fund for Southeast Europe SA, Luxembourg	9,863,880	9,536,299
Green for Growth Fund, Southeast Europe, Luxembourg	3,487,936	2,344,706
UniCredit Bank Austria AG	265,271	781,914
Balance at December 31	**24,378,014**	**15,568,449**

The above listed long-term borrowings were approved to the Bank for periods from 3 to 15 years at nominal interest rates ranging from 0% to 3.23% per annum.

All amounts expressed in thousands of RSD, unless otherwise stated.

36. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

36.1. Deposits and other liabilities due to customers comprise:

	2019	2018
Demand deposits:		
- in RSD	77,757,053	71,553,086
- in foreign currencies	100,048,311	83,310,209
Total demand deposits	177,805,364	154,863,295
Overnight deposits:		
- in RSD	2,260,866	1,704,277
- in foreign currencies	428,352	2,700,968
Total overnight deposits	2,689,218	4,405,245
Short-term deposits:		
- in RSD	15,316,815	24,900,813
- in foreign currencies	15,046,814	20,641,348
Total short-term deposits	30,363,629	45,542,161
Long-term deposits:		
- in RSD	2,100,652	2,337,927
- in foreign currencies	15,149,604	10,701,763
Total long-term deposits	17,250,256	13,039,690
Long-term borrowings:		
- in RSD	-	-
- in foreign currencies	1,908,494	2,559,134
Total long-term borrowings	1,908,494	2,559,134
Other financial liabilities:		
- in RSD	133,229	243,998
- in foreign currencies	528,907	277,513
Total other financial liabilities	662,136	521,511
Balance at December 31	**230,679,097**	**220,931,036**

36.2. Breakdown of deposits and other liabilities due to customers:

	2019	2018
Public sector	2,075,709	761,318
Corporate customers	148,421,801	153,440,908
Retail customers	78,273,093	64,169,676
Long-term borrowings (Note 36.3)	1,908,494	2,559,134
Balance at December 31	**230,679,097**	**220,931,036**

RSD demand deposits of corporate customers accrued interest at the annual rate of 0.12%, on the average, while EUR-denominated demand deposits accrued interest at the annual rate of 0,07%. Corporate RSD term deposits accrued interest at the rates of as much as up to 1.92% annually on the average, while EUR-denominated corporate deposits were placed at an interest rate of 0.32% per annum.

Retail customers‘ RSD demand deposits accrued interest at annual rates of up to 0.15% Foreign currency retail demand deposits accrued interest at the rates ranging up to 0.1% annually, while funds held on current accounts accrued interest at the annual rate of 0.05% annually.

Short-term foreign currency deposits of retail customers were placed at interest rates ranging from 0.05% to 1.8% annually, depending on the period of placement. Short-term RSD deposits of retail customers accrued interest at the rates ranging from 0.8% to 4.0% annually, depending on the period of placement. RSD deposits placed by small entities and entrepreneurs were deposited at annual interest rates between 0.8% and 1.9% while foreign currency deposits of these customers accrued interest at the rates ranging from 0.1% to 0.39% per annum.

All amounts expressed in thousands of RSD, unless otherwise stated.

36. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (Continued)

36.3. Breakdown of long-term foreign currency borrowings from customers is provided below:

	2019	2018
NBS - European Investment Bank, Luxembourg	1,903,707	2,537,601
Government of the Republic of Italy	4,787	21,533
Balance at December 31	**1,908,494**	**2,559,134**

Long-term borrowings obtained from customers were approved to the Bank for periods from 6 to 13 years at nominal interest rates of 0% to 0.35% per annum.

37. LIABILITIES UNDER DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Liabilities under financial derivatives designated as risk hedging instruments include:

	2019	2018
Liabilities under interest rate swaps designated as hedging instruments		
- micro hedging	158,188	170,554
- macro hedging	-	318,026
Balance at December 31	**158,188**	**488,580**

In micro fair value hedging, the Bank uses an interest rate swap to protect itself against exposure to changes in the fair value of local municipality bonds and RS Treasury bills, as well as a loan with a fixed yield rate (Notes 23.3 and 25.4). In the case of macro hedging of fair value, the Bank used an interest rate swap to protect itself against the exposure to changes in the fair value of a CHF-indexed loan portfolio at a fixed interest rate CHF. In 2019 the Bank terminated the previously established macro fair value hedge (Note 25.4).

38. PROVISIONS

38.1 Provisions relate to:

	2019	2018
Individual provisions for off-balance sheet items	58,504	89,729
Collective provisions for off-balance sheet items	136,487	152,438
Provisions for other long-term employee benefits	96,045	64,780
Provisions for potential litigation losses	997,848	480,173
Provisions for other liabilities	-	343,990
Balance at December 31	**1,288,884**	**1,131,110**

All amounts expressed in thousands of RSD, unless otherwise stated.

38. PROVISIONS

38.2 Movements on the accounts of provisions during the year are provided below:

	Individual Provisions for Off - Balance Sheet Items	Collective Provisions for Off - Balance Sheet Items	Provisions for Long-Term Employee Benefits	Provisions for Potential Litigation Losses	Provisions for Other Liabilities	Total
Balance at January 1	89,729	152,438	64,780	480,173	343,990	1,131,110
Charge for the year:						
- in the income statement	52,504	83,695	10,023	600,766	-	746,988
- in the statement of other comprehensive income	-	-	23,395	-	-	23,395
	52,504	83,695	33,418	600,766	-	770,383
Release of provisions (Note 14)	-	-	(2,153)	(13,278)	(319,603)	(335,034)
Reversal of provisions (Note 18)	(83,729)	(99,646)	-	(69,813)	(24,387)	(277,575)
Balance at December 31	**58,504**	**136,487**	**96,045**	**997,848**	**-**	**1,288,884**

All amounts expressed in thousands of RSD, unless otherwise stated.

39. OTHER LIABILITIES

39.1 Other liabilities include:

	2019	2018
Advances received. deposits and retainers:		
- in RSD	30,685	15,422
- in foreign currencies	5,015	4,928
Trade payables:		
- in RSD	324,638	294,069
- in foreign currencies	205,057	194,724
Lease liabilities (Note 39.2):		
- in RSD	550,250	-
- in foreign currencies	1,776,082	-
Other liabilities:		
- in RSD	752,022	522,377
- in foreign currencies	980,882	678,610
Fees and commissions payable per other liabilities:		
- in RSD	11,734	2,303
- in foreign currencies	15,459	13,898
Deferred other income:		
- in RSD	250,376	271,143
- in foreign currencies	68,264	86,117
Accrued other expenses:		
- in RSD	526,350	545,338
- in foreign currencies	73,095	36,677
Liabilities per managed funds	24,489	31,185
Taxes and contributions payable	57,245	60,168
Balance at December 31	**5,651,643**	**2,756,959**

39.2. Breakdown of maturities of the lease liabilities is provided below:

	2019
Maturity	
- within a year	395,174
- within 2 years	380,844
- within 3 years	365,324
- within 4 years	340,644
- within 5 years	322,645
- after 5 years	521,701
Balance at December 31	**2,326,332**

39.3. Breakdown of the total payments, i.e., outflows per lease arrangements in 2019 is provided below:

	2019
Fixed payments	214,164
Variable payments	231,747
Total outflows	**445,911**

Variable payments that ae included in the measurement of the lease liabilities are payments dependent on an index.

Out of the total outflows of RSD 445,911 thousand, RSD 394,367 thousand pertains to the repayment of principal, which is presents within cash flows from financing activities, while RSD 51,544 thousand refers to the payment of interest, which is presented within cash flows from operating activities in the Bank's statement of cash flows.

All amounts expressed in thousands of RSD, unless otherwise stated.

39. OTHER LIABILITIES (Continued)

39.4. Breakdown of income and expenses per lease arrangements in 2019 is provided in the following table:

	2019
Depreciation charge of the right-of-use assets (Note 30.2)	(420,395)
Interest expenses per lease liabilities (Note 7)	(51,544)
Rental costs (Note 19.2)	(360,233)
Sublease income	8,460
Balance at December 31	**823,712**

40. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES WITH CREDITORS AND DEBTORS

In accordance with the Law on Accounting, the Bank reconciled its balances of payables and receivables with its debtors and creditors. The balance reconciliations were made as of September 30, 2019. Out of the total amount of receivables for balance reconciliation, unreconciled balances totaled RSD 38,460 thousand, gross, while non-responded balance confirmation requests amounted to RSD 17,343,406 thousand. Out of the total amount of liabilities for balance reconciliation, unreconciled balances totaled RSD 22,253 thousand, while non-responded balance confirmation requests amounted to RSD 64,147,722 thousand. As for off-balance sheet items, the unreconciled balances amounted to RSD 171,174 thousand and confirmation requests totaling RSD 332,954,452 thousand were not responded to.

41. EQUITY

41.1. Equity is comprised of:

	2019	2018
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	8,273,431	9,221,647
Reserves	53,403,778	44,437,075
Balance at December 31	**85,846,985**	**77,828,498**

As of December 31. 2019, the Bank's share capital totaled RSD 23,607,620 thousand and comprised 2,360,762 common stock (ordinary) shares with the individual par value of RSD 10,000. All shares issued by the Bank are ordinary shares.

Ordinary shareholders are entitled to dividend payment pursuant to the relevant decision on profit distribution enacted by the Bank's Supervisory Board and to one vote per share in the Bank's Shareholder General Meeting.

In accordance with the reorganization of the Banking Group's activities in Central and Eastern European countries, under the Demerger and Takeover Agreement executed by and between UniCredit Bank Austria AG and UCG Beteillingsverwaltung GmbH on August 31, 2016 and Merger and Acquisition Agreement executed by and between UCG Beteillingsverwaltung GmbH and UniCredit SpA on September 30, 2016. UniCredit Bank Austria AG transferred its sole (100%) ownership of the Bank to the Austrian holding company UCG Beteillingsverwaltung GmbH. Through merger of UCG Beteillingsverwaltung GmbH with UniCredit SpA, UniCredit SpA became the sole shareholder of UniCredit Bank Srbija a.d., Beograd.

Reserves from fair value adjustments relate to the net cumulative changes in the fair values of securities measured at fair value through other comprehensive income.

.

All amounts expressed in thousands of RSD, unless otherwise stated.

41. EQUITY (Continued)

41.2. Earnings per Share

The basic earnings per share amounted to RSD 3,505 in 2019 (2018: RSD 3,906).

Diluted earnings per share are equal to the basic earnings per share given that the Bank has no contingent shares, i.e., shares embedded in other financial instruments or contracts that may entitle their holders to the ordinary shares of the Bank.

41.3. Breakdown of other comprehensive income after taxes is provided in the table below:

	2019	2018
Actuarial gains per defined employee benefits	(19,886)	5,603
Net fair value adjustments of debt financial instruments measured at FVtOCI	1,843,948	651,976
Net fair value adjustments of debt financial instruments measured at FVtOCI due to impairment	(284,079)	-
Net fair value adjustments of fixed assets	50,073	-
Other comprehensive income after taxes	**1,590,056**	**657,579**

42. CASH AND CASH EQUIVALENTS

Breakdown of cash and cash equivalents as reported within the statement of cash flows is provided below:

	2019	2018
In RSD:		
Gyro account (Note 21)	24,180,540	24,920,533
Cash on hand (Note 21)	4,242,996	3,163,419
	28,423,536	28,083,952
In foreign currencies:		
Foreign currency accounts (Note 24)	1,663,517	981,880
Cash on hand (Note 21)	1,411,454	1,523,538
Other cash funds (Note 21)	45,793	35,899
	3,120,764	2,541,317
Balance at December 31	**31,544,300**	**30,625,269**

43. CONTINGENT LIABILITIES AND COMMITMENTS

43.1. Litigation

As of December 31, 2019, there were 5,076 legal suits filed against the Bank (including 11 labor lawsuits) with claims totaling RSD 11,751,422 thousand. In 56 of these proceedings plaintiffs are legal entities and in 5,020 proceedings private individuals appear as plaintiffs/claimants.

The Bank made provisions of RSD 997,848 thousand in respect of the legal suits filed against it (Note 38). The aforesaid amount of provisions includes those for the labor lawsuits filed.

For certain lawsuits, provisions were not made in the exact amount of the claim, primarily based on the estimate of the outcome of such suits as favorable for the Bank, i.e., the estimate that the Bank will incur no outflows in respect of those legal suits or that there are minor contingent liabilities at issue, which require no provisioning.

All amounts expressed in thousands of RSD, unless otherwise stated.

43. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

43.2. In 2018, the Bank's commitments for operating lease liabilities for business premises (including parking spots and lease of spaces for ATMs) under IAS 17 were as follows:

	2018
Commitments due	
- within a year	535,321
- from 1 to 5 years	1,665,786
- after 5 years	886,238
Total	**3,087,345**

43.3. The Bank's contingent liabilities are provided in the table below:

	2019	2018
Contingent liabilities		
Payment guarantees		
- in RSD	11,617,403	11,370,073
- in foreign currencies	10,334,376	11,346,874
Performance bonds		
- in RSD	52,906,243	44,247,908
- in foreign currencies	2,137,706	2,520,761
Letters of credit		
- in RSD	4,129	18,056
- in foreign currencies	2,946,501	3,486,453
Foreign currency sureties issued	1,381,715	-
Foreign currency sureties received	1,193,567	-
Irrevocable commitments for undrawn loans	38,275,207	23,576,208
Other irrevocable commitments	17,623,693	4,877,760
Balance at December 31	**138,420,540**	**101,444,093**

43.4. Breakdown of the Bank's irrevocable commitments is provided below:

	2019	2018
Commitments		
Current account overdrafts approved	5,030,420	3,769,448
Unused portion of approved credit card loan facilities	1,039,317	995,183
Unused framework loans	31,404,245	17,813,980
Letters of intent	801,225	997,597
Other irrevocable commitments	17,623,693	4,877,760
Balance at December 31	**55,898,900**	**28,453,968**

43.5 The Bank's undrawn foreign line of credit funds amounted to RSD 16,305,164 thousand as of December 31, 2019 (2018: RSD 0).

44. RELATED PARTY DISCLOSURES

The Bank is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Bank's common stock shares (100%). In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments. Related party transactions are performed at arm's length.

All amounts expressed in thousands of RSD, unless otherwise stated.

44. RELATED PARTY DISCLOSURES (Continued)

Balances of receivables and payables from the Bank's related party transactions as of the year-end are provided in the table below:

		2019	2018
STATEMENT OF FINANCIAL POSITION			
Loans and receivables from banks and other financial organizations			
1.	UniCredit Bank Austria AG, Vienna	1,060,118	418,828
2.	UniCredit Bank AG, Munich	36,498	27,526
3.	UniCredit Bank Czech Republic and Slovakia a.s.	1,091	181
4.	UniCredit Bulbank, Sofia	24	128
5.	UniCredit S.P.A. Milan	546,559	14,272,355
6.	Zagrebačka banka d.d.	2,409	4,361
7.	UniCredit Bank Hungary Z.r.t., Hungary	9,118	13,640
8.	UniCredit Bank ZAO Moscow	5,347	6,504
9.	UniCredit Bank BIH	5,907	2,221
		1,667,071	14,745,744
Loans and receivables from clients			
1.	The Bank's Management Board	20,008	21,151
2.	UCTAM D.O.O.	68,607	119,848
3.	COMTRADE DISTRIBUTION DOO	411,575	-
4.	COMTRADE REAL ESTATE DOO	470,371	-
5.	COMTRADE SOLUTIONS ENGINEERING D.O.O.	82,315	-
6.	ITALIANA COSTRUZIONI S.P.A Branch Office	486,478	-
		1,539,354	140,999
Other assets			
1.	UniCredit S.P.A. Milan	31,338	18,164
2.	UniCredit Bank Austria AG, Vienna	3,659	9,627
3.	UniCredit Bank AG, Munich	-	1,025
4.	Zagrebačka banka d.d.	3,968	474
5.	UniCredit Bank BIH	137	265
6.	UniCredit Banka Slovenia, Ljubljana	-	4
7.	UniCredit Bank ZAO Moscow	6	6
8.	UniCredit Bank Hungary Z.r.t., Hungary	48,512	53,738
9.	UniCredit Rent d.o.o.	211	213
10.	UniCredit Partner d.o.o	-	3
11.	UniCredit Leasing Serbia	-	37
12.	UniCredit Tiriac Bank SA, Romania	1,693	1,693
13.	UniCredit Services GmbH	13,367	-
14.	ITALIANA COSTRUZIONI S.P.A Branch	2	-
15.	UCTAM D.O.O.	5	5
		102,898	85,254
Deposits and other liabilities to banks, other financial institutions and the central bank			
1.	UniCredit Bank Austria AG, Vienna	6,506,977	7,040,693
2.	UniCredit Leasing Srbija d.o.o	2,108,523	976,594
3.	UniCredit Partner d.o.o	271,792	237,439
4.	UniCredit Bank AD Banja Luka	226,636	5,579
5.	Zagrebačka banka d.d.	14,391	94,734
7.	UniCredit Banka Slovenia, Ljubljana	16,614	40,876
8.	UniCredit Bank AG, Munich	317,409	25,978
9.	UniCredit Bank Hungary Z.r.t., Hungary	507	3,743
10.	UniCredit Bulbank, Sofia	2	2
11.	UniCredit S.P.A. Milan	67,597,267	95,738,635
12.	UniCredit Bank ZAO Moscow	1,372	-
13.	UniCredit Bank Czech Republic and Slovakia a.s.	131	9,445
		77,061,621	104,173,718

All amounts expressed in thousands of RSD, unless otherwise stated.

44. RELATED PARTY DISCLOSURES (Continued)

		2019	2018
STATEMENT OF FINANCIAL POSITION (Continued)			
Deposits and other liabilities due to customers			
1.	The Bank's Management Board	54,155	33,975
2.	UniCredit Rent d.o.o	75,398	47,535
3.	BA CA Leasing Deutschland GmbH, Germany	-	4,589
4.	Ambassador Parc Dedinje d.o.o.	125,619	74,529
5.	UniCredit CAIB AG, Vienna	-	63
6.	COMTRADE DISTRIBUTION DOO	12,617	-
7.	COMTRADE REAL ESTATE DOO	18,932	-
8.	COMTRADE SOLUTIONS ENGINEERING D.O.O.	11,312	-
9.	COMTRADE SYSTEM INTEGRATION DOO BEOGRAD	4,078	-
10.	CT MANAGEMENT&CONSULTING SERVICES DOO	4,758	-
11.	ITALIANA COSTRUZIONI BALCANI DOO	7	-
12.	UCTAM D.O.O.	12,502	150,263
		319,378	310,954
Other liabilities			
1.	UniCredit Bank Austria AG, Vienna	18,050	25,666
2.	UniCredit Bank Hungary Z.r.t., Hungary	-	176
3.	UniCredit Bank AD Banja Luka	9,312	18,591
4.	UniCredit S.P.A. Milan	45,066	75,574
5.	UniCredit Bulbank, Sofia	4,447	4,491
6.	Yapi ve Kredi Bankasi AS, Turkey	4,670	5,410
7.	UniCredit Services GmbH, Vienna	70,264	-
8.	COMTRADE SYSTEM INTEGRATION DOO BEOGRAD	6,659	-
		158,468	129,908
Liabilities, net as of December 31		**74.230.144**	**89,642,583**

The following table summarizes income and expenses from the Bank's related party transactions:

	2019	2018
Income statement		
Interest income	35,105	15,332
Interest expenses	(870,580)	(775,385)
Fee and commission income and other income	224,900	214,770
Fee and commission expenses and other expenses	(654,353)	(718,844)
Expenses, net as of December 31	**(1,264,928)**	**(1,264,127)**

Total gross salaries and other remunerations of the Bank's Management Board members in 2019 amounted to RSD 103,330 thousand (2018: RSD 107,231 thousand).

45. EVENTS AFTER THE REPORTING PERIOD

As of these financial statements' issuance date, there were no significant events that would require adjustments to or disclosures in the accompanying unconsolidated financial statements of the Bank (adjusting events).

Belgrade, February 14, 2020

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Feza Tan
Management Board Chairperson

Sandra Vojnović
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department