Do the right thing!

2020

ANNUAL REPORT

Banking that matters. | UniCredit Bank

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Addressing of CEO

“We have continued to involve employees in different volunteering activities throughout Serbia. As a result more than half of the colleagues participated in mentoring programs, charity initiatives and arranging environment.”

Feza Tan

Year 2020 was a great test for entire humanity. We have faced many challenges. I believe that on the path to finding a solution during this year, we all spontaneously updated our priority lists and realized that health is the most important thing after all. We have all changed our habits during this period and adapted both in private and business life. It is well-known fact that in emergency and crisis situations, people progress the fastest and are more creative than ever and last but not the least make decisions faster in all aspects.

I accordance with the unprecedented situation bank has also updated its strategy focusing on three key pillars. The health and safety of our employees and customers was and still is a top priority for UniCredit Bank JSC. Thus, we engaged all our efforts to enable majority of employees to work from home and to advise clients to use digital services in order to minimize physical contact. At the same time, we started to think how we could support retail and CIB clients additionally because it was clear that the crisis would influence the business. Above all, we wanted to give our contribution to the fight against pandemic supporting Serbian health system to purchase the necessary equipment.

Digital channels were our safe bridge for taking care of our employees and customers. They gained a completely new dimension in the new reality, which has encouraged us to accelerate further in this field. On the other hand, customers became more open to change and embraced digital solutions much faster, which reduced the number of visits to branches. This resulted in an increase of number of transactions executed via mBanking by 83 percent, as well as in increase of mBanking active users by more then 30 percent in comparison to 2019. What was crucial for this easy transformation is that in the last few years we have invested a lot of efforts and money in order to improve our digital print. The aim of our digital transformation was, in fact, to enhance efficiency and, most importantly, to improve the experience of our customers. Our mobile banking allows login with fingerprint or face recognition, while the current account balance check is possible without login to the application.

When we were sure that our employees and clients are safe, we redirected our focus on supporting the local economy. Thus, we have been actively involved together with the state representatives in preparation phase of creating economic measures because we believe that it is crucial that we all give our contribution to continual development of the local economy on which we stood firmly before declaring a pandemic. As one of the leading banks, it is up to us to continue to actively support the economy with our responsibility and strength. I am proud that we were among the first banks on the market to start approving loans for liquidity and working capital within the Program of Economic Measures of the Government of Serbia, with the aim of mitigating the negative consequences of the pandemic. Thanks to our partnerships with the international financial institutions including European Bank for reconstruction and development (EBRD) and European Investment Fund (EIF), we have provided additional funds. We have continued to support important infrastructure projects, such as the rehabilitation of the Ruma-Sabac-Loznica road, and we have credited the construction of a gondola in Brzece, which will contribute to the expansion of the capacity of the largest ski resort in Serbia, Kopaonik. We have supported the chain of our suppliers by making payments based on received, credible and complete payment documentation in an average of five working days, regardless of the agreed and prescribed deadlines. We see this practice as a way to further support companies operating in Serbia, thus contributing to their liquidity and job preservation.

With the same commitment, we dedicated ourselves to the community. In such uncertain times, we should all work together on everything that is really important. With the desire to help equip the health system so that it can cope with pandemics, we thought that the best way to respond to such needs is to support the National Health Insurance Fund (NHIF). Therefore, at the beginning of April, we donated 50,000 euros and joined the UNICEF initiative in the procurement of oxygen flow meters for our health institutions. We did not stop there. In anticipation of the New Year and Christmas holidays, instead of traditional gifts and celebrations, on behalf of our clients and in our own name, we have donated an additional 30,000 euros to the NHIF for the purchase of medical equipment and materials. This year, together with our UniCredit Foundation based in Milan, we have organized a competition called Every child is equally important, in which we have awarded 45,000 euros in grants to non-profit organizations dealing with children's problems. In times like these, it is important to always do the right thing for clients, employees, the economy and community. As a responsible member of the community in which we operate, we tried to show by example how important it is for everyone to contribute to the fight against the pandemic, while also motivating others to show solidarity.

Ethics & Respect

Do the right thing!

We are very proud that our efforts to adapt the way we are doing banking in order to fulfil the needs of our customers, were recognized by renowned international financial magazine Euromoney that has recognized us as the best Trade finance bank in Serbia and the best service provider and Market leader when it comes to Cash management Global Finance Magazine, for the 7th time in a row presented us with the award of the Best sub custodian Bank in Serbia. Readiness to improve ourselves and adjust to the fast changing environment are the keys to our success.

For UniCredit Bank, the main assets are our employees. Thus, we are working hard to create not only an attractive work environment and good working conditions, but also to develop and nurture a corporate culture in order to maintain a position as one of the most attractive employers in Serbia. I am extremely proud on Best employer Certificate delivered by Top Employer institute from The Netherlands. We are the first bank in Serbia that has gained this certificate. I deeply believe that the requirement to become a top employer is to have top employees because employees make UniCredit the best place to work.

This certificate once again shows that we are best practice example when it comes to employee relations, where development and growth come first. UniCredit Bank is strongly committed to maintaining the work life balance of our employees. In support of this, among other good examples, is the fact that we have a day off for our birthday and the first school day of our children.

In 2021, we plan to continue supporting the future development of the country and meeting customers' financial needs. We will continue to build a long-term partnership with our customers based on trustworthiness. Customer Satisfaction remains a crucial indicator of a successful partnership with our customers in the years to come. In line with increased focus of the entire UniCredit Group and leveraging on technological developments and current situation, we will continue with the process of digitalization of our core products and services putting the new technologies in hands of our clients.

At the end, I would like to thank all our employees for these excellent achievements that would not have been possible without their commitment and engagement. I would also like to thank our clients for their loyalty, trust and for firmly believing that UniCredit Bank is their bank of the first choice.

Feza Tan

Do the right thing!
For the Real Economy

We quickly took decisive actions to support the backbone of the real economy in Europe: small and medium sized enterprises.

AWARDED ‘WORLD'S BEST BANK FOR SMES’

In October, UniCredit was awarded ‘Best Bank for SMEs’ by Global Finance magazine in its World’s Best Global Banks Awards. This was based on our performance over the past year, based on criteria including reputation and management excellence.

ABOUT UNICREDIT GROUP

UniCredit is a simple successful pan-European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive client franchise. UniCredit offers both local and international expertise to its clients, providing them with unparalleled access to leading banks in its 13 core markets through its European banking network: Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia and Slovenia.

Leveraging on an international network of representative offices and branches, UniCredit serves clients in another 18 countries worldwide.

MACROECONOMIC OVERVIEW

Strongly affected by COVID-19 crisis, real GDP declined by 1.1% in 2020, according to preliminary estimations, after achieving a decade high growth of 4.4% in 2018 and 4.2% in 2019. In such a challenging year, gross investments fell by 2.8% in real terms participating in GDP with 22%. Private consumption is expected to be contracted, also, by 2.8% whilst government investments and consumption gave positive contribution to GDP surging by 3% and 7%, respectively. External trade slowed down with faster drop in exports compared to imports. Looking on production side, the strongest nosedive was noted in transportation dropping by 33.4% and accommodation -26.8%. Wholesale trade also suffered decrease by 6.1% followed by construction (-4.3%) which was one of the strongest growing sectors in 2019. On the other side, one of the biggest positive contributions was made by telecommunication with increase of 15.1% and retail trade with +5% followed also by agriculture growth of 4.4% and industry increase of 0.2%.

Inflation remained low and stable compared to the same month in previous year despite pandemic conditions coming to 1.2% in December, according to Statistical Office projection. Taking into account the whole year, inflation resulted in prices increase by 1.6% in average during 2020 compared to whole 2019. Peaks in January and July were at level of 2% mostly driven by oil and tobacco prices increase in those months. Despite the global crisis, exchange rate remained relatively stable, which among many others remained an important factor of low and stable inflation. NBS confirmed in the end of year that the targeted inflation rate would remain within the existing band (3 ± 1.5%) until December 2023 thus keeping inflationary expectations subdued in the period to come. Dinar's value prevailed stable during whole year, whereas NBS intervened in the market continuing to buy/sell foreign currency in the periods of stronger appreciation/depreciation pressures. NBS net sold 1.6 BEUR until November so that gross FX reserves amounted to 12.8 BEUR at the end of November covering 134% of money supply M1 and six-months-worth of imports of goods and services.

Alongside with starting of the pandemic crisis, NBS immediately reacted with key policy rate cut by 50 bps to 1.75% in March. During April, Jun and December NBS further cut the rate by 25 bps to 1%, which is so far the lowest level of the rate since inflation targeting regime was adopted. NBS also narrowed the key policy rate corridor from ±1.25 pp to ±1 pp, and then to ±0.9 pp relative the reference rate in order to further increase monetary policy efficiency via this channel. Such monetary policy measures resulted in the lowest level of source of financing for corporate as long as for households in local currency. Furthermore, in order to recover alternative source of financing via corporate bond market, NBS included dinar corporate bonds of Serbian companies in monetary operations so that banks may use corporate bonds for sale or as collateral in operations with NBS in the secondary market. Aiming to additionally help households and corporates to handle with the crisis, NBS introduced the moratorium on the repayment of obligations for loans and financial leasing intended to all borrowers who opted for that, first for 90 and then for another 60 days, extending the repayment period for housing loans for five years at most and other loans to households for up to eight years. In December, NBS adopted new measures to facilitate loan repayment for borrowers affected by the COVID-19 pandemic with possibility to reschedule by extending repayment period or refinance existing obligations with a six-month grace period. Further increase of dinarization was contributed also by more favorable dinar lending for micro, SME and entrepreneurs under the Serbian Government's Guarantee Scheme. This was also additionally facilitated by introduction of stimulus under the Scheme for banks that approve dinar loans to clients at rates lower by at least 50 bps than the maximum interest rate (1M BELIBOR + 2.5 pp) to have a higher remuneration rate on the amount of mandatory reserve requirements in dinars by 50 bps.

According to rebalance of the Budget, consolidated fiscal deficit is envisaged at the level of 8.8% of GDP or 483 BRSD (as of Nov -6.8% according to Ministry of Finance), which is the new high so far since such data are published. Looking in November figures, fiscal revenues declined by 1.8% compared to the same period 2019, whilst expenditures surged by 18.1%. The largest part of it is owing to measures that the Government undertook in order to support local economy to combat the negative effect of corona pandemic together with significant budget amounts that had to be used for procurement of necessary equipment and improvement of healthcare infrastructure. Total set of measures that the Government launched amounted to 700 BRSD or 12.7% of GDP. The Guarantee scheme implies possibility to the banks to approve up to 2 BEUR of cheap loans for liquidity and working capital to micro, SME and entrepreneurs which are guaranteed by the State, which amounted to 4.4% of GDP. As total limit is not reached until end of 2020 (1.5 BEUR disbursed until end of November), the scheme is prolonged to end of June 2021. Furthermore, other measures include deferral of taxes on salaries and contributions (3% of GDP), minimum wage payments (2.3% of GDP), direct payment to pensioners, 10% increase in salaries for medical workers etc. On the other side, in accordance with GDP decline, fiscal revenues also dropped. Consequently, public debt surged to 26.7 BEUR as of November or 56.8% of GDP (52% at the end of 2019), growing by 11% in 2020. In May Republic of Serbia issued Eurobond of 2 BEUR with tenor of 7 years. Furthermore, in November Republic of Serbia issued 10 year Eurobond in the international financial market in the amount of USD 1.2bn, at the coupon rate of 2.125% and the yield rate of 2.35%. Aiming to hedge public debt from FX risk, Serbia carried out its first ever hedging via swap operations achieving a 1.066% coupon rate for financing in euros. This is the lowest financing rate Serbia has ever had. Part of the transaction (900 MUSD) will be used for early repayment of debt dollar Eurobond issued in 2011 (at the high yield rate of 7.50%).

According to preliminary results, exports of goods declined somewhat stronger than imports 3.5% vs 3%, respectively. Such exports fall is mostly driven by manufacturing exports drop given decelerating global demand for its products, whilst on the other side agriculture products exports had strong growth trying to compensate fall in other industries exports. Imports fell despite significant healthcare procurement during whole year. Energy and intermediate products mainly dropped in imports, whilst imports of capital and consumer goods increased. The most important external trade partner of Serbia in 2020 was Germany, followed by Italy and China. The current account deficit amounted to 1.7 BEUR in Jan-Oct which is 3.5% of GDP (Min Fin projection of GDP) dropping by 29% YoY. NBS estimated C/A deficit to amount -5% of GDP in full year, which is app 2 pp less than in 2019. Key drivers of C/A deficit decline in 2020 were contraction in domestic demand and lower oil prices with exports elasticity based on it. External trade deficit of goods and services amounted to 3.3 BEUR or 6.9% of GDP dropping by 6.2% YoY. Primary income deficit declined by 42% YoY owing to lower direct debit investments income. Furthermore, secondary income surplus lowered by 13% mostly owing to lower remittances. Net FDI amounted 1.9 BEUR falling by 34.5% YoY, and fully cover CA deficit.

Despite pandemic crisis during 2020, the labor market did not suffer too much as the unemployment rate in Q3 2020 according to Labor Force Survey was 9.0%, which is lower by 0.5 pp compared to the same period last year. In the same time, the employment rate in Q3 was at the level of 49.9% (growth of 0.3 pp), driven by employment growth in the formal segment of the labor market. Given corona pandemic, working from home participated with 9.3% in total number of employed. The average monthly salary in the period January-October 2020 amounted to 60,109 RSD, which represents a 9.4% nominal and 7.7% real growth rate compared to the same period last year. The largest growth of wages since the beginning of 2020 was noted in the sector of information and communication and health care.

Standard and Poor's confirmed Republic of Serbia credit rating at BB+, correcting Serbia outlook from positive to stable. The Agency states that its decision is supported by the fact that Serbia entered the pandemic with much better overall macroeconomic indicators. The key factors are stable prices, financial and fiscal stability, and relative stability of the exchange rate with boosted FX reserves that created room for Serbian authorities to undertake adequate measures and support the economy during the pandemic. Fitch Ratings also confirmed Republic of Serbia credit rating at BB+, with stable outlook.

The fourth and fifth final reviews of Serbia's economic program with the IMF under the Policy Coordination Instrument were successfully completed. It was stated that the NBS has no reform objectives and pending tasks in respect of the IMF because inflation in Serbia has been kept under control for many years already and significant results have been achieved in terms of strengthening financial stability. IMF noted that during whole duration the Program was successfully implemented.

SERBIAN FINANCIAL SECTOR

Banking sector

As opposed to the previous financial crisis from the 2008-2009 period which originated in the financial sector and later spilt over to the real economy, the crisis that emerged in 2020 due to the outbreak of the corona virus hit the real economy first due to the widespread containment measures aimed at saving the lives of people and as a consequence affected the financial sector to a certain extent. Similar to most other countries, the containment measures in Serbia entailed the introduction of the state of emergency, movement restrictions to the general population as well as partial or complete prohibition of certain activities in the economy, which resulted in an external shock on both the supply and demand side of the economy. The effects of the crisis have been most pronounced in March and April during the first wave of the pandemic outbreak. In order to alleviate the negative effects stemming from the emerging crisis, the Government and the National bank of Serbia responded with comprehensive measures in fiscal and monetary policy, as well as in numerous additional fields.

In order to provide support for the financial sector and the economy, the National bank of Serbia has conducted monetary easing measures and alongside additional support measures managed to maintain financial and price stability, ensuring an efficient functioning of the money market and preserved credit activity, which reduced the negative impact of the pandemic on the economy and created the necessary preconditions for a faster recovery. Since the outbreak of the pandemic, the NBS cut the key policy rate on four occasions in total by 1.25% and ended the year at the lowest level in the inflation, targeting regime of 1%. More favorable dinar financing conditions have been created for the private and household sectors, bringing the dinar interest rate down by 0.8% compared to the end of 2019, while by narrowing the interest rate corridor from ± 1.25 to ± 0.9% it has increased the effectiveness of this monetary policy channel. In order to increase the efficiency of the banking sector and provide higher dinar and foreign currency liquidity additional measures were put in action, which consisted of direct repo operations, swap auctions and bilateral purchase of dinar denominated government bonds from banks. The negative effects of the crisis were greatly offset with the introduced moratorium on loan repayments for all debtors who opted for it, which at first lasted for 90 days and was later extended for an additional 60 days. The first moratorium was accepted by 91% of private individuals and 84% of legal entities, while the second one was accepted by a lower number of both and amounted to 82% and 69% respectively. Owing to this measure, the credit quality of the banks' loan portfolio was preserved and the loan stock managed to achieve a double-digit growth rate despite a considerable reduction of new business volumes compared to the year before, especially in the first months of the pandemic outbreak. On the other hand, the disposable income of private individuals and legal entities generated in this way was free to be allocated towards final consumption and domestic demand support. Later on, banks were encouraged to offer loan refinancing or the extension of due dates for consumer and other loans (excluding mortgages and overdrafts) disbursed before the introduction of the state of emergency for two years longer than the current maximum tenor for these loans. In December 2020 the banks were introduced with a mandatory measure which prescribed an obligation to refinance or reprogram loans with a six-month grace period and a due date extension in a way that the monthly annuity does not exceed the current instalment plan. A possibility to extend the final maturity up to five years was given for mortgage loans without triggering a change in the performing status of the loan. In order to facilitate new credit activity for households through favorable financing conditions a set of measures was introduced creating regulatory assumptions, which enabled banks to approve mortgage loans under loosened criteria. For mortgage loans, the obligatory down-payment for the purchase of the first flat was reduced from 20% to 10% and the minimum construction completion hurdle for new construction was lowered from 80% to 60%. Additionally, a regulatory solution was set up enabling banks to approve a consumer loan up to 90.000 RSD with a maturity up to two years to a private individual who is not receiving a payroll or pension to an account opened in that bank, only using a statement signed under legal and material liability confirming an employment or pensioner status without requiring any additional relevant documentation as proof.

The Government fiscal package aimed at providing direct support to the private and household sector worth approximately 12.5% of GDP had a significant impact on the banking sector, which was an important channel for its execution. Within the liquidity preservation measures, a guarantee scheme for working capital loans was introduced for private sector and disbursed through commercial banks operating in Serbia. The guarantee scheme in amount of RSD 2 billion enabled the continuation and further growth of credit activity and entailed the approval of new or renewal of existing loans for micro and SME clients as well as entrepreneurs and registered agricultural producers which are in performing status and meet other defined criteria.

Despite a turbulent year, the number of banks operating on the Serbian market remained the same as at the end of 2019. The banking sector finished the third quarter of 2020 with 26 commercial banks and total net assets of RSD 4,510bn, posting a nominal growth rate of 13.3% compared to the same period last year. However, certain ownership changes did occur and the most notable one is the privatization of the largest state-owned bank, which was completed at the very end of 2020 after NLB D.D Ljubljana has paid the contracted price and became the owner of 83.23% share capital. Besides the start of the integration process between NLB and Komercijalna banka, the period ahead will certainly bring more market integration since the merger of OTP and Vojvodjanska banka both in the ownership of OTP Group from Hungary is expected to be completed during 2021. Acquisitions of banks by local competitors represents a sign of a stable banking sector which is capable of facing risks and which has a favorable outlook in terms of lending acceleration in the period ahead. A stable macroeconomic environment coupled with better business

Banking sector

and investment conditions and Serbia's country rating one notch from investment grade have made the local market more appealing to investors regarding investment opportunities and together with a global recovery this trend is expected to continue in the future.

At the end of the third quarter of 2020, total gross loans expanded 13.3% year-on-year excluding the FX rate effect owing to monetary policy easing, loans approved through the guarantee scheme and the moratorium on loan repayments. As of September, corporate loans have achieved an annual growth rate of 13.3% while in the same period the retail loan growth rate amounted to 13.8%. As opposed to the previous year characterized with an increased interest towards investment loans, which became the largest category of loans in the corporate sector, the first nine months of 2020 were driven by increased demand for liquidity, which meant legal entities mostly took out working capital loans leaning on the favorable financing conditions secured through the Government guarantee scheme. Since its inception and ending with the third quarter of 2020 the amount disbursed through the guarantee scheme amounted to EUR 1.2 billion of which over 56% of loans were disbursed in dinars. This was certainly attributable to a stimulative measure which enabled banks to receive a higher remuneration rate of 50 basis points on the dinar mandatory reserve in the amount of approved dinar loans from the guarantee scheme which are minimum 50 basis points lower than the maximum rate prescribed by the program (BELIBOR + 2.5%). This enabled a further convergence of interest rates on dinar and dinar-indexed loans especially for the corporate sector, owing to a higher contraction of dinar interest rates, which further increased financial stability and created more favorable financing conditions for the most fragile part of the private sector that generates a substantial amount of GDP – micro, small and medium sized businesses. Given that over 80% of this lending was related to new loans it led to an increased share of working capital loans in total corporate loans, which at the end of September 2020 amounted to 42.6%, while investment loans still held the majority of loans to legal entities with a share of 43.9%. Looking at the industry the highest growth was achieved in the manufacturing, construction, transport and real estate sectors.

In the first nine months of 2020, cash and mortgage loans still mostly drove the demand on the retail side, which accounted for 45% and 36% of retail lending as of September. Despite the fact that excluding the FX effect household loans achieved an annual growth rate of 13.8% at the end of September, the loan stock was greatly influenced by the five-month moratorium on loan repayments and other NBS measures aimed at alleviating the effects of the crisis such as loan refinancing or loan maturity extensions. The amount of newly disbursed cash loans was 21% lower in the first nine months of 2020 compared to the same period last year. After their expansion in the first quarter of 2020, newly disbursed mortgage loans have declined significantly in April and May due to the imposed pandemic and social distancing measures, only to continue their expansion during the third quarter achieving a 50% growth compared to Q2, which signaled the continuance of strong mortgage lending growth after a temporary slowdown.

Compared to the year-end 2019 level, the "dinarization" of loans was considerably increased, given that the share of dinar loans in total corporate and retail lending in the first nine months of 2020 reached an all-time-high value of 36.6%, which represents a growth of 3.5 percentage points since year-end. Private individuals continued mainly to take out dinar loans owing mainly to cash loans as the category with highest share, which led to a new high of 56.6% total outstanding loans to private individuals, which were disbursed in dinars. The share of dinar loans to corporates increased in all three quarters of 2020 and as of September 2020 ended at a level of 19.3%. Beside monetary policy easing, the growth was in large part driven by dinar loans approved through the guarantee scheme under relatively favorable conditions.

The share of RSD deposits of households and corporates in total deposits increased compared to year-end levels and reached an all-time-high level of 39.2% at the end of September, owing to a low and stable inflation environment, a relatively stable exchange rate and an sizeable government support package for the private and household sector aimed at alleviating the negative economic effects brought on by the corona virus pandemic. Compared to the third quarter of 2019 the share of dinar deposits in total deposits rose both for the corporate and retail sector. The level of dinarization of corporate deposits reached a share of 60.2% as of September, which represents a 3.3 percentage point increase compared to the same period last year. In the first half of the year the growth was more pronounced with sight deposits of legal entities, which is in line with Government support measures to curb the consequences of the pandemic such as the delay of taxes and contributions payments, direct support in form of minimum wage payments for employees of the private sector as well as the measures provided by the NBS such as the moratorium on loan repayments. Up until the end of the third quarter of 2020, the corporate sector increased dinar term deposits with a maturity up to one year and decreased dinar sight deposits.

The dinarization level of retail deposits also achieved a historic level of 25.7% owing to a stronger growth of dinar compared to foreign currency deposits, which represents a growth of 5.1 percentage points in the past twelve months. This was brought by an increased balance of local currency sight deposits as well as by a significant further growth of local currency term deposits, which grew by RSD 9.8 billion in the first nine months of 2020 reaching the highest level to date of RSD 89.3 billion despite of negative pandemic effects on the economy. In terms of maturity, over three quarters of total dinar savings are term deposits with up to one year maturity. At the end of September 2020, the share of dinar savings in total savings of households amounted to 6.4%, which represents a growth rate of 0.8

SERBIAN FINANCIAL SECTOR (Continued)

Banking sector

percentage points over the past year. Foreign currency deposits also posted an expansion, which was followed by a change in the term structure in favor of deposits with a maturity up to one year. Largely foreign currency deposits of households rose mainly due to term deposits, which also reached a new historic high of EUR 11.2 billion as of September. Same as for local currency, households continued to mainly save with maturities up to one year (83%) and almost two thirds of foreign currency savings relates to a vista savings. Despite historic low interest rates on household and corporate deposits, their stability in the funding structure was preserved, accounting for 45% and 30% of total liabilities respectively.

At the end of the third quarter of 2020, the banking sector employed 22.858 people, which represents a decrease of 314 employees compared to the same period last year. The branch network consisted of 1.576 different organizational units, a reduction of 29 units in a period of twelve months.

At the end of the third quarter of 2020, the average capital adequacy ratio of the banking sector amounted to 22.4%, which is significantly higher than the required minimum of 8% but one percentage point lower than at the end of 2019.

After a historic reduction of the NPL ratio during the last three years the positive trends in their reduction were continued in 2020, but given the results achieved in the previous period the amount of write-offs and sales in this year were lower as the banks had already cleared most of their balance sheets. The NPL ratio was reduced from 4.1% at the end of 2019 to 3.4% at the end of September, which represents its lowest level since 2008 when this ratio was introduced. The main channels for NPL reduction were write-offs and sales to third parties outside the banking sector, with a notable increase in collection. The reduction of the NPL ratio was present in all sectors out of which construction stands out the most. Given that the banking sector is oriented towards international standards and sound risk management principles, the banks continued to add provisioning levels in order to provide protection against credit losses, covering the NPL's with more than 62.4% of IFRS provisions as of September 2020.

The profitability indicators of the Serbian banking sector as of Q3 2020 showed certain signs of deterioration due to the extraordinary circumstances brought on by the corona virus and the measures imposed in order to curb the pandemic spread. The aggregated profit before tax of all twenty-six banks amounted to RSD 43.4 billion, preliminary, and recorded a 20% year-on-year decrease. The biggest drivers that led to the drop in profitability were net losses from the impairment of financial assets not carried at fair value through the income statement due to worsened macroeconomic conditions and the prudential approach taken by banks. Moreover, the negative impact on the result was also affected by lower net fee and commission income in one part driven by lower credit activity and on the other side because of the fact that some banks have renounced their fee income for electronic payments during the course of the state of emergency. The Return on assets (ROA) indicator amounted to 1.4% at the end of the third quarter of 2020 (Q3 2019 1.9%), while in the same period the Return on equity (ROE) indicator amounted to 8.1% (Q3 2019 10.5%).

*Izvor: CUBE tim, agencija za bazu tržišnih podataka

SERBIAN FINANCIAL SECTOR (Continued)

Leasing sector

Given the pandemic development caused by COVID-19 in 2020, the economic outlook recorded significant downturn in many industry sectors, among which one of the biggest impact was reflected on automotive and international transportation. Furthermore, the main focus of business entities was on finding a way to preserve liquidity instead of new investments or increase of long term debts.

At the end of third quarter 2020, according to the statistics of the National Bank of Serbia, 16 financial leasing companies were operating on the Serbian market with total assets reaching RSD 117.2 billion. These receivables, in absolute terms, amounted to RSD 105.6 billion and were 12% higher compared to the same period of 2019 (RSD 93.9 billion).

The major part of receivables were receivables indexed in foreign currency (99%), the same as last year. Looking at economic sectors distribution, the biggest portion of financing 86% (or RSD 91 billion in absolute amount) was directed to legal entities including privately owned companies, small businesses and entrepreneurs, 1.5% (or RSD 1.6 billion in absolute amount) to public sector and 12.5% (or RSD 13 billion in absolute amount) to private individuals.

According to the data of Association of Leasing Companies, financial leasing institutions in 2020 were still financing mainly vehicles out of which 50.2% passenger vehicles and 30.4% trucks, trailers and buses. In terms of industry segment 23.8% of leasing financing was in Traffic, Storage and Information tech and communication sector, 18.5% in Trade and Automotive repair, 12.4% in Manufacturing, Processing, Water supply and Waste management, 11.8% in Construction and Real Estate and 4.1% in Agriculture sector, Forestry and Fisheries.

By the end of third quarter 2020 in Serbia total sale of new vehicles (passenger cars and light commercial vehicles) was 31.4% lower than in the same period previous year* while the share of purchasing new vehicles via leasing remained almost the same (30%).

FINANCIAL PERFORMANCE OF UNICREDIT SERBIA GROUP in 2020

UniCredit Serbia Group (Bank, Leasing and Partner) in thousands RSD	2020	2019	Change
Income statement			
Net interest income	13.303.282	14.045.777	-5,3%
Net fee and commission income	3.863.645	4.142.096	-6,7%
Other non-interest income	2,444,758	1.852.010	32.0%
Operating expenses	-10,009,016	-9.481.302	-5,6%
Net impairment loss on financial assets	-3.890.813	-1.446.613	-169,0%
Profit after tax	5.383.528	8.390.337	-35,8%
Balance sheet			
Loans and receivables to banks	27.746.829	2.941.212	843,4%
Loans and receivables to customers	290.992.861	277.805.020	4,7%
Deposits and other liabilities from banks	129.668.838	128.354.784	1,0%
Deposits and other liabilities from customers	268.373.476	230.679.097	16,3%
Equity	84.093.027	86.941.182	-3,3%
Total balance sheet assets	498.836.183	454.866.457	9,7%
Capital adequacy			
Total risk weighted assets	319.090.586	327.012.880	-2,4%
Regulatory capital	76.311.235	76.467.509	-0,2%
Capital adequacy ratio	23,9%	23,4%	+52 bp
Key performance indicators			
Cost/Income ratio	51,0%	47,3%	+373 bp
ROA (Return on assets after tax)	1,1%	1,9%	-73 bp
ROE (Return on equity after tax)	6,3%	10,1%	-383 bp
Loans to Deposits ratio	108,4%	120%	-1.200 bp
Asset(avg)/Number of employees(avg)	353.879	340.296	4,0%
Cost of risk	1,4%	0,5%	+84 bp
Resources			
Number of employees	1.352	1.343	9
Number of branches	72	72	0

In 2020, the Bank confirmed its strong orientation towards continuous growth and preservation of high standards in terms of profitability, productivity and efficiency. It managed to adapt quickly to the newly arisen situation caused by the COVID-19 pandemic owing to its resilience and flexibility while maintaining the highest health and safety standards for its employees and clients. According to Q3 2020 data, the Bank was ranked as second on the market in terms of total assets, with market share of 11.4%. Total assets at the end of December 2020 stood at RSD 486.5 billion and achieved a growth rate of 10.2% compared to year-end 2019.

Driven by respectable year-on-year growth of customer loans of 5.4%, the Bank maintained a high market share in net loans to customers (10.9% based on Q3 2020 data), further entrenching its second position on the market in terms of loan portfolio size. The growth was mostly driven by the corporate sector lending activity as a result of an excellent realization of working capital loans disbursed through the State guarantee scheme. At the end of December 2020 the Bank's market share in total loans disbursed through the guarantee scheme reached 13%, whilst a considerable amount of approved loans was in local currency. A somewhat moderate growth was achieved with the loans disbursed to the household sector, out of which the most notable growth was achieved with mortgage loans.

Besides the expansion of the largest asset category - the customer loan portfolio, the bank continued to invest into debt instruments, which mostly consist of sovereign bonds of the Republic of Serbia. This type of investment is characterized with a high degree of security and besides earning interest income by holding them the Bank achieved a positive financial result from their sales which increased 45% compared to the result achieved a year before.

The aforementioned growth of assets was financed with an extraordinary growth of customer deposits of 16.3% compared to the previous year, where both the corporate and retail sector achieved double-digit growth rates compared to the year before of 18.9% and 15.6% respectively. A strong growth of the customer deposit base resulted in the reduction of the customer loan to deposit ratio, which ended the year at a level of 103.8%, which represents a significant decline compared to year-end 2019 when it amounted 114.7%. A continuous improvement of the deposit base, on both corporate and retail side can be seen as a confirmation of UniCredit Bank's image as one of the most sound and reliable banks on the local market.

The dynamics of net interest income compared to the year before was mostly influenced by the movement of the reference rate and money market rates (BELIBOR) which contributed to lower interest rates on local currency volumes of customer loans, debt securities, local currency mandatory reserve and repo placements.

On the other hand, the bank achieved an expansion of the credit portfolio denominated in local currency in both corporate and retail sector as well as the growth of local currency debt securities which in part managed to offset lower interest income caused by the decline in market rates. Moreover, a drop in local currency rates on customer deposits was also recorded which further neutralized lower interest income coming from the dinar-denominated part of the portfolio.

The dynamics of loan loss provisions was primarily driven by increased provisions in the retail sector due to PD and LGD model calibrations, but also by a prudential approach taken by the Bank owing to an expected deterioration of the macroeconomic environment in 2020. Despite that, the Bank continued with a successful management of NPLs, which was confirmed by the containment of the ratio on a low and stable level that at the end of December stood at 3.8%, compared to 3.5% at the end of 2019.

At the end of 2020, the Bank achieved a net profit after taxes of RSD 5.3 billion, and a ROE of 6.4%. Even though the revenue growth was affected by the effects the COVID-19 pandemic the Bank confirmed its earning capability in a complex macroeconomic environment owing to a stable and sustainable business practice focused on creating value for its clients. Apart from traditional commercial banking, the Bank also continued with successful trading with financial instruments as one of the leaders on both local and international market.

The achieved Cost-to-income ratio of 51.1% is one of the lowest in the sector, with which the Bank confirmed once again its ability to maintain high standards in terms of operational efficiency. Despite the fact that the ratio is somewhat higher compared to the year before (47.7 at the end of 2019), the pandemic-hit revenues haven't prevented the bank to continue to invest in its employees to an even larger extent as it sees them as its most valuable resource. Parallel with the increase in salaries and wages, the growth of operating expenses and depreciation was to a large extent attributable to the growth of ICT expenses since the Bank continued to invest in the digital transformation of its business model in order to create additional value for all its stakeholders. For the clients that means access to more innovative products, which come with simplified procedures, while for its employees it created room for time optimization, increased automation and higher efficiency, which will in turn have a favorable effect on the reduction of operating expenses over time.

The Bank continued to increase the number of employees confirming its orientation towards constant growth and positioning itself as an employer of choice on the market.

Owing to its strategic focus on the quality of service and customer satisfaction the Bank is continuously enlarging its client base. The number of clients compared to December 2019 increased by over 29,000. At the same time, excellent results were made in increasing the number of active users of internet and mobile banking, thanks to a successful implementation of digital banking channels.

Despite the turbulent 2020 caused by the COVID-19 pandemic UniCredit Leasing Serbia ltd maintained the same level of customer loans at the end of September 2020 compared to the same period in 2019. It maintained the value of total assets (3% year-on-year growth) basing its business on financing small and medium sized businesses as well as providing support to this sector which was hit the most by the pandemic.

UniCredit Partner confirmed its successful performance at the end of 3Q 2020, by recording a 19% higher operating income from agency in insurance, compared to 3Q 2019.

Overall, UniCredit Serbia Group completed the business year of 2020 with excellent results taking into consideration the newly arisen situation caused by the pandemic and continued to build a long-term partner relationship with its customers and to fully support the local economy.

With a total capital adequacy ratio of 23.9%, UniCredit Serbia Group maintains a solid capital base, fully comprised of high quality common equity tier one instruments and significantly exceeds the regulatory requirements for total combined capital buffers.

The Group is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Group's common stock shares (100%). Related parties of the Group are: parent bank, subsidiaries of the Group, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Management Board and managers who as members of the Group's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Group ("key management"), close family members of key management as well as legal entities that are under the control or influence of key management and close members of their families, in accordance with IAS 24.

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

As of these financial statements' issuance date, the impact of the COVID-19 pandemic continues. The duration of the pandemic and the extent of the impact on the economy are uncertain. With a strong capital and liquidity position, the Group actively monitors developments and assesses the impact on its operations, financial results, financial position and cash flows. At the date of issue of these financial statements, there were no significant events that would require adjustments to or disclosures in the accompanying unconsolidated financial statements of the Group (adjusting events).

STRATEGY FOR PERIOD 2021-2023

The main strategic objective of UniCredit Bank Serbia, set in the multi-year plan is to ensure long-term profitability and self-sustainability based on following key elements:

Customers – focus on existing clients and acquisition of the new ones, by offering high quality products and services, increasing customer satisfaction and achieving a long term partnership;

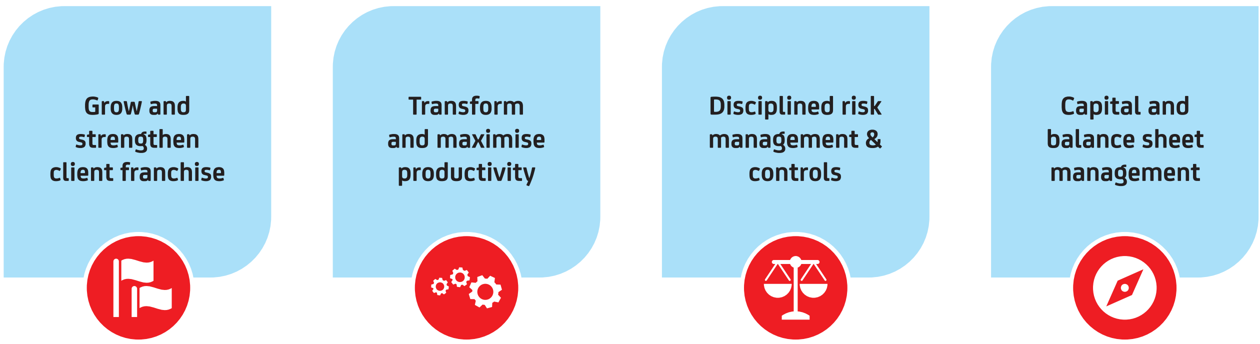
Products – further improvement of products and services, with a clear focus on selected products, but also on the development of new and innovative ones based on specific customer's needs;

Channels – further development of alternative sales channels, acceleration of the digital transformation process together with a synergy between Corporate and Investment Banking Division, Retail Divisions and Leasing;

Operating model – major processes and system improvements through adapting to the new conditions on the market and;

Risk Management – maintain and improve portfolio quality along with strengthening the common Risk culture among all Bank's employees.

UniCredit Bank Serbia's Strategic plan is based on the following **Four Pillars:**



The Multi-Year plan of the Bank assumes a full enforcement and alignment with all regulatory requests and set limits while achieving balanced growth. The plan also assumes keeping a strong track record of out-performing the market in terms of business growth, operating profitability and efficiency, with a focus on further process and system improvements, along with the aim to improve the portfolio quality and enlarge the active client base, in order to enable sustainable growth.

ORGANIZATIONAL STRUCTURE OF NICREDIT SERBIA GROUP

UniCredit Bank Serbia JSC. BEOGRAD

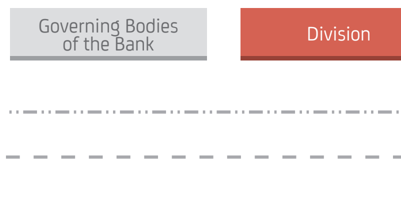
SUPERVISORY BOARD
Martin Klauzer, Chairman
Luboslava Uram, Member
Daniel Svoboda, Member
Ljubiša Tešić, Member
Boris Begović, Member
Svetlana Kisić Zajčenko, Member

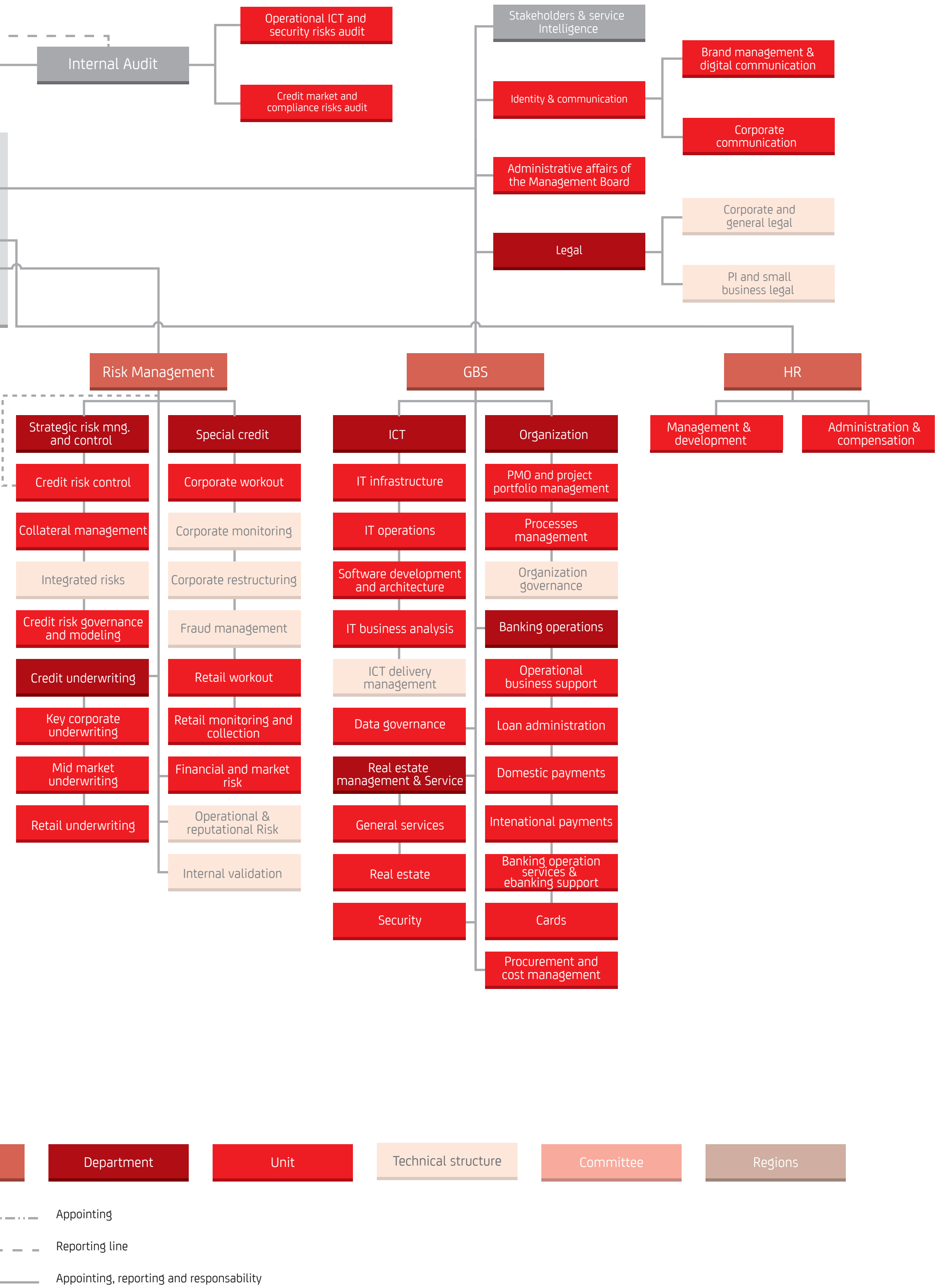
EXECUTIVE BOARD
Feza Tan, Chairwoman
Nikola Vuletić, Member
Sandra Vojnović, Member
Aleksandra Rašić, Member

As of 2016, members of UniCredit Group Serbia besides UniCredit Bank Serbia JSC are UniCredit Leasing Srbija doo Beograd and UniCredit Partner doo for representation in insurance Belgrade. Following UniCredit Group entities were performing business also in Serbia in 2020: UniCredit Rent, UCTAM and Ambassador Parc Dedinje doo, which are representing parties related to the Bank.

ORGANIZATIONAL STRUCTURE OF UNICREDIT SERBIA GROUP

* Compliance Department – Reporting to the Audit committee and Management Board and periodically to the Supervisory Board
** Chairperson of MB is responsible for the work of AML and Terrorist financing and prevention Unit
*** Members of the Committees are appointed by Supervisory Board. Audit Committee reports to the Supervisory Board according to the law. ALCO and Credit Committees report to the Management Board according to the internal acts.
¹ Treasury reports to Group Treasury CEE




Internal Audit
Operational ICT and security risks audit
Credit market and compliance risks audit
Stakeholders & service Intelligence
Identity & communication
Brand management & digital communication
Corporate communication
Administrative affairs of the Management Board
Legal
Corporate and general legal
PI and small business legal
Risk Management
GBS
HR
Strategic risk mng. and control
Credit risk control
Collateral management
Integrated risks
Credit risk governance and modeling
Credit underwriting
Key corporate underwriting
Mid market underwriting
Retail underwriting
Special credit
Corporate workout
Corporate monitoring
Corporate restructuring
Fraud management
Retail workout
Retail monitoring and collection
Financial and market risk
Operational & reputational Risk
Internal validation
ICT
IT infrastructure
IT operations
Software development and architecture
IT business analysis
ICT delivery management
Data governance
Real estate management & Service
General services
Real estate
Security
Organization
PMO and project portfolio management
Processes management
Organization governance
Banking operations
Operational business support
Loan administration
Domestic payments
Intenational payments
Banking operation services & ebanking support
Cards
Procurement and cost management
Management & development
Administration & compensation
Department
Unit
Technical structure
Committee
Regions
Appointing
Reporting line
Appointing, reporting and responsability

ORGANIZATIONAL STRUCTURE OF UNICREDIT SERBIA GROUP

UniCredit Bank Srbija A.D. BEOGRAD

UniCredit Leasing doo

SUPERVISORY BOARD
Nikola Vuletić, Chairman
Aleksandra Rašić, Member
Branko Radulović, Member

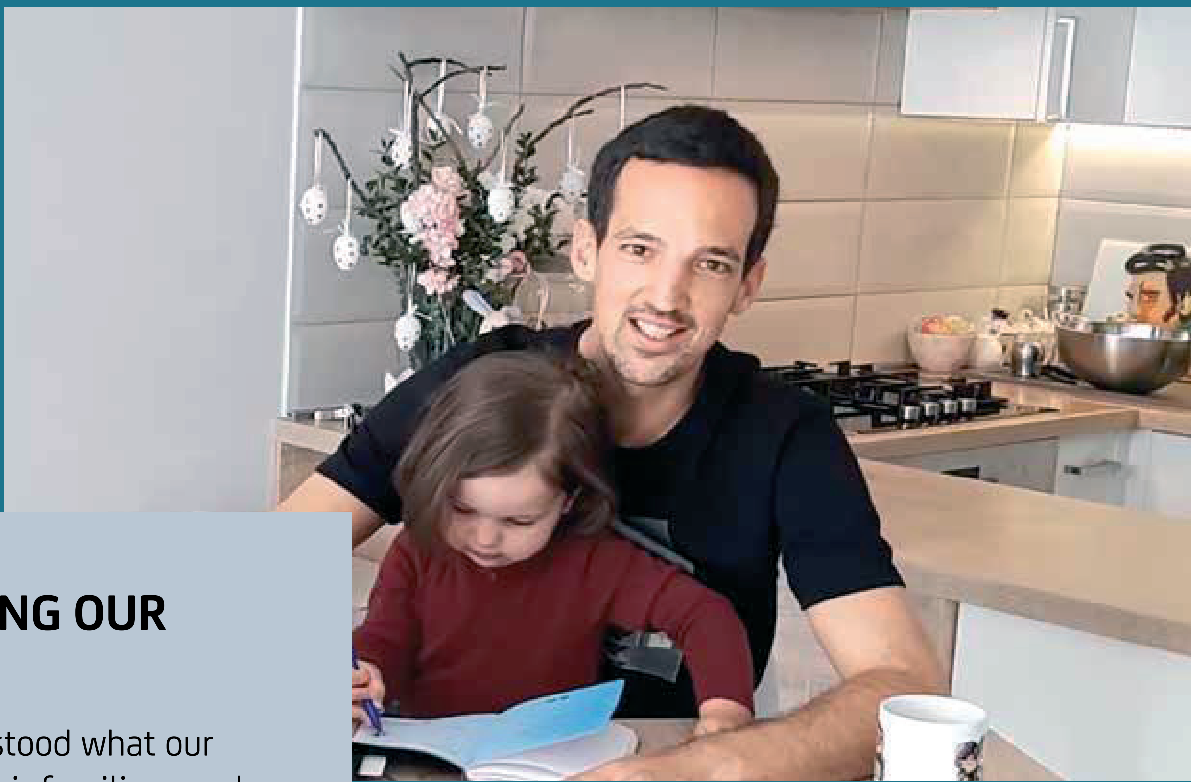
MANAGEMENT BOARD
Ana Milić, Chairwoman
Ratko Petrović, Member

UniCredit Partner doo

Zvonko Buden, Director
UniCredit Partner has no Supervisory or Management Board

Do the right thing!
For our Colleagues

Throughout 2020, we focused on protecting our people: we provided them with millions of PPE items and fast IT upgrades, rolling out new laptops and remote access to around 80,000 UniCredit employees, to make sure they could work safely and effectively.



PROTECTING OUR PEOPLE

To best understood what our people and their families need to face the Covid-19 crisis, UniCredit created a Family Board: the 20-person team meets regularly to define solutions and recommendations in terms of flexibility, wellbeing and other support (i.e. homeschooling/ homework).

CORPORATE INVESTMENT BANKING

The Corporate and investment banking Division (CIB) during 2020 was oriented towards additional strengthening of its position on the market through growth across all business segments while supporting both the public and the private sector and providing the best service for all clients, deploying innovative solutions to improve its business, processes and products. A special focus in the challenging year of 2020 was to facilitate corporates in combating the negative effects of the corona virus pandemic. The Division continuously brings the Group worldwide expertise to support local innovation, product development and economic growth.

The loan portfolio of CIB amounted to RSD 168.6 billion at the end of 2020 with an annual growth rate of 9%, whilst deposits amounted to RSD 169.1 billion and increased by 17%. The total number of clients was 5,407 in the end of November.

The Markets Department confirmed the leading position of the Bank on the local market. According to the NBS data for the January-October 2020 period, UniCredit Bank was ranked on the first position in FX trade with residents with a market share of 16.6% and on the first position in FX trade with non-residents with a market share of 54.1%. UniCredit Bank kept the first position on the market in euro trade on interbank market with a market share of 18.9%.

During 2020, the Bank continued its efforts to promote hedging products, as a way to protect businesses from interest rate, FX fluctuations and commodities prices variations on the market by offering interactive workshops for both large enterprises and medium-sized companies. The Bank was aiming to be ahead of its competitors with its innovative approach and in doing so it affirmed its leadership position in the design and sales of these products. UniCredit Bank remained a market leader in trading with financial instruments on both primary and secondary markets with a market share of 21% and 32% respectively.

The Bank continued to support enterprises with long-term investment plans and ventures, as well as those that require working capital financing. With the aim to strengthen competitiveness and entrepreneurship, UniCredit secured an easier access to financing through the guarantee scheme programs that enable reduced collateral requirements through the COSME or EDIF guarantee programs. The COSME program covers loans of up to EUR 150,000, while the EDIF program covers loans of up to EUR 500,000. In addition, the Bank supports small and medium size enterprises that are looking to improve existing processes and products in an innovative way by providing access to finance and reduced collateral requirements through the InnovFin Program. Under the Social Impact Banking program and the Impact Financing, the Bank aims to support projects that generate a clear and measurable positive impact on the social community, with a particular focus on hiring of endangered categories and social inclusion, as well as providing support for projects in devastated and less developed regions in Serbia. Furthermore, CIB offered favorable financing conditions to its clients in 2020 via the Guarantee scheme program adopted by the Government in order to provide support for micro and SME in dealing with the negative consequences of the crisis caused by COVID-19.

The CIB Division continued to focus on providing support for export-oriented industries, with a strong belief in their importance for Serbia's economic growth and the implementation of the economic and industry strategy of the Republic of Serbia. The Division focused on expanding the cooperation with the existing clients and the acquisition of new clients in a range of industries that have been recording positive growth rates or possess a significant recovery potential, as well as on the expansion of the SME client base. It also continued to finance the public sector (central and local governments), while it continued working on improving public services for citizens. Furthermore, CIB continued to motivate its clients to take out loans in local currency through various campaigns and stimuluses. In addition, the Division will continue to innovate its products portfolio by implementing new products and by offering hedging to corporates in order to protect their stability in a constantly changing market environment. The Division also aims to deepen and further increase long-term partnerships with new and existing customers based on reciprocity and trust. Corporate customer satisfaction represents a crucial indicator of a successful partnership with all our customers. The Division continues to improve and optimize its risk-adjusted pricing policy in order to better capture the risk profile of a client and provide an adequate reward for the risk assumed.

In 2021 The CIB Division will aim to maintain its leading position on the local FX, money and capital markets together with further promoting of hedging products. CIB business processes efficiency and effectiveness represent a key factor for achieving business goals and the entire Division structure will be proactively involved in the improvement processes. In pursuit of this vision, the CIB Division will focus in 2021 on: the reduction of concentration along business segments and increasing the share in the clients' portfolio by strengthening relationships, further innovation of the product portfolio by implementing new products, increasing the penetration in the segment of small and medium-sized enterprises, providing support for public projects, diversification of the customer portfolio and revenue base as well as increasing the loan portfolio balance in terms of the currency structure.

Unlike the banking sector, UniCredit Leasing with a total portfolio in amount of RSD 12.7 billion at the end of 2020 recorded an annual decline of 6.6% as a consequence of the strong impact COVID-19 had on the automotive and transportation industries followed by a general cease of investments.

Given that in third quarter of 2020 the total leasing new business on the market dropped by 47% compared to the previous year, UCL maintained a solid position among the five largest leasing companies.

The largest negative impact was recorded in the segment of Vehicles financing were at the end of the third quarter of 2020 UCL achieved EUR 16,7 million new business sales which is 52% less than in the same period last year. The Equipment segment, which includes construction machinery, recorded a somewhat smaller decline, with EUR 9.7 million of new business financing (-33% compared to the third quarter of 2019).

During 2020, UniCredit Leasing focused on strengthening its cooperation with vendors, supporting the SME segment, construction, agriculture and the IT industry sectors as well as on developing tools for faster and easier processing of clients requests. Looking forward, UniCredit Leasing is ready to follow the market recovery by providing subsidies and easier financing access through EDIF and EBRD funds and State supported programs.

RETAIL BANKING

In spite of extremely complex business environment, strongly affected by COVID-19 pandemic, the growing trend of Retail Division was kept also during 2020. Overall loan portfolio increased by 2% compared to the previous year, where volumes of deposits recorded strong year-on-year growth of 17%.

Focusing on customer satisfaction and concern in the overall ambient of uncertainty, Bank has been actively supporting clients in both segments, Private Individuals and Small business companies in neutralizing possible negative effects of crisis related to COVID-19 pandemic. Clients continued to show the trust in Bank's product offer and service quality and reliability of the service. In the segment of Private individuals, key credit products in 2020 were housing loans with a variable interest rate and cash loans with the insurance coverage in case of unemployment. Bank has continued to provide favorable offer to clients for purchase of living space. Despite the challenging environment and increased competition, Bank achieved growth of housing loans of 7% compared to 2019, also thanks to further optimization of the approval process and pre-approval concept. As far as lending to Small business clients is concern, stable development of loan portfolio was achieved mostly by working capital loans from guarantee scheme program introduced by Government of the Republic of Serbia.

Despite continuous trend of low interest rates on customer's deposits, UniCredit Bank has continued to pay attention to saving products. In 2020, the volume of Retail customer deposits increased for 15%, which is solid indicator that UniCredit Bank is recognized as one of the most sound and reliable on the local market, also in the conditions of uncertainty caused by COVID-19 pandemic.

Overall clients' base was enlarged by almost 5% comparing to end of 2019, through strengthening and widening of the cooperation with existing clients and establishing cooperation with the new customers, which proves the capability of the Bank to understand and satisfy the needs of its customers.

In accordance with the strategy of further development of digital business, in 2020 UniCredit Bank has continued with the improvement and promotion of the digital banking platforms (mBanking, eBanking, Website, Contact centre). Within mBanking application, improved functionalities were created to satisfy client needs and demand, and contributed to the further growth of number of active mBanking users of more than 30% compared to 2019. This result from digital business is even more important considering the fact that Bank put health and safety of its clients and employees as key priorities of its business during COVID-19 pandemic.

In 2020, work on the initiative with the goal to enhance customer experience was continued guided by their expectations and everyday needs, through monitoring of key processes in the Bank and their optimization and through adequate support to branch network.

In the upcoming period, focus will still be on automations and simplifications with the aim of improvement of efficiency of the business processes. The goal is to continue with the controlled increase of market share based on the good relationship with customers. Regarding loan products, in addition to cash and housing loans, special focus will be on credit cards with standard possibilities for payments for goods and services in Serbia and abroad, as well as online payments and additional special features for benefits in line with clients' needs. Additionally, specifically created credit offers to small businesses in order to support their further growth. In accordance with modern trends and increased customer expectations, digitalization, as a concept of modernizing business, will continue to be one of the main priorities.

RISK MANAGEMENT

Risk Management Division is organized through the work of three departments, one unit and two specialized teams: Strategic Risk Management and Control Department, Credit Underwriting Department, Special Credit Department, Financial and Market Risk Unit, Operational and Reputational Risk Team and Internal Validation Team. They all report to the Member of the Management Board in charge of Risk Management, which provides control over all loan process phases, as well as a global overview and assessment of the risks to which the Bank is exposed.

In order to define a consistent policy of lending activity and the overall framework of the risk management, the Bank defines a Retail and Corporate credit risk strategy, for each business year. In this way, the Bank provides the proper realization of the adopted business policy within framework that will result in an acceptable level of credit risk when it comes to individual placements and adequate diversification, as well as general quality of the loan portfolio. The Bank also takes into account the analysis of the risk of money laundering and financing of terrorism in deciding on taking credit risk.

During 2020, further improvement of risk management system was focused on enhancement of internal organization, business processes and risk management policies in accordance with the best practices of UniCredit Group, requirements arising from the implementation of Basel standards and regulator requests. In the conditions of the pandemic caused by COVID-19, the Bank responded adequately through support for measures and activities aimed at supporting the domestic economy, through a moratorium, i.e. delay in repayment of clients 'obligations due to the possibility of facing difficulties in repayment of debtors' obligations, as well as participation in the guarantee scheme to support the economy.

Identification, measurement, control and management of the credit risk on the portfolio level is based on reporting system, which provides information about the condition, quality and evolution of the loan portfolio. During 2020 there was a continuity of reporting process improvement through increased automation of calculations relating to IFRS 9 provisioning calculation and RWA calculation, setting automatic controls and report generation, dashboard and presentation especially relating to RAF credit risk metrics (EL stock, EL new business, NPE rate, CoR) and other risk parameters (NPE coverage, IFRS 9 staging, RWA overview).

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 and small business entity segments, as well as calibration and further development of rating models according to methodology of UniCredit Group and in line with Internal validation and Internal audit recommendations.

During 2020, several initiatives were implemented and launched that provided continuous monitoring of key risk indicators from various fields (Retail Credit Risk Dashboard, CIB / Retail monitoring presentations with key credit risk indicators, implementation of automatic entry of connection basis for groups of related parties, analysis of credit competencies, activities on implementation of new DoD regulations, Group pricing tool, Calendar Provisioning calculations, new tool for Group Regulatory reporting activities, Expected loss of New Business automation, moratorium in accordance with NBS regulations, reporting to the Group due to application of Moratorium / Guarantee scheme, etc.)

Despite the fact that in 2019, the Special Credit Department continued to take an active approach to reducing the level of problematic loans, the new economic crisis caused by the SARS COVID 19 virus epidemic caused the growth of potentially problematic loans and the number of reprograms in 2020. In addition to the Bank's increased activity in its efforts to reduce / mitigate the effects of the crisis through comprehensive restructuring procedures, government measures and increased monitoring of riskier industries, there is an increase in problematic loans and an increase in the number of clients on watch lists due to business difficulties and significant deteriorated business results. Despite the fact that during 2020 there was a reduction of problematic loans through regular collection, sale of receivables, collection from collateral, but also the return of a number of clients to performing status, there was an increase in the number of potentially problematic loans i.e. increased number of clients for which comprehensive restructuring has been conducted during 2020. Based on all analyzes, a similar trend can be expected during the first part of 2021 as a measure to support the economy, which has been hit by the economic crisis. In addition, in parallel with the above, the implementation and promotion of INSOL principles for management of non-performing loans and clients in multi-creditor situations continued.

In the Retail segment, for private individuals and small business clients and entrepreneurs, the focus in 2020 was on increasing the efficiency of all processes, improvement of the process of monitoring, collection and decreasing of NPL stock. In this respect, the Bank is in the process of implementation of new underwriting tools, has improved monitoring of delinquent portfolio and continued steps in further improvement of collection and decrease of NPL stock.

During 2020, Collateral Statistical Monitoring was completed as well as further improvement of cooperation with external associates: valuation companies, licensed appraisers, insurance companies, monitoring companies and lender supervisors. Aside from that, general improvements of collateral management process and practice were also implemented through more agile acquisition of valuations, insurance policies, more detailed tracking of mortgage inscriptions, etc. The Bank was adequately delivering regular monthly reports regarding real estate valuations to NBS, which are used for loan securitization purposes.

Relevant financial and operational risk taxonomies are defined for identifying and reporting risk exposures. Accurate and reliable risk data are generated to meet normal and stress/crisis reporting accuracy requirements. Data are aggregated on a largely automated basis, to minimize the probability of errors. Liquidity early warning indicators are defined for monitoring financial markets development and assessing its impact on the bank's liquidity position. The goal is to keep overall liquidity management at an efficient level of liquidity to allow the Bank to meet its payment obligations. Further improvement relating to accuracy, integrity, completeness and adaptability of the reporting processes will continue during next year.

Governance structure of the control system of operational risk management involves all relevant organizational levels and thus contributes to raising awareness about the importance of operational risk. Quantitative elements of operational risk measurement system (internal loss data, risk indicators and scenario analysis) are classified and collected by guaranteeing the data completeness, reliability and timely updates. Permanent working group continue its activities with the aim of identifying potential risk and defining measure for mitigating the risk. The system of identification, assessment and control of operational risk adequately reflects the risk profile and allows timely communication with management in order to mitigate the identified risk.

During 2020 further improvement of reputational risk management was in focus The Reputational Risk Management is implemented through a dedicated set of policies to: identify sources of reputational risk (e.g., when entering new markets, products or lines of activities; give guidelines for reputational risk assessment and measurement, monitoring and reporting to the competent corporate Bodies; rule the necessary escalation / decision-making processes (e.g. material events escalation process). The overall reputational risk management framework relies on the following pillars: the involvement of Corporate Governing Bodies, in all the relevant decisions regarding the Reputational Risk management (i.e. escalation mechanisms); the independence of the function in charge of Reputational Risk management and control from the risk taking functions; an effective system of controls, in terms of roles and responsibilities for different control levels (first, second and third lines of defense model); and the establishment of Reputational Risk Committee in order to assess the topics related to the business activity that could affect significantly the Reputational Risk profile of the Bank.

Based on the foregoing, it can be concluded that during 2020 the Bank enhanced risk management system, which, along with its capital adequacy and profitability levels, guarantying an adequate management and coverage of the risks to which the Bank is exposed. Integrated risk management function within which, in accordance with the Law on financial leasing, UniCredit Leasing entrusted the tasks of identifying, measuring, assessing and managing risks to the risk management function of the Bank, was dedicated to improvement of economies of scale in credit business, support in commercial actions and credit process optimization.

Risk Management Division will continue with the efforts and actions aimed at improving the system of management of all risks to which the Bank is exposed in its operations. Special focus is planned towards further enhancement of the credit process in order to improve efficiency, as well as on creating a comparative advantage in the market through process optimization on one hand, and through improvement of the tools for identifying and mitigation of credit risk, on the other hand. In that way, adequate support to all organizational parts will be secured. In 2021 one of the main goals is to maintain and improve portfolio quality and enable base for sustainable growth with focus on further portfolio diversification, but always using proactive approach toward risk management enabling new client acquisition.

GLOBAL BANKING SERVICES

During 2020, beside continued optimization and automation of the banking operation processes and further development of electronic channels and support towards business in further digitalization, main focus of Global Banking Services was on adopting to new working conditions due to COVID19 pandemic, further security improvements - electronic and physical, and continuous improvement of processes.

Information Technology Department has continuously improved Bank infrastructure and applications landscape of the Bank during the year. Projects for implementing new branch front-end and process automation of loan products approval have been enabler of the implementation of a modern micro service platform based on DevOps framework as well main driver to further improve procedures. New Document Management System and newer version of electronic signature component are two of the main components enabling dematerialization and digitalization of banks document, driving the bank towards the strategic goal of redesigning customer experience in the branches and alternative channels as well as reducing cost to serve and operational risks.

In 2020, the Procurement and Cost Management Unit, in coordination with the Group Procurement team, implemented the SAP Ariba tender application as an auxiliary tool for conducting tender processes with high standards of risk analysis and assessment and an efficient way of collecting bids through the application.

During 2020, which brought a number of challenges caused by the COVID 19 pandemic, the main focus of the Bank's Security Unit, Real Estate management and Service Department and Information Technology Department were the protection of employees and all business processes of the Bank along with providing adequate work from home. In accordance with the requirements of the UniCredit Group, local authorities, and the business needs of all individual organizational units of the Bank, a clear strategy was established which meant a complete change of the existing concept of business operation. Effective organization and transparent communication established complete control over the new crisis and the potential negative effects it could have produced. In addition to crisis management, attention was focused on potential dangers that have emerged in the new framework of operation, and which was based on maximum digitalization in unimaginable frameworks until now. Accordingly, the Bank's Security Unit in cooperation with colleagues from the Information Technology Department carried out continuous improvements in the performance of the Bank's information system as well as the implementation and improvement of security layers without negative effects on users, all in order to raise the level of resilience and sustainability of all organizational units of the Bank.

Real Estate management and Service Department was at all times available to colleagues from the network in terms of procurement and delivery of disinfectant material necessary for the normal functioning of colleagues in the branches and smooth work with clients and adequate health care, as well as coordination with colleagues from HR Department in development the procedures related to the protection and safety of the health of the Bank's employees, all according to very strict criteria prescribed by the relevant institutions.

During 2020 three (3) branches of high equipment standards were opened, respecting all protection measures, while the practice of branch furnishing was continued in accordance with the new concept in order for the Bank to successfully respond to the clients' requirements and needs.

The implementation of qualitative and quantitative control of archiving active client documentation was carried out in cooperation with colleagues from the Retail Division. This activity enables the improvement of the control of the completeness of the documentation as well as the qualitative verification of the complete documentation.

Bank continued to improve internal control system in the area of data quality management through constant monitoring of the process and setting up a new methodology. New methodology is now giving more precise definition of main data governance disciplines, clearly identifying the role and responsibilities of process/data owner and setting up criteria for data set selection in order to be included in the data governance framework.

Banking Operations Department has continued with the further process optimization and automation of banking processes by implementing Robotic Process Automation tool and improvement of existing applications, with the aim to reduce operational risks, increase efficiency and to achieve better customer experience. In order to provide full support to the business processes, bank additionally improved processing of booking of salaries by introducing secure channel for data delivery. All initiatives related to COVID19 pandemic situation were successfully supported by Banking Operations and implemented in regular processes. Thanks to the efficiency, flexibility and expertise, Banking Operations Department has significantly contributed to the business success in 2020.

Bank continued with the established practice of projects initiation, project realization, status tracking and key performance indicators by the top management of the bank, which contributed to better project realization. During 2020, Bank fully applied new application dedicated to the colleagues in the branch network, which is used for opening and maintenance of clients, their accounts and services. Implementation of this application increased customer satisfaction by reducing the time needed for realization of their requests. During 2020, the full application implementation has been performed with all planned functionalities including account package opening and service activation for SME as well as automated service cancellation for closed clients and their accounts' closure. Agile methodology is continuously used in key projects with successful results.

The targets of Global Banking Support in 2021 will be directed towards successful realization of bank's strategic projects which refer to further digitalization and automation, as well as process optimization, leading to better business efficiencies as well as further improvements of cost control.

HUMAN RESOURCES hr

The operations of the HR Department in 2020 were focused on providing strategic support to the realization of the Bank's planned business activities through:

- Strengthening the organization in the direction of maintaining business continuity and adequate adaptation to teleworking
- Empowering leaders through leadership development programs
- Empowering women leaders in the organization
- Launching a program for the development of sales skills within the sales network of the Retail Sector

Having in mind the strategic development plans of the Bank, as well as pandemic of COVID-19, HR department adequately supported the business in overcoming challenges and achieving goals and results by enabling adaption to changed ways of working, improving organizational culture and competencies in the field of skills and knowledge necessary for work from home regime, team culture, presentation skills, digital transformation and innovation, as well as through the development of leadership skills and talents of the Bank and motivating and retaining employees who achieve high achievements and have potential for further development.

In cooperation with external consulting companies numerous workshops and trainings were organized during 2020. For the Bank's Management Team the development programs were focused on leadership skills and managing teams remotely, while for the organizational parts of the Bank which cooperate with clients the focus was on improving sales skills. In this year workshops were organized for all organisational levels on the topic of managing the teams remotely with the aim to improve mutual communication, overcoming the challanges and better understanding of the needs of the team during remote working. In parallel, in order to strengthen the leadership skills and provide adequate support to UniCredit leaders, the HR department in cooperation with a global provider, focused on a digital learning program that aims to strengthen and increase their skills in managing people and teams in an era of constant market change.

In 2020, the HR Department has continued the initiative started the previous year and launched a new generation of programs aimed at supporting and empowering women leaders in our organization by providing support on the path of personal growth and further career progress. This pragmatic program supports building women's leadership in our organization.

At the beginning of 2020, HR Department has also launched Retail Sales Academy, for all positions within the Sales network of the Retail sector. The program strives to create a systematized and unified sales approach in the branch network, with a change in communication style with a greater understanding of customer needs, but also to improve sales results.

Striving to adequately empower and support employees in achieving their business goals and improve their performance, the HR Department has supported the bank's internal trainers through a training program to improve coaching and presentation skills online, in order to continue the current practice of organizing trainings and thus enable other employees to acquire new knowledge and skills. Employees have alos been supported in improving their expert and social skills by organizing and providing budget for various trainings, domestic and foreign certificates, and international seminars and conferences that employees attended online during 2020.

As in previous years, in 2020 UniCredit Bank provided private health insurance for all employees, as well as reimbursement of testing costs for all colleagues infected with the COVID-19 virus. During the state of emergency, the Bank provided free online psychological counseling for its employees, as well as a support package for each infected team member that have been delivered to the employees' home addresses.

Moreover, UniCredit Bank has continued to implement previously adopted benefits and initiatives (Birthday Holiday, Healthy Wednesday, Free Day for employees whose children are in the first grade of primary school, Thank you Cards and Parental Support).

In order to encourage employees to take more care of their health and good life habits, the HR has launched the "Really Important Knowledge" initiative, a set of workshops held by specialist doctors, through which employees are encouraged to take care of their physical and mental health.

Cooperation with universities continued through internship programs, study visits and scholarships for the best students.

In 2021, the Human Resources Directorate will continue to work on strengthening the organization and strengthening the organizational culture and employees of the Bank in the field of transformation towards digital business, development of talents and leaders in order to build a stable network of successors to leadership positions. It will also continue to promote a flexible work culture, create a balance between business and private life, support in the form of more comprehensive medical services and the promotion of healthy living habits.

IDENTITY AND COMMUNICATION

The pandemic has posed a numerous challenges to humanity, and the Identity and Communications Unit has modified priorities and key messages to all stakeholders. In the globally uncertain situation caused by the pandemic, it was of outmost importance that our employees, clients, the state and the regulator become convinced that the priorities of UniCredit Bank are health and safety, that we will proactively and continuously support and be their backbone, further contributing to the fight against virus COVID -19. Nurturing a good relationship with clients, we have set one of the key priorities to inform them in a timely manner about all changes caused by the pandemic. Here we mean changes in working hours, preventive measures against the spread of the virus, temporary closure of certain branches, the use of online services, etc. Although we have never been physically away from our clients, through daily communication via all available electronic channels, we have done everything to be transparent and to provide them with up-to-date information at all times. In that way, we established a completely different relationship. In fact, we were next to our clients all the time.

The beginning of 2020 brought changes in the brand's communication strategy, which instead of a very popular product such as a cash loan, in the first place, in accordance with the new situation, put the bank's digital services. Since March, the Identity and Communication team has been continuously working on the promotion of digital channels with the aim of increasing the number of users, especially within existing client's base, emphasizing all the advantages provided by mBanking, eBanking, as well as multifunctional ATMs. This was one of the ways to, in accordance with the recommendations, reduce the physical contact that implies coming to the branches.

This year, we were focused on cooperation and strengthening relations with the bank's corporate clients, in order to create additional benefits for our retail clients. Thanks to that, through the promotion of Flexia Mastetercard credit cards, by highlighting benefits such as buying in 12 installments without interest at our customers' points of sale, but also for online payments, we have provided additional discounts. Such partner campaigns, in addition to the acquisition of clients, aimed at creating loyalty at the time of purchase, at various points of sale, but also to increase awareness of the bank's brand and its image.

The continuous promotion of card products, as a safer means of payment then cash at the time of pandemic, led to a logical sequence in the preparation of a commercial campaign in the fourth quarter of 2020 for Flexia Mastercard credit card, which was promoted through digital channels such as banners on the most visited domestic portals, Youtube video formats, social media, which already in the first days of advertising brought visible results for the bank. Also on this occasion, we tried to point out the importance of reducing physical contact and to promote online shopping.

In 2020, UniCredit Bank strived to maintain its presence in the media and thus further contribute to the growth of the bank's recognition, its reputation and its positioning as someone who is expert in its field. In addition, when it comes to communication with the media, a turnaround has been made. The focus has shifted from products to responsible behavior and business during the pandemic. The main task was to emphasize the importance of the bank's digital services through interviews and press releases, but also our contribution to the health care system to which we donated financial means on two occasions. Also, it was important for us that our clients know that we actively participated in the creation of the measures to help the economy and citizens, that we were among the first banks to start granting loans through the Guarantee scheme program of the Government of the Republic of Serbia and that we provide additional funds thank to our cooperation with European financial institutions to support the economy in order to successfully deal with the crisis caused by the pandemic. Thanks to fostering good relations with the media, with mutual respect, appreciation and trust, we have successfully achieved our goals.

In 2020, Internal communication played a more important role than ever before. Since March, most employees have started working from home, and the uncertainty due to the pandemic has created concern among all employees. Realizing the importance of maintaining business continuity, but at the same time mental health, communication with employees via e-mail and the internal portal of the bank and UniCredit Group was very intensive. It was crucial for us that employees know all the times that their health is a priority and that the bank will do everything to protect them by taking recommended prevention measures. Special communication was created for employees who fought the virus. Words of support and understanding, a gesture of attention and team spirit, meant a lot in such moments. We tried to promote healthy living, long walks in the nature, new ways of learning with various internal motivational campaigns, we promoted heroes from branches who were servicing clients all the time. We devised different ways to stay closely connected online and suggest to each other how to have fun during quarantine and learn some new skills from our co-workers. For our kids who started with the school, we prepared gifts for a good start to a new chapter in their lives, and they sent us their stories and impressions of how they spent their first day at school. During the summer, our employees discovered hidden gems all over our country wrote reports and advised other on which fantastic places we could spend our weekends.

In 2021, the Identity and Communications Unit will remain focused on providing support to the bank's operations by informing clients through various communication channels. In addition, excessive attention will be paid to further improving the bank's reputation by continuing to implement various initiatives aimed at supporting the local community.

CORPORATE SOCIAL RESPONSIBILITY

In line with the situation causing from the pandemic, UniCredit Bank has adjusted its Corporate social responsibility strategy, which we have been building for several years and which included active involvement of employees in various volunteer activities, in order to contribute to the fight against virus COVID-19. In times like these, it is important to be united, to be proactive and to show, as a responsible member of the community in which we operate, by example how important it is for everyone to give the contribute, while motivating others to solidarity.

Two weeks after the declaration of the pandemic in Serbia, UniCredit Bank donated 50,000 euros to the Republic Health Insurance Fund for the purchase of equipment necessary for the treatment of patients. In addition, we joined the UNICEF initiative to procure oxygen flow meters to help our healthcare facilities. At the end of the year, the bank decided to donate money instead of the funds traditionally intended for holiday celebrations and gifts, on behalf of its clients and employees, and in that way additionally help the Serbian health system in the fight against the pandemic. Therefore, an additional 30,000 euros was paid to the Republic Health Insurance Fund.

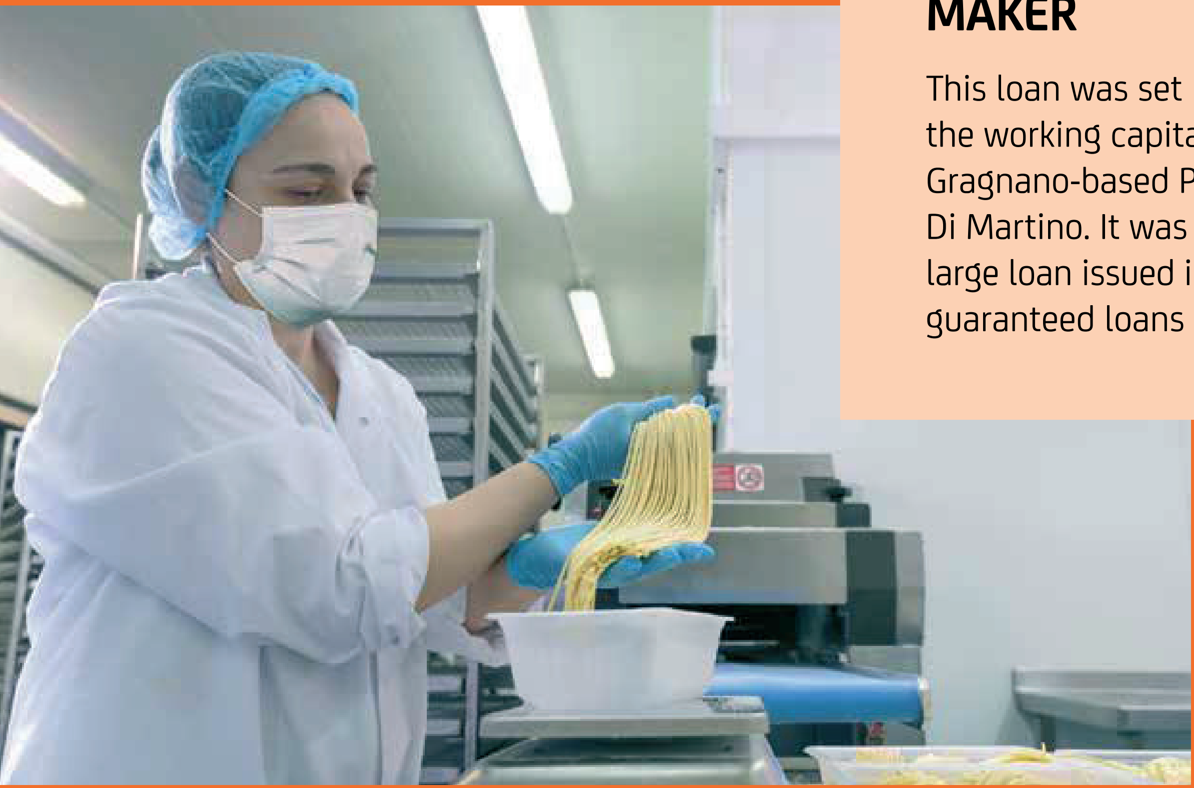
We continued to support our long-term partners BelHospice and Junior Achievement. As part of the “Business Challenge” competition, about 65 colleagues took on the role of mentors and helped over 300 high school students develop their business ideas by creating business plans, thus further contributing to the financial education of young people and the development of entrepreneurial spirit of teenagers.

Together with our Milan-based UniCredit Foundation, we organized a competition called Every Child Matters, within which we awarded grants to non-profit organizations dealing with children’s issues in the total amount of 45,000 euros. The following non-profit organizations were awarded: NURDOR, Tijana Jurić Foundation, Patria Association and the Association for support of mentally underdeveloped persons in Serbia.

In the coming year, we will continue to provide support to local communities and our partners in order to contribute to the improvement of living conditions of various categories of the population. If the situation with the COVID-19 allows us, we will start our volunteer activities again and in that way include employees in projects of wider social significance.

Do the right thing!
For our Clients

With over 16 million clients in 13 countries, we worked harder than ever in 2020 to help all our clients face new challenges: from billion euro funding programmes for multinational companies to mentoring new startup businesses, UniCredit is committed to being part of the solution.



€10 MILLION OF NEW FINANCING FOR A 100-YEAR OLD PASTA MAKER

This loan was set up to meet the working capital needs of Gragnano-based Pastificio Di Martino. It was also the first large loan issued in under Italy's guaranteed loans programme.

FINANCIAL STATEMENTS 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as of December 31, 2020

(Thousands of RSD)

	Note	December 31, 2020.	December 31, 2019.
Cash and balances held with the central bank	3.l, 21	57.151.847	59.710.178
Pledged financial assets	22	11.630.733	-
Receivables under derivative financial instruments	3.m, 23	1.447.643	1.167.316
Securities	3.k, 3.p, 24	102.554.778	106.276.789
Loans and receivables due from banks and other financial institutions	3.k, 3.o, 25	27.746.829	2.941.212
Loans and receivables due from customers	3.k, 3.o, 26	290.992.861	277.805.020
Intangible assets	3.r, 3.u, 27	2.138.539	1.909.531
Property, plant and equipment	3.q, 3.t, 3.u, 28	3.578.448	3.896.716
Investment property	3.s, 29	3.527	3.528
Current tax assets	3.j, 20.4	303.763	60.985
Other assets	30	1.287.215	1.095.182
Total assets		**498.836.183**	**454.866.457**
Liabilities under derivative financial instruments	3.m, 31	1.632.761	1.206.796
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.k, 3.v, 32	129.668.838	128.354.784
Deposits and other liabilities due to customers	3.k, 3.v, 33	268.373.476	230.679.097
Liabilities under derivatives designated as risk hedging instruments	3.n, 34	116.377	158.188
Provisions	3.w, 3.y, 35	2.299.122	1.295.282
Deferred tax liabilities	3.j, 36	98.381	410.805
Other liabilities	3.t, 37	12.554.201	5.820.323
Total liabilities		**414.743.156**	**367.925.275**
Issued (share) capital	39.1	24.169.776	24.169.776
Profit	39.1	6.479.350	9.367.552
Reserves	39.1	53.443.901	53.403.854
Total equity		**84.093.027**	**86.941.182**
Total liabilities and equity		**498.836.183**	**454.866.457**

FINANCIAL STATEMENTS 2020

CONSOLIDATED INCOME STATEMENT Year Ended December 31, 2020

(Thousands of RSD)

	Note	2020.	2019.
Interest income	3.d, 7	15.754.548	16.999.067
Interest expenses	3.d, 7	(2.451.266)	(2.953.290)
Net interest income		**13.303.282**	**14.045.777**
Fee and commission income	3.e, 8	5.365.537	5.397.213
Fee and commission expenses	3.e, 8	(1.501.892)	(1.255.117)
Net fee and commission income		**3.863.645**	**4.142.096**
Net gains on changes in the fair value of financial instruments	3.f, 9	-	218.200
Net losses on changes in the fair value of financial instruments	3.f, 9	(57.395)	-
Net gains on derecognition of the financial assets measured at fair value	3.g, 10	733.761	503.521
Net gains on risk hedging	3.h, 11	864	-
Net losses on risk hedging	3.h, 11	-	(241.352)
Net foreign exchange gains and positive currency clause effects	3.c, 12	1.501.831	1.672.692
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.k, 13	(3.890.813)	(1.446.613)
Net gains on derecognition of the financial assets measured at amortized cost	3.i, 14	23.527	-
Net losses on derecognition of the financial assets measured at amortized cost	3.i, 14	-	(516.198)
Other operating income	15	8.813	11.864
Total operating income, net		**15.487.515**	**18.389.987**
Salaries, salary compensations and other personal expenses	16	(3.283.138)	(3.150.856)
Depreciation and amortization charge	3.q, 3.r, 3.t, 17	(1.214.343)	(1.100.342)
Other income	18	233.357	203.283
Other expenses	19	(5.511.535)	(5.230.104)
Profit before tax		**5.711.856**	**9.111.968**
Current income tax expense	3.j, 20	(428.742)	(795.012)
Deferred tax gains	3.j, 36.2	100.414	73.381
Profit after tax		**5.383.528**	**8.390.337**
Result of the period - profit		**5.383.528**	**8.390.337**
Profit attributable to the parent entity		**5.383.528**	**8.390.337**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2020

(Thousands of RSD)

	Note	2020.	2019.
Net profit for the year		**5.383.528**	**8.390.337**
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		5.734	58.909
- Actuarial losses		(27.481)	(23.513)
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		-	2.278.950
- Negative effects of value adjustments of debt securities measured at fair value through other comprehensive income		(1.391.647)	-
Gains on taxes relating to other comprehensive income	36.2	212.010	-
Losses on taxes relating to other comprehensive income	36.2	-	(724.391)
Total positive other comprehensive income for the year	**39.2**	**-**	**1.589.955**
Total negative other comprehensive income for the year	**39.2**	**(1.201.384)**	**-**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**4.182.144**	**9.980.292**
Total positive comprehensive income for the year attributable to the parent entity		**4.182.144**	**9.980.292**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2020

(Thousands of RSD)

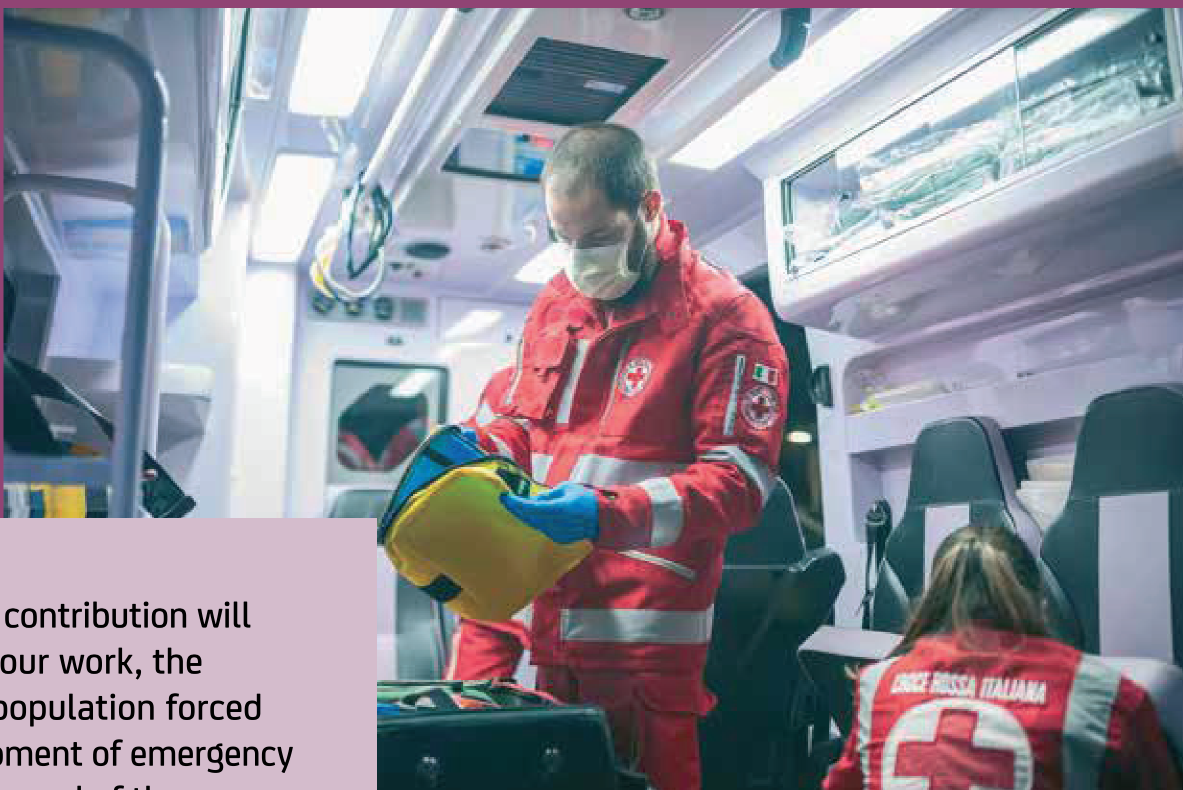
	Share and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Profit	Total
Opening balance as at 1 January of the previous year	**23.607.620**	**562.156**	**41.919.994**	**2.517.258**	**10.198.862**	**78.805.890**
Adjusted opening balance as at 1 January of the previous year	**23.607.620**	**562.156**	**41.919.994**	**2.517.258**	**10.198.862**	**78.805.890**
Total positive other comprehensive income for the period	-	-	-	1.589.955	-	x
Profit for the current year	-	-	-	-	8.390.337	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 owners	-	-	7.376.647	-	(9.221.647)	x
Balance as at 31 December of the previous year	**23.607.620**	**562.156**	**49.296.641**	**4.107.213**	**9.367.552**	**86.941.182**
Opening balance as at 1 January of the current year	**23.607.620**	**562.156**	**49.296.641**	**4.107.213**	**9.367.552**	**86.941.182**
Adjusted opening balance as at 1 January of the current year	**23.607.620**	**562.156**	**49.296.641**	**4.107.213**	**9.367.552**	**86.941.182**
Total negative other comprehensive income for the period	-	-	-	(1.201.384)	-	x
Profit for the current year	-	-	-	-	5.383.528	x
Transfer from reserves to result due to reversal of reserves-increase	-	-	-	-	1.701	x
Distribution of profit - increase	-	-	1.241.431	-	-	x
Distribution of profit , and/or coverage of losses - decrease	-	-	-	-	(1.241.431)	x
Dividend payments	-	-	-	-	(7.032.000)	x
Total transactions with the owners	-	-	1.241.431	-	(8.273.431)	x
Balance as at 31 December of the current year	**23.607.620**	**562.156**	**50.538.072**	**2.905.829**	**6.479.350**	**84.093.027**

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2020

	Note	2020.	(Thousands of RSD) 2019.
Cash inflows from operating activities		**19.526.369**	**23.780.772**
Interest receipts		8.715.866	12.794.960
Fee and commission receipts		5.213.586	5.354.164
Receipts of other operating income		5.596.917	5.631.648
Cash outflows from operating activities		**(15.467.117)**	**(15.071.557)**
Interest payments		(2.053.700)	(2.655.255)
Fee and commission payments		(1.516.813)	(1.228.921)
Payments to, and on behalf of employees		(3.290.477)	(3.190.760)
Taxes, contributions and other duties paid		(526.072)	(566.141)
Payments for other operating expenses		(8.080.055)	(7.430.480)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities		**4.059.252**	**8.709.215**
Decrease in financial assets and increase in financial liabilities		**25.944.400**	**278.424**
Decrease in receivables from securities and other financial assets not held for investments		-	77.774
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		25.865.387	-
Increase in other financial liabilities		79.013	200.650
Increase in financial assets and decrease in financial liabilities		**(13.075.786)**	**(16.312.607)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(12.768.290)	(2.908.751)
Increase in receivables under securities and other financial assets not intended for investment		(241.647)	-
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		-	(13.010.897)
Decrease in liabilities under derivatives designated as hedging instruments and changes in the fair value of hedged items		(65.849)	(392.959)
Net cash generated by operating activities before income taxes		**16.927.866**	**-**
Net cash used in operating activities before income taxes		**-**	**(7.324.968)**
Income tax paid		(671.519)	(1.307.878)
Dividend paid		-	(1.845.000)
Net cash generated by operating activities		**16.256.347**	**-**
Net cash used in operating activities		**-**	**(10.477.846)**
Cash inflows from investing activities		**-**	**3.337.919**
Proceeds from investing in investment securities		-	3.337.919
Cash outflows from investing activities		**(5.529.858)**	**(969.154)**
Cash used for investing in investments securities		(4.640.468)	-
Cash used for the purchases of intangible assets, property, plant and equipment		(889.390)	(969.154)
Net cash generated by investing activities		**-**	**2.368.765**
Net cash used in investing activities		**(5.529.858)**	**-**
Cash inflows from financing activities		**14.016.838**	**9.632.736**
Borrowings, inflows		14.016.838	9.632.736
Cash outflows from financing activities		**(418.351)**	**(396.367)**
Other outflows from financing activities		(418.351)	(396.367)
Net cash generated by financing activities		**13.598.487**	**9.236.369**
TOTAL CASH INFLOWS		**59.487.607**	**37.029.851**
TOTAL CASH OUTFLOWS		**(35.162.631)**	**(35.902.563)**
NET CASH INCREASE		24.324.976	1.127.288
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**3.I, 40**	**31.544.300**	**30.625.269**
Foreign exchange Losses, net		(77.848)	(208.257)
CASH AND CASH EQUIVALENTS, END OF YEAR	**3.I, 40**	**55.791.428**	**31.544.300**

Do the right thing!
For our Communities

UniCredit is proud to support communities in all of our countries: we launched formal and informal initiatives, with a wide range of volunteering activities and donations, employees and customers raising and donating millions of euros.



"Your generous contribution will help, through our work, the entire Italian population forced to face this moment of emergency linked to the spread of the new Coronavirus. Thanks to your donation, the Italian Red Cross continues to expand, investing in services, resources and training for volunteers and operators to be alongside those who need it most".

Francesco Rocca
President of the Italian Red Cross

1. BANKING GROUP'S ESTABLISHMENT AND ACTIVITY

The Banking Group (hereinafter: the "Group") is comprised of the parent entity UniCredit Bank Srbija a.d. Beograd (hereinafter: the "Parent Entity" or the "Bank") and its subsidiaries UniCredit Leasing Srbija d.o.o. Beograd and UniCredit Partner d.o.o. Beograd. In January 2016 the Bank became the sole (100%) owner of each of the aforesaid subsidiaries.

(a) Establishment and Activity of the Bank

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, 2020, the Bank was comprised of the Head Office in Belgrade, 72 branch offices and 2 counters located in towns throughout the Republic of Serbia (December 31, 2019: 72 branch offices and 2 counters).

As of December 31, 2020, the Bank had 1,319 employees (December 31, 2019: 1,312 employees).

(b) Establishment and Activity of the Subsidiary UniCredit Leasing Srbija d.o.o. Beograd

The Subsidiary UniCredit Leasing Srbija d.o.o. Beograd (hereinafter: "Leasing") was established under Decision of the Commercial Court in Belgrade, registry card no. 1-92733-00, dated May 18, 2004 under the name of HVB Leasing d.o.o. Beograd. The founder of Leasing was Bank Austria Creditanstalt Leasing GmbH, Vienna. On April 11, 2007, Leasing changed its name into UniCredit Leasing d.o.o. Beograd. Change of the founder was registered with the Serbian Business Registers Agency under no. 4109/2009 dated February 10, 2009 with UniCredit Global Leasing S.p.A, Milan registered as the new founder. In January 2016, in accordance with the Agreement on Sale and Purchase of Equity Interest and upon obtaining the National Bank of Serbia's approval, the Bank became the sole (100%) owner of Leasing. The aforedescribed change in ownership was registered with the Serbian Business Registers Agency on January 26, 2016.

The Leasing Company is principally involved in finance lease activities.

As of December 31, 2020, Leasing had 30 employees (December 31, 2019: 29 employees).

(c) Establishment and Activity of the Subsidiary UniCredit Partner d.o.o. Beograd

The Subsidiary UniCredit Partner d.o.o. Beograd (hereinafter: "Partner") was founded on May 3, 2006 under the name of HVB Partner d.o.o. za zastupanje u osiguranju Beograd [HVB Partner Limited Liability Company for Insurance Agency Services, Belgrade]. Partner's founder was BA-CA Leasing Versicherungs Service GmbH, Vienna, Austria. The Company's foundation was registered with the Serbian Business Registers Agency under Decision no. BD 3370/2007 on March 13, 2007. On June 2008, Partner Changed its name to UniCredit Partner
d.o.o. za zastupanje u osiguranju Beograd [UniCredit Partner Limited Liability Company for Insurance Agency Services, Belgrade]. Change of the founder to a new founder Allegro Leasing Gesellschaft m.b.H. was registered under Decision of the Serbian Business Registers Agency no. BDŽU 30358/2013/01-01 dated April 9, 2013.

In January 2016, in accordance with the Agreement on Sale and Purchase of Equity Interest and upon obtaining the National Bank of Serbia's approval, the Bank became the sole (100%) owner of Partner. The aforedescribed change in ownership was registered with the Serbian Business Registers Agency on January 12, 2016.

Partner is registered to perform the activities of an agent and intermediary in insurance. On April 16, 2007 Partner executed the Agency Agreement with Wiener Staedtische osiguranje a.d. Beograd, (headquartered at no. 1, Trešnjinog Cveta St., Belgrade) as the main insurer. Based on the written approval obtained from the main insurer and other insurance companies, Partner acts as an agent of the following insurers: Generali osiguranje a.d. Beograd, DDOR Novi Sad a.d., Novi Sad, Dunav osiguranje a.d., Beograd, AMS osiguranje a.d., Beograd, Triglav osiguranje a.d., Beograd, Milenijum osiguranje a.d, Begrad, Sava neživotno osiguranje a.d, Beograd, UNIQA osiguranje a.d., Beograd and the insurance company taken acquired by UNIQA osiguranje „Basler osiguranje" a.d., Beograd.

As of December 31, 2020 Partner had 3 employees (December 31, 2019: 2 employees). .

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Basis of Preparation and Presentation of the Consolidated 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. 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 accompanying consolidated 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).

These consolidated 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 and
- property used for performance of the Bank's own business activity that are stated at revalued method.

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 according to IFRS 13. Upon estimating the fair value of assets or liabilities, the Group 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 consolidated 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.

According to IFRS 13, 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 consolidated financial statements, the Group adhered to the accounting policies described in Note 3.

The Group's consolidated 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 2020, the Group 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, 2020:

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

- Amendments to IFRS 3 “Business Combinations” - Definition of a Business;
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” - Interest Rate Benchmark Reform;
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”- Definition of Material ;
- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 16 “Leases” - COVID-19-Related Rent Concessions

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group’s consolidated financial statements.

(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” including amendments to IFRS 17;

- Amendments to IAS 1 “Presentation of Financial Statements” - Classification of Liabilities as Current or Non-Current;
- Amendments to IFRS 3 “Business Combinations” - Reference to the Conceptual Framework with amendments to IFRS 3;
- Amendments to IFRS 4 “Insurance Contracts” – Extension of the Temporary Exemption from Applying IFRS 9;
- 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;
- Amendments to IAS 16 “Property, Plant and Equipment” - Proceeds before Intended Use;
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” - Onerous Contracts — Cost of Fulfilling a Contract;
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases” - Interest Rate Benchmark Reform - Phase 2;
- Amendments to various standards due to “Improvements to IFRSs (cycle 2018 -2020)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording.

The Group’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 Group 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 Group in the period of initial application.

(d) Impact of the pandemic COVID-19

After the World Health Organization declared the COVID-19 pandemic in March 2020, which affected the whole world, not only a deep health crisis occur, but there were great changes in the global economy and the economies of individual countries. The imposed measures of isolation and social distancing have affected the reduction of the scope, and in certain cases the complete cessation of economic activity of certain activities. This has had an impact on accelerating the mass digitization of financial institutions and moving towards a new operational model with more remote/network channels for customer service.

The Government of the Republic of Serbia and the National Bank of Serbia (hereinafter: the NBS) undertook comprehensive fiscal and monetary policy measures in order to reduce the negative effects. In order to provide support for the financial and economy the NBS has conducted monetary easing measures to maintain financial and price stability, ensure an efficient functioning of the money market and preserved credit activity which reduced the negative impact of the pandemic on the economy and created the necessary preconditions for a faster recovery. Since the outbreak of the pandemic, the NBS cut the key policy rate on four occasions in total by 1.25% and ended the year at the lowest level in the inflation targeting regime of 1%. More favorable financing conditions in dinars have thus been created for the private and household sectors, bringing the dinar interest rate down by 0.8% since the end of 2019, while by narrowing the interest rate corridor by ± 1.25 to ± 0.9 % it has increased the effectiveness of this monetary channel. In order to increase the efficiency of the banking sector and provide higher dinar and foreign currency liquidity additional measures were put in action which consisted of direct repo operations, swap auctions and bilateral purchases of dinar government bonds from banks. The moratorium on repayment of loan obligations for all debtors who wish to do so, first for a period of 90 days

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

and then for an additional 60 days, significantly contributed to the reduction of the negative effect of the crisis.

In December 2020, another measure was adopted related to relief in repayment of liabilities, in which banks are required to approve rescheduling and refinancing of loans with a grace period of six months and a corresponding extension of the repayment period, so that the debtor's monthly obligations do not exceed those from the initial repayment plan. As part of measures to preserve the liquidity of the economy, a guarantee scheme for liquidity loans and working capital was established, which enabled the continuation and growth of lending activity and included the approval of new or renewal of existing loans for clients from the segment of micro, small and medium enterprises, entrepreneurs and registered agricultural holdings.

The Group, as well the UniCredit Group, has introduced preventive measures to deal with the pandemic, including tightening risk monitoring, and continues to proactively manage the development of the situation. Non-financial risk arising from restrictions on the movement and remote operation of staff, other contracting parties, customers and suppliers is identified and monitored and adequately managed.

The Group has considered the impact of COVID-19 in preparing the financial statements as of December 31, 2020. The impact of COVID-19 resulted in the application of further judgments and the inclusion of estimates and assumptions specific to the pandemic.

The considerations of the Group's management regarding the impact of COVID-19, including estimates and assumptions, on individual items of the financial statements are set out below:

Loans and receivables

The Group offered a range of support measures to clients, individuals and legal entities, who were affected by COVID-19, such as delays in repayment of liabilities (moratorium) as well as the approval of liquidity loans and working capital with a guarantee scheme. Measures of delay in repayment of liabilities (moratorium) were approved in accordance with the decisions of the NBS, first for a period of 90 days, and then for an additional 60 days, with a consequent increase in the maturity of placements. ESMA (The European Securities and Markets Authority) in the document "Accounting implications of the outbreak of COVID-19 on the calculation of expected credit losses in accordance with IFRS 9" clarified that it is unlikely that the contractual changes resulting from the moratorium can be considered as substantial modification leading to derecognition placement. Accordingly, the Group calculated a loss based on the modification and reported it in the income statement position "Net expense based on impairment of financial assets not measured at fair value through profit or loss". The loss on the modification was calculated for the period of deferred payment in the amount of RSD 379,405 thousand (Note 13).

Calculation of expected credit loss

The slow-down in economic activity resulting from the COVID-19 pandemic and the associated related lock-down measures have affected the calculation of expected credit losses. The Group has updated the macro-economic scenarios as of December 31, 2020. For additional information on measurement credit exposure refer to Note 4 (b). Also in this case the measurement is affected by the already mentioned degree of uncertainty on the evolution of the pandemic, the effect of relief measures and the existence and degree of economic recovery. The evolution of these factors may require in future financial years the classification of additional credit exposures as non-performing thus determining the recognition of additional loan loss provision. In this context it will be relevant among other factors, the ability of the customers to service their debt once moratorium and other support measures granted by governements will expire.

Non-financial assets

With reference to the valuation of non-financial assets, it is worth to mention the valuation of real estate portfolio which has became relevant following the adoption, starting from December 2019, of the fair value model (assets held for investment) and the revaluation model (assets used in business). For these assets, on 31 Decembar 2020, fair value has been determined through external appraisals.

Further information has been provided in Notes 29.2 and 30. In this context, it is worth to note that in the upcoming financial years, the fair value of these assets might be different from the fair value observed as at 31 December 2020 as a result of evaluation of real estate market wich will also depend on situation and economic recovery.
Although estimates have been made on the basis of information considered reasonable and acceptable as of December 31, 2020, they may be

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

subject to change that is not currently foreseeable as a result of the development of the parameters used for the assessment. Given the uncertainty relating to development of COVID-19 and limited experience of the economic and financial impacts of such a pandemic, the actual outcomes for the Group in the future may differ from the assumptions that have been applied in the measurement of the Group 's assets and liabilities.

(e) Interest Rate Benchmark Reform (IBOR)

A comprehensive reference rates reform is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board (FSB), and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation BMR, UniCredit Group launched in October 2018 a Group wide project in order to manage the IBORs discontinuation.

Accordingly, a multiyear roadmap has been defined based on both UniCredit Group exposure (mainly focused on Euro) and transition timeline.

In 2020, UniCredit Group has followed up the activities defined to ensure a smooth transition away from LIBOR, consistently with the latest international working groups' developments and recommendations.

In this sense, after a slowdown due to COVID-19 crisis, during the last part of the year, a number of consultations have issued by European and other international working groups and bodies.

To address potential source of uncertainty on the effect of the Interbank offered rates (IBOR) reform on existing accounting hedge relationships the "Amendments to IFRS9, IAS39 and IFRS7 Interest Rate Benchmark Reform" (in further text: the Amendments) clarifies that the reform does not require to terminate such hedge relationships. The Amendments is effective for annual periods beginning on or after January 1, 2020. UniCredit Group and the Group opted for early adoption of Amendments in 2019.

The Amendments do not have an impact on the financial statements prepared for both 2020 and 2019 bearing in mind that the Group has active contracts of fair value hedging related only to the EURIBOR benchmark.

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group is continuously monitoring the market, participating to the relevant public consultations and working groups.

(f) Comparative Information

Comparative information in the accompanying consolidated financial statements represents the data from the Group's consolidated financial statements for 2019.

(g) Use of Estimates

Preparation of the consolidated financial statements in accordance with IFRS requires the Group'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.

Further explanations have been reported in Note 5.

(h) Statement of Compliance

The Group'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 Group for all years presented in the accompanying consolidated financial statements. The Group's main accounting policies applied to the current and previous reporting periods are presented in greater detail hereunder.

(a) Consolidation

The Group's consolidated financial statements include the consolidated statement of financial position as of December 31, 2020 and the related consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and notes to the consolidated financial statements.

The Group's consolidated financial statements as of and for the year ended December 31, 2020 include the financial statements of the Parent Entity (the Bank) and financial statements of the following subsidiaries:

	Equity Interest %	
Subsidiary:	**2020.**	**2019.**
UniCredit Leasing d.o.o., Beograd	100%	100%
UniCredit Partner d.o.o., Beograd	100%	100%

(b) Going Concern

Considering the circumstances caused by COVID-19 pandemic and uncertainty related to economic recovery, the Group's management believe with reasonable certainty that the Group will continue to operate profitably in the foreseeable future. As a result, the Group's financial statements have been prepared on a going concern basis, assuming that the Group will continue its operations for an indefinite period in the 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 Group's income statement as net foreign exchange gains or losses and positive/negative currency clause effects.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated to the functional currency at the exchange rate effective at the date that the fair value was determined. Non-monetary assets and liabilities that are stated at historical cost in a foreign currency are translated using the exchange rates effective at the dates of the transactions. Foreign exchange differences that arise are recognized in profit or loss, except for exchange differences arising on the translation of securities that are measured at FVtOCI.

The official exchange rates determined by the NBS 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, 2020	December 31, 2019
USD	95,6637	104,9186
EUR	117,5802	117,5928
CHF	108,4388	108,4004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Interest Income and Expenses

1. The Effective Interest Method

Interest income and expenses are recognized in the income statement in the period they relate 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).

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 if exist. 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 Group receives a fee from a client that offsets similar charges paid by the Group, 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 Group 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.

Interest income on debt securities at FVtPL is recognized at the nominal coupon interest rate and is included in interest income. Interest income and expense on derivative financial instruments are also included in interest income and expense.

The Group 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.

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 Group 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 Group 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.

2. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Group 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 Group 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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. 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 2020 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 2020. The most of provisions refer to the tax period 2021 in terms of taxation of digital assets, which currently does not affect the tax base of the Group. Exceptionally, the provisions relating to the recognition of expenditures on the basis of write-off of receivables for CHF-indexed housing loans apply to determination, calculation and payment of tax liability starting from 2020. Namely, the Group is recognized the right to a tax credit in the amount of 2% of the remaining debt determined in accordance with Article 4, paragraph 1 of the Law on Conversion of Housing Loans Indexed in CHF ("Official Gazette of RS", No. 31/19).

The Group uses the tax credit in two consecutive tax periods, in the amount of 50% of the tax credit calculated in this way starting from 2020.

2. 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.

3. Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Group 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.

(k) Financial Assets and Liabilities

1. Recognition and Initial Measurement

The Group 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.

2. Classification and Subsequent Measurement

Financial Assets

Upon initial recognition, the Group 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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:
1) business model based on which the Group manages a financial asset; and
2) 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 Group 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 Group 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 Group 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group, 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 included in the interest income within the income statement.

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 Group ‘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 Group 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 Group ‘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 Group 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 Group’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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Derecognition

Financial Assets

The Group derecognizes a financial asset when:
- the contractual rights to the cash flows from the financial asset expire;
- when the Group 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.

The Group 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 Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Group 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 Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expired.

4. Modification

Derecognition due to Significant Modification of Contractual Terms

In instances of amendments to the contractual terms, the Group 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 Group 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 of expected credit losses (in further text: ECL), 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 Group 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

rate. Any transaction costs adjust the carrying amount of a modified financial asset and are amortized over its useful life.

In accordance with ESMA's declaration ("Accounting implications of the outbreak of COVID-19 on the calculation of expected credit losses in accordance with IFRS 9") it is unlikely that the contractual changes resulting from the moratorium can be considered as substantial. Accordingly, the Group has calculated a loss based on the modification for the deferral period (Notes 2 (d) and 13).

5. Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group 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 Group's trading activity.

6. 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.

7. 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 Group 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 Group 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 Group, 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 Group 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 Group 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 Group 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 Group 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

or sold, or the fair value becomes observable.

8. 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 Group 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 Group uses forward-looking information and macroeconomic factors, i.e., the Group 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.

The Basic Principles and Rules Used by the Group in Calculation of Allowances under IFRS 9

The Group 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 Group 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 Group 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 Group 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 on exposures that are within the scope of the ECL model. 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.

Watch list 2 means clients with higher risk, showing structural/strategic problems, bad business health, profitability issues. Of course, this WL2 status cannot be assigned to financial instrument at origination, this status is assigned in case of deterioration in credit risk compare to initial credit risk at inception.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the impairment process, the Group 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.

9. 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 Group 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 Group would still be entitled even after the conducted write-off without debt acquittal, but where the Group has decided to cease further calculation and recording of interest as from the moment of such write-off. In such cases, the Group 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 Group 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 Group 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 Group 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 Group's competent bodies enact a decision on derecognition of the asset from the off-balance sheet items.

The Group 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 Group 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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group 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 Group 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%.

1. 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 Group'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 Group'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).

(q) Property, Plant and Equipment

1. 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.

Subsequent to the initial recognition:
the Group 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2. Subsequent Expenditure

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

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 Group 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.

3. 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.

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.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate. There was no change compared to last year.

(r) Intangible Assets

The Group'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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. After initial measurement, Group use the fair value model for investment property measurement. The Group'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

1. The Group 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 Group does not apply the requirements of IFRS 16 to leases with low-value underlying assets i.e. value up to EUR 5,000 in RSD counter value, 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 Group'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 Group'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 re-measurement 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 Group.

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 Group'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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 Group, as the lessee, is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, 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.

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

2. The Group as the Lessor

As a lessor, the Group needs to assess whether a lease is a finance or an operating lease. If the Group 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.

(u) Impairment of Non-Financial Assets

The carrying amounts of the Group'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 Group's main source of debt funding.

The Group 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Provisions

A provision is recognized if, as a result of a past event, the Group 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 Group 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 Group 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.

(y) Employee Benefits

In accordance with regulatory requirements of the Republic of Serbia, the Group 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 Group 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 Group 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, 2020 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 Group used data and assumptions such as the official statistical mortality rate tables, employee turnover and disability rates, the projected annual salary growth rate of 6%, and an annual discount rate of 4%. In addition, in 2020, the Group accrued expenses for unused annual leaves (vacations).

Liabilities for short-term employee benefits are recognized on undiscounted basis as an expense when the service is provided. Long-term benefits refer to payments based on long-term remuneration schemes of employees which are included in these schemes based on the criteria of contributing to the long-term and growing profitability of the Group. Liabilities for long-term employee benefits are recognized using the appropriate discount rate.

Do the right thing!
For Diversity & Inclusion

UniCredit is committed to promoting a positive working environment that embraces our core values: Ethics & Respect.

TAKING ACTION AT THE 2020 D&I WEEK

More than 21,000 colleagues joined our 100 events in 15 countries. With 270 external speakers and 145 hours of workshops, coaching sessions and online discussions, we made sure everyone could join UniCredit's second annual Diversity & Inclusion Week.

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

In its operations the Group 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.

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 and the Group are exposed to in their 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.

The relationships between the Parent Entity and the subsidiaries is strictly defined in line with the regulatory provisions governing the area of related party transactions and taking into account legally defined crediting limits prescribed by the NBS. 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 Group 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. Reporting line of relevant departments and the technical structures is organized 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 Group's financial performance and capital due to counterparty failure to perform their obligations towards the Group or potential deterioration of the clients' credit quality.

Credit process in the Group is based on strict segregation of the competences and responsibilities in credit operations between risk assuming

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

With the aim to ensure adequate and timely risk management in the area of crediting activity, the Group 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, Guidelines for the monitoring of customers with increased risk and rules on management of Special Credit Clients, Rules on the IAS/IFRS Provisioning and other enactments. The Group’s goal is to protect itself from the negative impact 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 Group 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 Group 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 Group 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.

The main goal in 2020 was to minimize the potential negative effects due to the COVID-19 pandemic, so the credit process was primarily modified, in terms of introducing more restrictive lending rules. The main changes was as follows: for all the Bank’s clients, the focus was on existing clients from industries that were less affected by the negative effects of the pandemic; also, the focus was on clients with better ratings, more restrictive indebtedness ratios for individuals were introduced, the concept of pre-approval for small companies and entrepreneurs was abolished during the pandemic, placement approvals for these clients were centralized, additional correction of COVID-19 haircut was introduced to assess the value of real estate.

In cases where increased risk was observed for corporate clients or an increase in risk was expected due to the industry in which the client operates, the classification of clients was changed through the existing process (transfer to Watch list or to Restructuring where necessary). In addition, the emphasis was on the changed processes and rules during the introduction of the moratorium and lending through the guarantee scheme of the Republic of Serbia, as well as on the intensified monitoring of all activities in the credit process.

Credit Risk Reporting

The Group 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 Group’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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 Group at default (EaD);
- Probability of default (PD); and
- Loss given default (LGD).

The Group 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 Group also internally calculates other credit risk parameters.

Internal credit risk assessment models, credit risk parameters and collaterals are used for loan loss provisions calculation in line with 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 Group manages credit risk concentration of the portfolio by setting appropriate limits. Limits are defined by the Group's internal bylaws and/or NBS regulations and compliance with those is monitored and reported on an ongoing basis.

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
Report of Risk Management Division (CRO Report)/ Presentation for Supervisory Board (SB presentation)	Strategy and Finance Division (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,

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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 Group 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk Exposure

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

	Cash and balances held with the central bank (Note 21)		Securities (Note 24)		Loans and receivables due from banks and other fin. institutions (Note 25)		Loans and receivables due from customers (Note 26)		Other assets (Note 30)		Off-balance sheet items	
Thousands of RSD	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Individually impaired												
Corporate clients, rating 10	-	-	-	-	-	-	777.552	1.378.898	11.299	7.344	4.957	2.984
Corporate clients, rating 9	-	-	-	-	-	-	47.785	56.317	-	-	-	-
Corporate clients, restructured loans *	-	-	-	-	-	-	7.665.411	5.791.942	4.340	7.594	275.752	127.856
Retail clients, > 90 days past due	-	-	-	-	-	-	2.133.295	2.476.030	20.974	10.549	578	1.364
Gross loans	-	-	-	-	-	-	10.624.043	9.703.187	36.613	25.487	281.287	132.204
Impairment allowance	-	-	-	-	-	-	6.002.331	5.644.905	31.176	18.984	101.972	58.504
Carrying value	-	-	-	-	-	-	4.621.712	4.058.282	5.437	6.503	179.315	73.700
Group-level impaired												
Corporate clients, rating 1 - 6	57.151.931	59.710.331	100.749.619	105.078.855	27.783.048	2.942.999	177.829.013	176.640.433	139.355	157.012	168.925.916	167.016.116
Corporate clients, rating 7	-	-	-	-	-	-	9.910.494	7.855.920	795	793	4.574.415	2.780.679
Corporate clients, rating 8	-	-	-	-	-	221	10.176.395	5.170.596	853	527	1.754.874	6.590.798
Retail clients, < 90 days past due	-	-	-	-	-	-	92.406.415	86.356.579	1.666	1.308	1.599.862	1.643.075
Gross loans	57.151.931	59.710.331	100.749.619	105.078.855	27.783.048	2.943.220	290.322.317	276.023.528	142.669	159.640	176.855.067	178.030.668
Impairment allowance	84	153	268.440	344.977	36.219	2.008	3.951.168	2.276.790	860	786	235.395	135.762
Carrying value	57.151.847	59.710.178	100.481.179	104.733.878	27.746.829	2.941.212	286.371.149	273.746.738	141.809	158.854	176.619.672	177.894.906
Carrying value of rated assets	57.151.847	59.710.178	100.481.179	104.733.878	27.746.829	2.941.212	290.992.861	277.805.020	147.246	165.357	176.798.987	177.968.606
Carrying value of non-rated assets	-	-	2.073.599	1.542.911	-	-	-	-	1.139.969	929.825	-	-
Total carrying value	**57.151.847**	**59.710.178**	**102.554.778**	**106.276.789**	**27.746.829**	**2.941.212**	**290.992.861**	**277.805.020**	**1.287.215**	**1.095.182**	**176.798.987**	**177.968.606**

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

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, as well as calibration and further development of rating models in line with recommendations from internal validation function and plan of activity.

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 Group'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 Group uses the UniCredit 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 Group 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 Group calculates 12-month ECL or a lifetime ECL 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 Group uses the following three stages of impairment:

- Stage 1 includes all new financial assets at initial recognition (except POCI) 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 Group calculates 12-month expected credit losses. For financial assets in Stage 2, the Group 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 exposure per 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. According to Art. 178 of the EU regulation n. 575/2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

a 'default' shall be considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: 1) the obligor is past due more than 90 days on any material credit obligation or/and 2) the obligor is unlikely to pay at least one of his credit obligations in full without recourse actions to be taken by the respective legal entity. For financial instruments classified into Stage 3, the rule is that impairment is based on the calculation of lifetime ECL. In this process, the Group specifically treats clients in the default status whose exposure is considered significant and such loans or clients are individually assessed by the Group 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 Group 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 Group 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 Group 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.

In the event that the effective interest rate is not available, an alternative interest rate that is defined in accordance with the Group'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 Group 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, number of years the repayment lasts, and the period that the client has spent in the default status.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Impact of COVID-19 on ECL

Due to the complexity of the impact of COVID-19 pandemic on citizens and the economy, Bank has introduced certain measures and activities in order to adequately manage credit risk which means timely recognition of potential difficulties with debtors and taking appropriate steps. Regarding ECL calculation, the impact of COVID-19 has resulted in updates to the Group's macroeconomic assumptions used in determining ECL (especially forward looking information). Macroeconomic information and assumptions relating to COVID-19 have been considered in ECL scenarios in a way to adjusted current PD and LGD parameters resulting in increased level of ECL (reflecting forecast of GDP, unemployment rate, interest rates, etc.).

Payment deferrals as part of COVID-19 support package to customers (moratoria introduced by NBS) will not necessarily result in SICR (significant increase in credit risk) and therefore will not trigger an automatic migration from Stage 1 to Stage 2 or will automatically trigger default event (Stage 3) unless there is other evidence that the obligation cannot be settled (UTP – Unlikely to Pay). During and after moratoria, the Bank has not applied any particular action in order to change set of qualitative or quantitative SICR triggers in ECL Methodology, but has performed client-by-client monitoring activities (weekly and also extraordinary reviews of client position) in order to understand the current and prospective financial position of largest exposures. This monitoring activity resulted in reclassifications into Watch List 2 and Restructuring status, resulting in Stage 2 classification with rating deterioration/downgrade. The behavioral models for small business and private clients have been able to capture the income flow for these groups of clients, which consequently influenced their rating and staging classification.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Overview of loans and receivables subject of the moratorium

Thousands of RSD	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing *			Non performing *				Performing *			Non performing *			
			Of which: exposures with forbeara-nce measures*	Of which: Instrume-nts with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		Of which: exposures with forbeara-nce measures*	Of which: Unlikely to pay that are not past-due or past-due <= 90 days *			Of which: exposures with forbeara-nce measures*	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		Of which: exposures with forbeara-nce measures*	Of which: Unlikely to pay that are not past-due or past-due <= 90 days *	Inflows to non-perfo-rming exposures**
1 Loans and advances subject to moratorium	217.291.435	207.012.724	6.094.837	43.234.422	10.278.711	5.053.963	7.029.226	(381.930)	(345.319)	(13.957)	(69.489)	(36.611)	(25.576)	(21.456)	4.061.779
2 of which: Households	72.944.387	70.833.741	352.871	10.096.859	2.110.646	101.542	106.243	(290.873)	(281.318)	(2.498)	(44.641)	(9.555)	(921)	(814)	697.190
3 of which: Collateralized by residential immovable property	24.143.290	23.860.777	87.434	1.322.410	282.513	4.768	4.862	(59.865)	(59.541)	(266)	(3.525)	(324)	(8)	(12)	38.543
4 of which: Non-financial corporations	134.015.071	126.117.484	5.431.790	31.376.925	7.897.587	4.952.421	6.849.635	(90.918)	(27.056)	(11.459)	(24.711)	(63.862)	(24.655)	(20.642)	3.298.498
5 of which: Small and Medium-sized Enterprises	58.100.916	54.333.087	691.556	15.236.975	3.767.829	1.259.283	2.767.781	(44.975)	(17.296)	(2.793)	(7.753)	(27.679)	(14.895)	(16.910)	1.894.041
6 of which: Collateralized by commercial immovable property	66.683.846	61.165.391	4.476.946	15.950.406	5.518.455	3.936.393	5.381.765	(45.472)	(4.920)	(8.878)	(19.079)	(40.552)	(3.137)	(4.873)	1.824.867
7 of which: Leasing	9.888.491	9.624.751	310.176	1.547.243	263.740	-	73.348	-	-	-	-	-	-	-	66.091

* Loans and receivables of customers as of December 31, 2020 by next categories: Performing, Non performing, Forbearance measures, Stage 2, Unlikely to pay.
** Shown inflows to Non performing after Moratoria period (as at December 31, 2020).

	Thousands of RSD	Number of clients	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	140.215	300.946.360							
2	Loans and advances subject to moratorium (granted)	110.196	217.291.435	217.291.435	217.291.435	-	-	-	-	-
3	of which: Households		72.944.387	72.944.387	72.944.387	-	-	-	-	-
4	of which: Collateralized by residential immovable property		24.143.290	24.143.290	24.143.290	-	-	-	-	-
5	of which: Non-financial corporations		134.015.071	134.015.071	134.015.071	-	-	-	-	-
6	of which: Small and Medium-sized Enterprises		58.100.916	58.100.916	58.100.916	-	-	-	-	-
7	of which: Collateralized by commercial immovable property		66.683.846	66.683.846	66.683.846	-	-	-	-	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Thousands of RSD	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne*	Public guarantees received	Inflows to non-performing exposures**
1	Newly originated loans and advances subject to public guarantee schemes	22.415.809	153.288	5.379.794	-
2	of which: Households	-			-
3	of which: Collateralized by residential immovable property	-			-
4	of which: Non-financial corporations	22.415.809	153.288	5.379.794	270.163
5	of which: Small and Medium-sized Enterprises	20.947.828			270.163
6	of which: Collateralized by commercial immovable property	257.847			-

* Loans and receivables from customers as of December 31, 2020 by the presented categories.
** Category shows increase in Non-performing exposures after new approval under guarantee scheme (as of December 31, 2020).

The table below shows a breakdown of gross and net non-performing loans due from banks and customers.

Thousands of RSD	Securities (Note 24)		Loans and receivables due from banks and other financial institutions (Note 25)		Loans and receivables due from customers (Note 26)		Other assets (Note 30)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2020										
Corporate clients, rating 10	-	-	-	-	777.552	167.216	11.299	891	4.957	1.128
Corporate clients, rating 9	-	-	-	-	47.785	15.771	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	7.665.411	3.642.771	4.340	384	275.752	177.884
Retail clients, > 90 days past due	-	-	-	-	2.133.295	795.954	20.974	4.162	578	303
Total	**-**	**-**	**-**	**-**	**10.624.043**	**4.621.712**	**36.613**	**5.437**	**281.287**	**179.315**
December 31, 2019										
Corporate clients, rating 10	-	-	-	-	1.378.898	262.287	7.344	741	2.984	-
Corporate clients, rating 9	-	-	-	-	56.317	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	5.791.942	2.670.121	7.594	1.760	127.856	72.987
Retail clients, > 90 days past due	-	-	-	-	2.476.030	1.125.874	10.549	4.002	1.364	713
Total	**-**	**-**	**-**	**-**	**9.703.187**	**4.058.282**	**25.487**	**6.503**	**132.204**	**73.700**

The aging structure of matured and unimpaired loans as of December 31, 2020 is provided in the table below:

Thousands of RSD	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	4.946.876	4.457.274	964.785	-	10.368.935
Impairment allowance	(279.450)	(197.225)	(237.716)	-	(714.391)
Net carrying value	**4.667.426**	**4.260.049**	**727.069**	**-**	**9.654.544**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

1. Cash and balances held with the central bank

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	59.710.331	-	(2.558.400)	-	-	-	-	-			-	-	57.151.931
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**59.710.331**	**-**	**(2.558.400)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**57.151.931**

		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**

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

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	105.078.855	2.548.114	(20.963.136)	-	-	-	-	-			(592.783)	14.678.569	100.749.619
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**105.078.855**	**2.548.114**	**(20.963.136)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(592.783)**	**14.678.569**	**100.749.619**

		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**

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

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	2.907.274	26.196.345	(1.230.426)	4.722	-	4.722	-	-			(368.692)	243.657	27.752.880
Stage 2	35.946	14	(1.075)	(4.704)	-	(4.704)			-	-	(14)	1	30.168
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**2.943.220**	**26.196.359**	**(1.231.501)**	**18**	**-**	**18**	**-**	**-**	**-**	**-**	**(368.706)**	**243.658**	**27.783.048**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

		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	20.986.446	1.056.537	(602.987)	17.391	18.476	-	-	-			(19.192.350)	642.237	2.907.274
Stage 2	51.437	185	(6.848)	(10.065)	(10.911)	-			-	-	(1)	1.238	35.946
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**21.037.883**	**1.056.722**	**(609.835)**	**7.326**	**7.565**	**-**	**-**	**-**	**-**	**-**	**(19.192.351)**	**643.475**	**2.943.220**

4. Loans and receivables due from customers

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	235.661.180	3.545.908	(22.588.682)	(2.468.523)	(18.055.358)	16.197.821	(883.538)	272.553			(49.332.007)	62.267.339	227.085.215
Stage 2	40.362.349	139.099	(1.675.787)	(280.628)	19.616.497	(17.964.472)			(2.199.967)	267.314	(7.673.577)	32.365.445	63.236.901
Stage 3	9.703.186	27.263	(511.976)	2.303.219			772.795	(293.438)	2.112.079	(288.219)	(2.661.921)	1.764.473	10.624.244
Total	**285.726.715**	**3.712.270**	**(24.776.445)**	**(445.932)**	**1.561.139**	**(1.766.651)**	**(110.743)**	**(20.885)**	**(87.888)**	**(20.905)**	**(59.667.505)**	**96.397.257**	**300.946.360**

		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	240.941.477	12.106.409	(52.345.775)	(11.753.188)	(17.450.123)	7.932.029	(2.361.795)	126.701			(46.079.273)	92.791.530	235.661.180
Stage 2	23.367.960	159.313	(2.465.612)	2.414.309	12.625.143	(8.950.179)			(1.508.543)	247.888	(4.646.918)	21.533.297	40.362.349
Stage 3	9.175.011	23.908	(1.973.112)	2.454.094			1.955.461	(152.774)	1.261.926	(610.519)	(457.162)	480.447	9.703.186
Total	**273.484.448**	**12.289.630**	**(56.784.499)**	**(6.884.785)**	**(4.824.980)**	**(1.018.150)**	**(406.334)**	**(26.073)**	**(246.617)**	**(362.631)**	**(51.183.353)**	**114.805.274**	**285.726.715**

5. Other assets

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	1.114.952	210.871	(19.348)	(6.379)	(7.931)	1.577	(34)	8			(24.553)	17.588	1.293.131
Stage 2	-	3.489	(6.083)	8.030	12.260	(3.315)			(1.904)	989	(20.935)	30.494	14.995
Stage 3	-	3.290	(1.575)	691			39	(24)	1.272	(595)	(13.266)	21.985	11.125
Total	**1.114.952**	**217.650**	**(27.006)**	**2.342**	**4.329**	**(1.738)**	**5**	**(16)**	**(632)**	**394**	**(58.754)**	**70.067**	**1.319.251**

		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	1.160.639	-	(45.687)	-	-	-	-	-			-	-	1.114.952
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**1.160.639**	**-**	**(45.687)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.114.952**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

1. Cash and balances held with the central bank

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	153	-	(69)	-	-	-	-	-			-	-	84
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**153**	**-**	**(69)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84**

		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**

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

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	344.977	203	(111.295)	-	-	-	-	-			(524)	35.079	268.440
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**344.977**	**203**	**(111.295)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(524)**	**35.079**	**268.440**

		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**

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

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	1.759	34.947	(743)	11	-	11	-	-			(319)	328	35.983
Stage 2	249	3	-	(16)	-	(16)			-	-	-	-	236
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**2.008**	**34.950**	**(743)**	**(5)**	**-**	**(5)**	**-**	**-**	**-**	**-**	**(319)**	**328**	**36.219**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

		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	16.686	626	(1.100)	75	(1)	76	-	-			(15.063)	535	1.759
Stage 2	1.501	-	(580)	(694)	11	(705)			-	-	-	22	249
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**18.187**	**626**	**(1.680)**	**(619)**	**10**	**(629)**	**-**	**-**	**-**	**-**	**(15.063)**	**557**	**2.008**

4. Loans and receivables due from customers

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	729.342	481.366	(132.470)	230.257	(56.511)	271.716	(6.468)	21.520			(108.826)	301.861	1.501.530
Stage 2	1.547.447	395.120	(168.203)	182.539	964.800	(635.020)			(212.305)	65.063	(158.215)	650.944	2.449.632
Stage 3	5.644.906	481.366	(239.349)	965.804			340.485	(140.433)	886.227	(120.475)	(1.737.516)	887.126	6.002.337
Total	**7.921.695**	**1.357.852**	**(540.022)**	**1.378.600**	**908.289**	**(363.304)**	**334.017**	**(118.913)**	**673.922**	**(55.412)**	**(2.004.557)**	**1.839.931**	**9.953.499**

		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	931.367	108.222	(337.031)	(68.675)	(92.103)	40.530	(19.729)	2.627			(175.360)	270.819	729.342
Stage 2	1.010.985	88.187	(115.744)	304.793	692.333	(278.815)			(140.573)	31.848	(172.577)	431.803	1.547.447
Stage 3	5.135.646	395.341	(1.119.301)	1.179.881			840.500	(49.731)	641.430	(252.318)	(226.879)	280.218	5.644.906
Total	**7.077.998**	**591.750**	**(1.572.076)**	**1.415.999**	**600.230**	**(238.285)**	**820.771**	**(47.104)**	**500.857**	**(220.470)**	**(574.816)**	**982.840**	**7.921.695**

5. Other assets

		Changes within the Stage		Transfers among Stages									
Stage	January 1, 2020	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, 2020
Stage 1	19.770	6	(48)	7	(17)	25	(1)	-			(32)	63	19.766
Stage 2	-	167	(60)	(15)	30	(17)			(51)	23	(287)	273	78
Stage 3	-	5.943	(1.351)	523			38	(24)	1.081	(572)	(10.698)	17.775	12.192
Total	**19.770**	**6.116**	**(1.459)**	**515**	**13**	**8**	**37**	**(24)**	**1.030**	**(549)**	**(11.017)**	**18.111**	**32.036**

		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**

4. FINANCIAL RISK MANAGEMENT (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 Group 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 Group 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 Group uses relevant policies and procedures for collateral management. The most significant collaterals accepted and used by the Group 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 Group's internal bylaws governing the process of credit risk mitigation.

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

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Securities		Other assets		Off-balance sheet assets	
Thousands of RSD	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Corporate clients, rating 10	**-**	**-**	**68.347**	**300.199**	**-**	**-**	**-**	**-**	**287**	**-**
Real estate	-	-	67.432	299.303	-	-	-	-	-	-
Cash deposit	-	-	-	-	-	-	-	-	-	-
Guarantee	-	-	915	896	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-			287	-
Corporate clients, rating 9	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	-	-	-	-	-	-	-	-
Cash deposit	-	-	-	-	-	-	-	-	-	-
Guarantee	-	-	-	-	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	**-**	**-**	**5.133.006**	**4.268.617**	**-**	**-**	**-**	**-**	**70.375**	**42.455**
Real estate	-	-	4.770.318	3.888.501	-	-	-	-	68.551	27.200
Cash deposit	-	-	18.103	8.969	-	-	-	-	1.824	15.255
Guarantee	-	-	155.275	105.128	-	-	-	-	-	-
Pledge	-	-	189.310	266.019	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Thousands of RSD	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Securities		Other assets		Off-balance sheet assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Retail clients, > 90 days past due	**-**	**-**	**238.397**	**243.518**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	238.397	243.518	-	-	-	-	-	-
Cash deposit	-	-	-	-	-	-	-	-	-	-
Guarantee	-	-	-	-	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**588.019**	**588.129**	**116.372.023**	**82.242.481**	**-**	**-**	**-**	**-**	**23.636.670**	**9.608.228**
Real estate	-	-	97.175.794	74.438.884	-	-	-	-	4.966.806	5.444.393
Cash deposit	587.911	587.938	3.371.821	2.069.508	-	-	-	-	2.780.402	2.347.924
Guarantee	108	191	11.918.508	3.674.714	-	-	-	-	15.806.387	1.654.716
Pledge	-	-	3.884.450	2.035.667	-	-	-	-	82.774	161.195
Other	-	-	21.450	23.708	-	-	-	-	301	-
Ukupno	**588.019**	**588.129**	**121.811.773**	**87.054.815**	**-**	**-**	**-**	**-**	**23.707.332**	**9.650.683**

(c) Market Risks

Market risks represent the possibility of adverse effects on the financial performance and the Group '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.

The set up system of limits for the Group '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 Group in accordance with its risk-taking capacities.

One of the basic indicators for monitoring of the Bank's exposure to the market risks during 2020 is:

- VaR (Value at Risk) – 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,

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 (Basis Point Value Sensitivity) and CPV (Credit Point Value Sensitivity).

During 2020, 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 trading portfolio includes only the trading book items of the Bank:

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	At December 31	Average	Maximum	Minimum
2020.				
Foreign exchange risk	2.235	2.329	22.705	300
Interest rate risk	1.089	10.101	25.439	1.089
Credit spread risk	11.139	22.580	35.567	8.277
Covariance	(4.344)	-	-	-
Total	10.119	38.896	76.361	10.119
2019.				
Foreign exchange risk	1.575	4.869	12.088	258
Interest rate risk	2.131	2.275	6.364	417
Credit spread risk	9.804	4.926	12.532	1.635
Covariance	1.911	-	-	-
Total	**15.421**	**14.247**	**36.926**	**2.628**

Retroactive testing (back-testing) of the VaR model is monitored on a monthly basis and reported to the ALCO. If the realized loss is higher than the loss shown by the VaR model, it is considered as overdraft. Retroactive testing refers to the period of last 250 working days in relation to the date of observation.

There were no strategic changes relating to liquidity and market risk management compared to 2019. Basic updates in internal policies relate to the revision of existing process roles and activities, updating of appropriate limits for indicators and implementation of deposit modeling without agreed maturity (from the point of view of liquidity and interest rate risk). During 2020, the increased focus was on the simulation of indicators due to the COVID-19 crisis and the introduction of a moratorium, as well as monitoring market trends and interventions in the local market.

Foreign Exchange (Currency) Risk

Foreign exchange (currency) risk is the risk of potential negative effects on the Group'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 Group'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 intraday basis (the report is sent at noon and at 2 p.m.), as well as on daily and monthly bases.

The Group is exposed to the effects of exchange rate fluctuations for major foreign currencies on its financial position and cash flows. The Group'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 Group 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 Group executes derivative contracts and loan contracts with a foreign currency index clause.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign exchange risk ratio:	2020.	2019.
- as at December 31	1,00	2,09
- maximum for the period – December*	4,66	4,33
- minimum for the period – December*	0,14	0,28

*The max and min ratios are provided for the Bank only.

The Group's net currency position as at December 31, 2020:

Thousands of RSD	USD	EUR	CHF	Other currencies	RSD	Total
Cash and balances held with the central bank	208.390	30.528.075	622.845	148.562	25.643.975	57.151.847
Pledged financial assets	-	-	-	-	11.630.733	11.630.733
Receivables under derivative financial instruments	-	1.399.309	-	-	48.334	1.447.643
Securities	1.520.776	18.044.566	-	-	82.989.436	102.554.778
Loans and receivables due from banks and other financial institutions	7.053.889	20.179.887	137.270	363.115	12.668	27.746.829
Loans and receivables due from customers	443.021	190.570.094	122.772	-	99.856.974	290.992.861
Other assets	16.551	121.613	-	1	1.149.050	1.287.215
Total assets	**9.242.627**	**260.843.544**	**882.887**	**511.678**	**221.331.170**	**492.811.906**
Liabilities under derivative financial instruments	-	1.436.308	-	-	196.453	1.632.761
Deposits and other liabilities due to banks, other financial institutions and the central bank	28.887	104.986.659	2.036	645	24.650.611	129.668.838
Deposits and other liabilities due to customers	8.329.475	136.878.886	2.534.318	1.049.733	119.581.064	268.373.476
Liabilities under derivatives designated as risk hedging instruments	-	116.377	-	-	-	116.377
Other liabilities	136.135	3.589.148	8.820	14.324	8.805.774	12.554.201
Total liabilities	**8.494.497**	**247.007.378**	**2.545.174**	**1.064.702**	**153.233.902**	**412.345.653**
Off-balance sheet financial instruments	(681.096)	(12.707.068)	1.665.410	744.500	10.823.831	(154.423)
Net currency position as of December 31, 2020	**67.034**	**1.129.098**	**3.123**	**191.476**	**78.921.099**	**80.311.830**

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Thousands of RSD	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	2.207.460	113.229	478.568	7.913	2.941.212
Loans and receivables due from customers	487.237	203.811.340	141.546	-	73.364.897	277.805.020
Other assets	995	78.036	-	2	1.016.149	1.095.182
Total assets	**2.707.606**	**245.878.599**	**380.998**	**606.491**	**199.422.003**	**448.995.697**
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	114.437.262	166.985	376.992	13.335.456	128.354.784
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
Other liabilities	121.237	3.638.958	71.550	16.693	1.971.885	5.820.323
Total liabilities	**7.944.033**	**240.867.895**	**2.386.895**	**2.088.338**	**112.932.027**	**366.219.188**
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**	**(984.216)**	**(335)**	**79.792**	**83.502.439**	**82.659.263**

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

(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 Group'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 Group, 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity Risk

Liquidity risk is a risk of adverse effects on the Group's financial performance and capital caused by the Group's inability to settle its matured liabilities due to drawdown of the existing sources of financing, i.e., the Group'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 Group is to maintain adequate liquidity and financing position, which will enable the Group to fulfil its payment obligations not only in regular business, but in stressful circumstances as well.

The liquidity risk that the Group is faced with in everyday business may have different forms:
- Intraday liquidity risk – the liquidity risk during the day occurs when the Group 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 Group 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 Group;
- The risk of unforeseen or stressful circumstances relates to future and unexpected obligations that could require the Group to maintain higher liquidity than what is considered a sufficient amount for conducting regular business operations;
- Financing concentration risk occurs when the Group 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.

Within the liquidity risk management, the Group 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 Group's committees or functions that are set at a lower hierarchy level in the Group's organization.

Some of the main liquidity indicators included in RAF for 2020 were:
- the Bank's liquidity ratio,
- the Bank's rigid liquidity ratio,
- the liquidity coverage ratio (LCR)-consolidated, and
- the net stable funding ratio (NSFR).

During 2020, the Group's liquidity was at an adequate level and there was no breach of any of the defined limits.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

In accordance with the NBS Decision on Liquidity Risk Management of Banks, the liquidity and quick/cash liquidity ratios are calculated for the Group only. 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 Group'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 Group 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 Group is under obligation to report to the NBS 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 Group determines a critically low liquidity ratio, it must report this to the NBS 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 NBS on a daily basis.

The Group's realized values of the liquidity and rigid liquidity ratios indicate a high level of liquidity maintained during 2020:

The Group's liquidity ratio:	2020.	2019.
- as at 31 December	2,00	1,80
- average for the period – December	2,17	1,84
- maximum for the period – December	2,32	1,96
- minimum for the period – December	1,88	1,66

The Bank's rigid liquidity ratio:	2020.	2019.
- as at 31 December	1,68	1,54
- average for the period – December	1,88	1,58
- maximum for the period – December	2,09	1,71
- minimum for the period – December	1,45	1,31

Liquidity Coverage Ratio (LCR)

This indicator represents the ratio of the Group'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 Group is required to maintain the liquidity coverage ratio observing the total in all currencies at a level not lower than 100%.

The Group's realized LCR values indicate a high level of liquidity maintained during 2020:

As at December 31	2020.	2019.
Liquidity buffer	109.555.088	120.390.432
Net outflows of liquid assets	62.550.677	89.072.723
Liquid assets coverage ratio	175%	135%

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 Group'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 Group); and
- Combined scenario (combination of the above two scenarios).

In order to ensure timely and adequate actions in cases of increased liquidity risk, the Group has adopted the Business Continuity Plan, which is tested on an annual basis and which:

- Precisely defines procedures for early detection of the Group'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.

Impact of COVID 19 on the Group's liquidity

Taking into account the fact that the COVID-19 pandemic brought specific and uncertain circumstances in everyday business, and although it was at a solid level of liquidity, UniCredit Group declared a "phase of attention" on March 9, 2020, as Italy was the country most affected by the epidemic. In view of the above, the Directors of the Directorates for: International Market Operations, Finance and Financial and Operational Risk decided to activate the liquidity policy in emergency situations and the Group initiated a "attention phase" in accordance with the instructions received by the UniCredit Group, starting with March 10, 2020. At the first liquidity monitoring meeting (LAM) it was agreed that meetings be held daily to discuss the market situation and liquidity position of the Group, actions to be taken in the coming days, as well as to define a list of indicators to be carefully monitor. The Group's liquidity position was stable throughout the period. Emergency capital policy was not activated (nor was there a need for it). With a stable and adequate liquidity potential, the Group has not experienced an outflow of retail and corporate deposits, nor restrictions on the money market due to the reduction of limits by other financial institutions. The introduction of the "warning phase" on April 10, 2020 was only an additional precaution during the COVID-19 crisis in order to ensure an adequate level of foreign exchange LCR indicators. Early warning indicators EWI indicators, both for the Group and the market, are set at an appropriate distance from the RAF or the level of regulatory constraint, leaving time for the Group to respond in a timely manner during potential or actual crises. As there has been a stable liquidity position since the beginning of the crisis, the Group returned to normal business on October 6, 2020.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table provides breakdown of relevant maturity groups of the Group's financial assets and liabilities as of December 31, 2020:

Thousands of RSD	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	57.151.847	-	-	-	-	57.151.847
Pledged financial assets	-	-	-	11.630.733	-	11.630.733
Receivables under derivative financial instruments	2.500	11.708	28.655	495.200	909.580	1.447.643
Securities	2.079.583	91.284	7.801.668	70.177.207	22.405.036	102.554.778
Loans and receivables due from banks and other financial institutions	27.049.458	2.662	684.765	9.944	-	27.746.829
Loans and receivables due from customers	6.146.434	8.263.812	34.022.414	121.669.006	120.891.195	290.992.861
Other assets	1.287.215	-	-	-	-	1.287.215
Total assets	**93.717.037**	**8.369.466**	**42.537.502**	**203.982.090**	**144.205.811**	**492.811.906**
Liabilities						
Liabilities under derivative financial instruments	9.867	21.039	170.091	485.186	946.578	1.632.761
Deposits and other liabilities due to banks, other financial institutions and the central bank	12.107.019	21.689.070	19.138.008	54.371.768	22.362.973	129.668.838
Deposits and other liabilities due to customers	227.133.021	15.295.032	16.642.838	8.208.947	1.093.638	268.373.476
Liabilities under derivatives designated as risk hedging instruments	-	-	-	116.377	-	116.377
Other liabilities	3.295.861	75.973	7.468.348	1.428.222	285.797	12.554.201
Total liabilities	**242.545.768**	**37.081.114**	**43.419.285**	**64.610.500**	**24.688.986**	**412.345.653**
Net liquidity gap as at December 31, 2020	**(148.828.731)**	**(28.711.648)**	**(881.783)**	**139.371.590**	**119.516.825**	**80.466.253**

The structure of asset and liability maturities as at December 31, 2020 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 Group is in possession of liquid instruments, i.e., securities and other liquidity reserves, that can be pledged with the NBS 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 Group's units and teams on an ongoing basis.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Thousands of RSD	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	2.049.837	3.010	599.642	288.723	-	2.941.212
Loans and receivables due from customers	5.862.094	5.709.877	41.557.929	106.859.401	117.815.719	277.805.020
Other assets	1.095.182	-	-	-	-	1.095.182
Total assets	**70.304.987**	**7.363.347**	**52.321.898**	**187.149.568**	**131.855.897**	**448.995.697**
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	22.761.217	10.435.202	19.374.175	53.015.370	22.768.820	128.354.784
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	3.529.758	66.643	292.765	1.409.457	521.700	5.820.323
Total liabilities	**218.386.817**	**21.068.362**	**32.713.634**	**68.108.918**	**25.941.457**	**366.219.188**
Net liquidity gap as at December 31, 2019	**(148.081.830)**	**(13.705.015)**	**19.608.264**	**119.040.650**	**105.914.440**	**82.776.509**

The following table provides breakdown of relevant maturity groups of the derivative financial instruments for liquidity risk monitoring purposes:

Thousands of RSD	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
FX derivative financial instruments – receive side	32.018.881	4.944.689	5.235.874	2.494.419	-	44.693.863
FX derivative financial instruments – pay side	32.020.567	4.967.150	5.360.793	2.493.445	-	44.841.954
Net maturity gap as at December 31, 2020	**(1.686)**	**(22.460)**	**(124.919)**	**974**	**-**	**(148.091)**

Thousands of RSD	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
FX derivative financial instruments – receive side	19.847.921	313.179	825.970	1.949.700	-	22.936.770
FX derivative financial instruments – pay side	19.853.463	329.867	864.504	2.012.629	-	23.060.463
Net maturity gap as at December 31, 2019	**(5.542)**	**(16.688)**	**(38.534)**	**(62.929)**	**-**	**(123.693)**

The maturity structure of FX derivative financial instruments which is relevant from the aspect of monitoring and managing liquidity risk does not indicate a significant existence of maturity mismatch of the remaining maturity period by time baskets. FX derivative financial instruments are included in all indicators used to monitor both short-term and structural liquidity, thus ensuring adequate management of potential liquidity risk that may arise from these positions.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Structural FX Gap

The Structural FX Gap monitors maturity matching for material currencies (EUR and other currencies in total) in time baskets above one year. It is based on the “adjusted NSFR” metric methodology with the following exceptions:

- cash flows from derivative financial instruments that affect liquidity risk are included in the calculation for the remaining time to maturity;
- cash flows from a contracts with currency clause are considered cash flows in the original currency

Thousands of RSD	2020.	2019.
EUR FX Gap >1Y		
Liabilities in time baskets >1Y	139.742.963	122.299.795
Receivables in time baskets >1Y	133.037.575	125.352.569
Trigger (max)	(20.576.535)	(17.638.920)
FX Gap	**6.705.388**	**(3.052.774)**

Thousands of RSD	2020.	2019.
Other FX Gap >1Y		
Liabilities in time baskets >1Y	7.564.063	8.183.706
Receivables in time baskets >1Y	100.568	254.281
Trigger (max)	(2.821.925)	(5.879.640)
FX Gap	**7.463.495**	**7.929.425**

Positions that provide stable sources of financing and net short-term liabilities in significant currencies other than the domestic currency (EUR and other currencies in total) are sufficient to cover positions that require stable sources of financing in time baskets over one year.

(f) Compliance Risks

Compliance risk represents a possibility of adverse effects on the Group’s financial performance and capital due to the failure of the Group 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 Group, as the parent entity, has organized a special organizational unit whose competence covers compliance review, while Leasing has in place an organizational unit in charge of the legal and compliance affairs.

The primary task of the Group’s Compliance Department is to identify and asses the Group’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 Group’s compliance function supports other organizational units of the Group 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 Group’s 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 Group’s organizational structure, its risk profile and its exposure to this risk.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 Group's financial performance, capital or reputation due to the use of the Group 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 Group 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 Group's internal bylaws governing this matter.

The Group has in place adequate policies and procedures for identification, measurement, assessment and management of the risk of money laundering and terrorist financing. The Group 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.

(h) Strategic Risks

Strategic risk is a risk of adverse effects on the Group'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 Group operates in or the Group's failure to respond appropriately to such changes.

Each and every employee within the Group'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 Group'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 Group operates in. The system of reporting to the Group'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 Group's management in order to enable prompt responses to the changes in the business environment.

The Group'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 Group'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 Group's financial performance and capital.

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

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 Group, 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 Group.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(j) Reputational Risk

Reputational risk is a current or future risk of falling profits as a result of the negative perception of the Group'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 Group 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 Group's financial performance and equity per items in the Group's banking book due to changes in interest rates.

The Group '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 Group 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 2020:
- Economic value (EV) sensitivity, and
- Sensitivity of net interest income (NII).

One of the tasks of the Group's Finance Department is to establish procedures for the Group 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 and the Group's preferred risk profile.

At the same time, the Finance Department and the Markets Department are involved in the management of the Group's investment portfolio, which,

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

An analysis of the Group'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:

Thousands of RSD	Parallel increase of 200 bp	Parallel decrease of 200 bp
2020.		
As at December 31	(178.783)	(771.856)
Average for the year	(157.129)	(739.993)
Maximum for the year	807.560	3.101.725
Minimum for the year	(3.404.245)	(2.003.157)
2019.		
As at December 31	(3.229.450)	2.940.276
Average for the year	(2.838.149)	2.969.240
Maximum for the year	(2.188.351)	3.507.766
Minimum for the year	(3.629.979)	2.401.562

The Group's exposure to interest rate changes as at December 31, 2020 is presented for the entire interest-bearing portion of the statement of the financial position:

Thousands of RSD	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	57.151.847	21.380.143	-	-	-	-	35.771.704
Pledged financial assets	11.630.733	-	-	-	11.630.733	-	-
Receivables under derivative financial instruments	1.447.643	-	-	-	-	-	1.447.643
Securities	102.554.778	5.984	91.284	7.801.669	71.125.835	23.530.006	-
Loans and receivables due from banks and other financial institutions	27.746.829	19.490.198	2.662	688.763	5.947	-	7.559.259
Loans and receivables due from customers	290.992.861	63.234.230	50.749.378	159.651.095	9.959.913	4.305.313	3.092.932
Other assets	1.287.215	-	-	-	-	-	1.287.215
Total assets	**492.811.906**	**104.110.555**	**50.843.324**	**168.141.527**	**92.722.428**	**27.835.319**	**49.158.753**
Liabilities under derivative financial instruments	1.632.761	-	-	-	-	-	1.632.761
Deposits and other liabilities due to banks, other financial institutions and the central bank	129.668.838	5.363.204	50.900.268	47.576.381	20.703.314	-	5.125.671
Deposits and other liabilities due to customers	268.373.476	21.528.974	16.984.936	26.461.206	4.605.992	-	198.792.368
Liabilities under derivatives designated as risk hedging instruments	116.377	-	-	-	-	-	116.377
Other liabilities	12.554.201	-	-	-	-	-	12.554.201
Total liabilities	**412.345.653**	**26.892.178**	**67.885.204**	**74.037.587**	**25.309.306**	**-**	**218.221.378**
Net interest rate risk exposure at December 31, 2020	**80.466.253**	**77.218.377**	**(17.041.880)**	**94.103.940**	**67.413.122**	**27.835.319**	**(169.062.625)**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group'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:

Thousands of RSD	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	2.941.212	1.814.012	1.530	866.380	17.528	-	241.762
Loans and receivables due from customers	277.805.020	44.867.380	54.049.884	162.336.831	11.903.042	3.858.820	789.063
Other assets	1.095.182	-	-	-	-	-	1.095.182
Total assets	**448.995.697**	**71.023.427**	**55.701.874**	**173.357.050**	**92.810.936**	**17.409.712**	**38.692.698**
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	128.354.784	18.588.026	31.909.483	37.184.667	35.950.409	284.107	4.438.092
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	5.820.323	-	-	-	-	-	5.820.323
Total liabilities	**366.219.188**	**103.511.023**	**46.261.722**	**53.805.848**	**45.299.671**	**284.107**	**117.056.817**
Net interest rate risk exposure at December 31, 2019	**82.776.509**	**(32.487.596)**	**9.440.152**	**119.551.202**	**47.511.265**	**17.125.605**	**(78.364.119)**

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, 2020	December 31, 2019
	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	(12.225)	(22.807)
EUR	15.013	7.520
USD	(2)	(165)
GBP	-	-
CHF	(49)	(51)
Other currencies	-	-
Total effect*	**27.289**	**30.543**

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure based on the sensitivity analysis of the interest rate gap during 2020 was within the defined limits.

(l) IT Risks

IT risks refer to a possible occurrence of adverse effects on the Group'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 Group's information system that adversely affect its functionality or safety and compromises the Group's business continuity.

In order to control and mitigate this type of risks and improve its management, the Group 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 Group 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 Group 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 Group applies and regularly evaluates an appropriate set of internal bylaws.

(n) Capital Management

As the Group's regulator, the 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, including all amendments, effective as from June 30. 2017 (the "Decision"). The Group monitors its capital adequacy ratio on a quarterly basis using the standardized approach.

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

1. the Common Equity Tier 1 capital ratio (CET 1 ratio) represents the 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 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 capital relative to the risk-weighted assets, expressed as percentage. The minimum CAR defined by the Decision is 8%.

The Group 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 Group is required to maintain at all times its capital in the amount necessary for coverage of all risks the Group 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 Group to achieve and maintain capital adequacy ratios higher than the prescribed ones.

The NBS has defined higher capital adequacy ratios for the Bank for 2020 than prescribed.

The Group'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 Group'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;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

- 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.

Regulatory adjustments – When calculating the value of its capital components, the Group 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 Group 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 Group's liabilities measured at fair value, resulting from the changes in the Group's credit quality;
- gains or losses arising from the credit risk for liabilities per derivatives measured at fair value, where the Group 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 Group's future profitability in line with the effective regulations;
- defined benefit pension fund assets on the Group's balance sheet;
- the Group's direct, indirect and synthetic holdings of its own common equity Tier 1 instruments, including those that the Group is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
- the Group's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where those entities have reciprocal holdings in the Group, designed to artificially inflate the bank's capital;
- the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds no significant investments in accordance with Articles 19 and 20 of the Decision;
- the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments in accordance with Sections 19 and 20 of the Decision;
- the amount for which the Group's additional Tier 1 capital deductible items exceed the Group's additional Tier 1 capital;
- the amount of exposures qualifying for application of a risk weight of 1.25%, where the Group decides to deduct the exposure from the common equity Tier 1 rather than apply the said risk weight, such as:
  - 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;
  - securitized items in accordance with Section 201, paragraph 1, item 2), Section 202, paragraph 1, item 2), and Section 234 of the Decision;
  - 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 Group 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;
- 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:

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

- 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;
- for which the contractually defined maturity is over 2,555 days, if such loans were approved from January 1, 2020 up to December 31, 2020;
- 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 Group's obligation to form such a reserve.

From the calculation of deductible items from indents 13 and 14 of the previous paragraph, the period in which the moratorium on the basis of approved loans defined by those indents lasted is not included in the number of days of agreed maturity for the purposes of application of these provisions. The moratorium means a delay in the repayment of obligations in accordance with the provisions of the decision which regulates the temporary measures for preserving the stability of the financial system in the Republic of Serbia in the conditions of the pandemic caused by COVID-19.

Upon determining deductible deferred tax assets items and the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments, the Group 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 Group'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 Group's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments in the amount lower than or equal to 10% of the Group's common equity Tier 1 capital calculated in accordance with Section 21, paragraph 2 of the Decision.

As of December 31, 2020, the Group 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 Group's future profitability, arising from the temporary differences since their aggregate amount was below the defined limit.

The Group'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, 2020, the Group had no additional Tier 1 capital.

The Group'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, 2020, the Group had no supplementary Tier 2 capital.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents the Group's balance of capital and total risk-weighted assets as of December 31, 2020 and 2019:

Thousands of RSD	2020.	2019.
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	1.090.483	974.297
Revaluation reserves and other unrealized gains	2.946.840	4.074.869
(-) Unrealized losses	(41.010)	(17.727)
Other reserves	50.538.071	49.296.640
(-) Intangible assets, including goodwill, decreased for the amount of deferred tax liabilities)	(2.138.539)	(1.909.531)
(-) 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	-	(11)
(-) 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	(123.902)	(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 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, which based on the maturity criterion meet condition for deduction from CET 1 capital:	(130.484)	(103.515)
of which (-) whose contractual maturity is longer than 2920 dana – if these loans are approved in period from January 1 to December 31 2019	(78.582)	(103.515)
of which (-) whose contractual maturity is longer than 2920 dana – if these loans are approved in period from January 1 to December 31 2020	(51.902)	-
Total common equity Tier 1 capital - CET1	**76.311.235**	**76.467.509**
Additional Tier 1 capital - AT1	**-**	**-**
Total core Tier 1 capital - T1 (CET1 + AT1)	**76.311.235**	**76.467.509**
Supplementary capital - T2	**-**	**-**
Total regulatory capital (T1 + T2)	**76.311.235**	**76.467.509**

In both 2020 and 2019 the Group achieved capital adequacy ratios within the limits prescribed by NBS Decision on Capital Adequacy of Banks and Decision on Risk Management.

Do the right thing!
For our Environment

Our new sustainability targets, shared at the end of 2019, encouraged several sustainability-focused initiatives in 2020 focusing on protecting our environment.

CAUSING A BUZZ AT OUR NEW AUSTRIAN HQ

Not only employees moved into UniCredit new Austrian headquarters. They were joined by over one million honeybees, working hard to pollinate the nearby surroundings and make honey which will be harvested by UniCredit employees. What a sweet result!

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated 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).

Critical Accounting Estimates and Judgments in Applying the Bank's Accounting Policies

The COVID-19 pandemic has significantly increased estimation uncertainty in the preparation of these financial statements regarding the extent and duration of business interruptions arising from actions by governments, legal entities and clients to prevent the spread of viruses, the extent and duration of expected economic downturns and subsequent recovery as well as effectiveness of measure to support the economy and the individuals. For more details on the impact of the COVID-19 see the Note 2 (d).

1. Provisions for Expected Credit Losses

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

Under IFRS 9, measurement of ECL 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 expected credit 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 expected credit loss provisions in different scenarios analyzed.

The Group's 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 internal model for assessing credit quality, which is used to assign PD values to individual credit rating categories;
- the Group '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 Group will regularly review, maintain and adjust its models within the context of its actually experienced credit losses when necessary.

The Group 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 ECL per off-balance sheet items entails assessing recoverability of the future cash flows for each off-balance sheet commitment.

The Group assess impairment of financial assets and ECL 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.

Upon performing the said assessment, the Group groups receivables according to their similar credit risk characteristics, which reflect the ability

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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 Group's methodology.

More information related to impact of the COVID-19 pandemic on the calculation of ECL has been provided in Notes 2 (d) and 4 (b).

2. Measurement of Financial Instruments at Fair Value (Note 3 (k)(vii)

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.

The Group 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 Group 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 Group 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.

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.

3. Estimated Useful Lives of Intangible Assets, Property and Equipment and Amortization/Depreciation Rates Used (Note 3 (q), 3 (r), 28 i 29)

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.

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

4. Impairment of Non-Financial Assets (Note 3 (u))

At each reporting date, the Group'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.

5. Fair value of property and investment property (Notes 3 (q), 3 (s), 29 and 30)

The Group uses the fair value model for the valuation of investment property and the revaluation model for real estate that it uses for its own business purposes. Fair value measurement is performed regularly to reconcile the carrying amount at the end of the reporting period.

6. Deferred Tax Assets (Notes 3 (j) and 37)

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 Group'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.

7. Provisions for Litigations (Notes 3 (w) and 36)

The Group is involved in a number of lawsuits and labor disputes. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that the Group 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 Group'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.

8. Provisions for Employee Benefits (Notes 3 (y) and 36)

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:

Thousands of RSD	Note	Level 1	Level 2	Level 3	Total
2020.					
Pledged financial assets	22	-	11.630.733	-	11.630.733
Receivables under derivatives	23	-	1.447.643	-	1.447.643
Securities					
- at FVtPL	24	93.772*	1.979.827	-	2.073.599
- at FVtOCI	24	4.770.934*	83.900.835	14.602**	88.686.371
		4.864.706	**98.959.038**	**14.602**	**103.838.346**
Liabilities under derivatives	31	-	1.632.761	-	1.632.761
Liabilities per derivatives designated as risk hedging instruments	34	-	116.377	-	116.377
		-	**1.749.138**	**-**	**1.749.138**

* 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.
** In 2020 municipal bond measured at FVtOCI has been transferred from Level 2 to Level 3 due to the lack of quotations and other observable market parameters for its evaluation.

Thousands of RSD	Note	Level 1	Level 2	Level 3	Total
2019.					
Receivables under derivatives	23	-	1.167.316	-	1.167.316
Securities					
- at FVtPL	24	361.990*	1.180.921	-	1.542.911
- at FVtOCI	24	1.825.032*	102.860.562	-	104.685.594
		2.187.022	**105.208.799**	**-**	**107.395.821**
Liabilities under derivatives	31	-	1.206.796	-	1.206.796
Liabilities per derivatives designated as risk hedging instruments	34	-	158.188	-	158.188
		-	**1.364.984**	**-**	**1.364.984**

* Securities 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.

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

1. 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:

Thousands of RSD	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2020.						
Cash and balances held with the central bank	21	-	57.151.847	-	57.151.847	57.151.847
Securities						
- securities measured at amortized cost (AC)	24	4.385.522	7.389.280	20.298	11.795.100	11.794.808
Loans and receivables due from banks and other financial institutions	25	-	-	27.746.016	27.746.016	27.746.829
Loans and receivables due from customers	26	-	-	294.307.687	294.307.687	290.992.861
Other assets	30	-	-	1.287.215	1.287.215	1.287.215
		4.385.522	**64.541.127**	**323.361.216**	**392.287.865**	**388.973.560**
Deposits and other liabilities due to banks, other financial institutions and the central bank	32	-	-	131.750.226	131.750.226	129.668.838
Deposits and other liabilities due to customers	33	-	-	268.838.994	268.838.994	268.373.476
Other liabilities	37	-	-	12.554.201	12.554.201	12.554.201
		-	**-**	**413.143.421**	**413.143.421**	**410.596.515**

Thousands of RSD	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)	24	-	-	48.306	48.306	48.284
Loans and receivables due from banks and other financial institutions	25	-	-	2.948.651	2.948.651	2.941.212
Loans and receivables due from customers	26	-	-	283.521.393	283.521.393	277.805.020
Other assets	30	-	-	1.095.182	1.095.182	1.095.182
		-	**59.710.178**	**287.613.532**	**347.323.710**	**341.599.876**
Deposits and other liabilities due to banks, other financial institutions and the central bank	32	-	-	130.129.426	130.129.426	128.354.784
Deposits and other liabilities due to customers	33	-	-	230.914.622	230.914.622	230.679.097
Other liabilities	37	-	-	5.820.323	5.820.323	5.820.323
		-	**-**	**366.864.371**	**366.864.371**	**364.854.204**

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

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

2. 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.

3. 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:

Thousands of RSD	2020.	2019.
Interest income from		
Cash and balances held with the central bank	136.528	310.263
Receivables under derivative financial instruments	326.372	292.663
Securities at fair value through profit or loss	113.118	205.708
Securities at fair value through OCI	3.330.513	3.815.579
Securities at amortized cost	189.518	1.647
Loans and receivables due from banks and other financial institutions	53.441	150.980
Loans and receivables due from customers	11.409.069	12.001.634
Financial derivatives and assets held for risk hedging purposes	195.989	220.593
Total interest income	**15.754.548**	**16.999.067**
Interest expenses from		
Liabilities under derivative financial instruments	326.695	283.211
Liabilities per financial derivatives designated as risk hedging instruments	64.093	116.438
Deposits and other liabilities due to banks, other financial institutions and the central bank	1.303.758	1.238.352
Deposits and other liabilities due to customers	709.212	1.263.745
Lease liabilities	47.508	51.544
Total interest expenses	**2.451.266**	**2.953.290**
Net interest income	**13.303.282**	**14.045.777**

In accordance with the Group's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 291,772 thousand in 2020 (2019: RSD 737,495 thousand).

8. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	Private individuals		Corporate clients		Total	
Thousands of RSD	2020.	2019.	2020.	2019.	2020.	2019.
Fee and commission income						
Payment transfer activities	269.045	267.835	1.268.322	1.148.135	1.537.367	1.415.970
Fees related to loans	194.908	219.187	273.425	396.336	468.333	615.523
Fees arising from card operations	315.754	321.887	1.041.523	973.205	1.357.277	1.295.092
Maintaining of current accounts	374.026	347.041	93.493	98.391	467.519	445.432
Brokerage fees	-	-	15.511	109.598	15.511	109.598
Custody fees	354	198	423.218	434.859	423.572	435.057
Fees on issued guarantees and other contingent liabilities	3.281	3.189	714.001	697.526	717.282	700.715
Other fees and commissions	159.864	163.286	218.812	216.540	378.676	379.826
Total fee and commission income	**1.317.232**	**1.322.623**	**4.048.305**	**4.074.590**	**5.365.537**	**5.397.213**
Fee and commission expenses						
Payment transfer activities	-	-	191.340	195.132	191.340	195.132
Fees arising from card operations	-	-	1.154.940	921.503	1.154.940	921.503
Fees arising on guarantees, sureties and letters of credit	-	-	12.375	10.812	12.375	10.812
Other fees and commissions	-	-	143.237	127.670	143.237	127.670
Total fee and commission expenses	**-**	**-**	**1.501.892**	**1.255.117**	**1.501.892**	**1.255.117**
Net fee and commission income	**1.317.232**	**1.322.623**	**2.546.413**	**2.819.473**	**3.863.645**	**4.142.096**

9. NET (LOSSES)/GAINS ON THE CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Net (losses)/gains on the changes in the fair value of financial instruments include:

Thousands of RSD	2020.	2019.
Net (losses)/gains on the changes in the fair value of derivatives at FVtPL	(67.515)	204.281
Net gains on the changes in the fair value of securities at FVtPL	10.120	13.919
Net (losses)/gains on the changes in the fair value of financial instruments	**(57.395)**	**218.200**

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

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

Thousands of RSD	2020.	2019.
Net gains on derecognition of securities measured at FVtOCI	592.882	390.619
Net gains on derecognition of securities measured at FVtPL	140.879	112.902
Net gains on derecognition of financial assets measured at fair value	**733.761**	**503.521**

11. NET GAINS/(LOSSES) ON RISK HEDGING

Net gains/(losses) on risk hedging include:

Thousands of RSD	2020.	2019.
Net losses on the change in the value of hedged loans, receivables and securities	(39.098)	(224.773)
Net gains/(losses) on the change in the value of derivatives designated as risk hedging instruments	39.962	(16.579)
Net losses on risk hedging	**864**	**(241.352)**

Net gain on risk hedging of RSD 864 thousand in 2020 relates to micro fair value hedging (Note 34). In 2019 net losses on risk hedging relate to macro fair value hedging in the amount of RSD 257,905 thousand that the Group terminated (Note 26.4), while a gain on the fair value micro hedging was realized in amount 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:

Thousands of RSD	2020.	2019.
Foreign exchange gains and positive currency clause effects	19.884.485	25.630.382
Foreign exchange losses and negative currency clause effects	(18.382.654)	(23.957.690)
Net foreign exchange gains	**1.501.831**	**1.672.692**

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:

Thousands of RSD	2020.	2019.
Loans and receivables due from customers		
Net increase in individual impairment allowance	943.368	338.827
Net increase in collectively assessed impairment	2.672.209	1.579.881
	3.615.577	1.918.708
Net decrease in impairment charge per securities measured at FVtOCI	(46.199)	(127.589)
Contingent liabilities		
Net increase/(decrease) in individual impairment allowance (Note 35)	39.250	(31.225)
Net increase/(decrease) in collectively assessed impairment (Note 35)	103.851	(16.676)
	143.101	(47.901)
Losses on modification	407.175	6.978
Write-offs	2.728	10.313
Recovery of the receivables previously written off	(231.569)	(313.896)
Total net losses	**3.890.813**	**1.446.613**

Losses on modification amounts to RSD 407,175 thousand and include mostly losses on modification relating to moratorium in the amount of RSD 379,405 thousand.

NBS reacted to the pandemic by passing the "Decision on temporary measures for banks to preserve the stability of the financial system" and "Decision on temporary measures for leasing companies to preserve the stability of the financial system" on March 17, 2020. Pursuant to the aforementioned decisions, the Bank granted its clients, individuals and legal entities, a 90-day delay in the repayment of obligations (moratorium). As a basic model, the NBS recommended that banks add three monthly annuities to the end of the repayment period, extending the repayment period by three months and allocating the calculated regular interest to the loan repayment period.

During the stated period, no default interest was calculated on the due and unsettled receivables, and no enforcement proceedings or forced collection against debtors were initiated. As the unfavorable health situation continued, the NBS approved a new moratorium for a period of 30 days at the end of July, passing "Decision on temporary measures for banks to mitigate the consequences of the COVID-19 pandemic in order to preserve the stability of the financial system" and "Decision on temporary measures for leasing companies to mitigate the consequences of the COVID-19 pandemic in order to preserve the stability of the financial system". The decision for banks stipulates that after the end of the moratorium, linearly over the repayment period (without interest capitalization), whereby the repayment period is extended for the duration of the moratorium. In accordance with the instructions of the NBS, this principle was applied also to moratorium 1, more precisely, the assignment of interest to the principal debt was subsequently corrected after the expiration of the first moratorium in order to distribute the calculated interest linearly over the entire repayment period.

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

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

Thousands of RSD	2020.	2019.
Losses on conversion of CHF-indexed housing loans	-	(516.198)
Gains on the sales of placements measured at amortized cost	23.527	-
Total net (losses)/gains	**23.527**	**(516.198)**

In 2020, a gain was realized on the basis of the sale of placement in the amount of RSD 23,527 thousand, while in 2019, a negative effect was result of the conversion of housing loans indexed in CHF.

15. OTHER OPERATING INCOME

Other operating income includes:

Thousands of RSD	2020.	2019.
Rental income, reimbursement and other operating income	8.813	11.864
Total other operating income	**8.813**	**11.864**

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Salaries, salary compensations and other personal expenses include:

Thousands of RSD	2020.	2019.
Employee salaries, net	2.095.475	1.990.009
Payroll taxes and contributions	770.345	731.196
Net expenses per provisions for employee retirement benefits and unused annual leaves	24.890	16.713
Other personnel expenses	392.428	412.938
Total personnel expenses	**3.283.138**	**3.150.856**

17. DEPRECIATION/AMORTIZATION CHARGE

Depreciation/amortization charge includes:

Thousands of RSD	2020.	2019.
Amortization charge for intangible assets (Notes 27.2; 27.3)	492.475	398.475
Depreciation charge for investment property	-	33
Depreciation charge for property, plant and equipment (Notes 28.2; 28.3)	280.154	281.439
Depreciation charge for right-of-use assets (Note 28.5, 28.6)	441.714	420.395
Total depreciation/amortization charge	**1.214.343**	**1.100.342**

18. OTHER INCOME

Other income includes:

Thousands of RSD	2020.	2019.
Reversal of provisions for litigations (Note 35.2)	98.902	69.848
Reversal of provisions for other liabilities	-	24.387
Gains on the valuation of investment property	1.060	2.230
Gains on the valuation of tangible assets	30.401	-
Other income	102.994	106.818
Total other income	**233.357**	**203.283**

The item “Other income” includes income from consulting services, performance awards, compensation for damages from insurance companies and similar income.

19. OTHER EXPENSES

1. Other expenses include:

Thousands of RSD	2020.	2019.
Business premises costs	118.227	116.720
Office and other supplies	63.692	64.453
Rental costs (Note 19.2)	373.567	361.604
Information system maintenance	920.731	762.947
Property and equipment maintenance	61.394	71.630
Marketing, advertising, entertainment, culture and donations	59.182	209.848
Lawyer fees, other consultant and research services and auditing fees	464.203	358.279
Telecommunications and postage services	154.047	141.430
Insurance premiums	667.351	1.168.156
Security services – for property and money transport and handling	192.420	170.647
Professional training costs	20.043	28.031
Servicing costs	98.766	88.435
Transportation services	4.710	14.133
Employee commuting allowances	29.471	41.375
Accommodation and meal allowances – business travel costs	7.840	30.550
Other taxes and contributions	515.079	507.213
Provisions for litigations (Note 35.2)	1.092.180	602.446
Losses on the valuation of investment property	1.061	-
Losses on the valuation of tangible assets	24.036	53.287
Losses on disposal, retirement and impairment of property, equipment and intangible assets	12.475	43.717
Other costs	631.060	395.203
Total other expenses	**5.511.535**	**5.230.104**

The item "Other costs" refers to court and administrative fee expenses, costs for occupational safety and environmental protection, costs of participation in financing persons with disabilities, costs relate to lost litigations, archiving costs, costs of licensees up to one year, compensation costs from regular business and similar expenses.

2. Rental costs of RSD 373,567 thousand incurred in 2020 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:

Thousands of RSD	2020.	2019.
Rental cost per leases with low-value underlying assets	147.374	150.218
Rental costs per short-term leases	12.240	20.301
VAT payable per leases recognized in accordance with IFRS 16	73.888	69.965
Assets not identifiable in accordance with IFRS 16	139.458	120.626
Variable lease payments	607	494
Total	**373.567**	**361.604**

20. INCOME TAXES

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

Thousands of RSD	2020.	2019.
Current income tax expense	(428.742)	(795.012)
Increase in deferred tax assets and decrease in deferred tax liabilities	100.414	73.381
Total	**(328.328)**	**(721.631)**

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

Thousands of RSD	2020.	2019.
Profit before taxes	5.711.856	9.111.968
Income tax at the legally prescribed tax rate of 15%	856.778	1.366.795
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	74.393	31.734
Tax effects of expenses adjustment	(56.776)	(58.444)
Tax effects of income adjustment relate to interest on debt securities issued by RS	(589.049)	(651.347)
Tax effects of reductions:		
Tax effects of reductions current tax according to legal regulations and IFRS application	(55.396)	(40.260)
Effects of temporary differences:		
Tax effects of other temporary differences	98.378	73.153
Tax effects presented in the income statement	**328.328**	**721.631**
Effective tax rate	**5,75%**	**7,92%**

3. Income taxes recognized within other comprehensive income are provided below:

	2020.			2019.		
Thousands of RSD	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	(1.391.647)	208.747	(1.182.900)	4.793.874	(719.081)	4.074.793
Increase in revaluation reserves based on intangible assets and fixed assets (Notes 40.3)	5.734	(860)	4.874	58.909	(8.836)	50.073
Actuarial(losses)/gains	(27.481)	4.123	(23.358)	(23.513)	3.526	(19.987)
Balance at December 31	**(1.413.394)**	**212.010**	**(1.201.384)**	**4.829.270**	**(724.391)**	**4.104.879**

4. The calculated current income tax payable for the year 2020 amounted to RSD 428,742 thousand (for 2019: RSD 795,012 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, 2020, the Bank reported current tax assets in the amount of RSD 303,763 thousand (for 2019: RSD 60,985 thousand)

21. CASH AND BALANCES HELD WITH THE CENTRAL BANK

1. Cash and balances held with the central bank include:

Thousands of RSD	2020.	2019.
RSD cash on hand	4.262.874	4.242.996
Gyro account balance	21.380.227	24.180.540
Foreign currency cash on hand	3.052.670	1.411.454
Other foreign currency cash funds	35.274	45.793
Liquid surplus funds deposited with NBS	-	5.000.138
Obligatory foreign currency reserve held with NBS	28.420.886	24.829.410
	57.151.931	**59.710.331**
Impairment allowance	(84)	(153)
Balance at December 31	**57.151.847**	**59.710.178**

The gyro account balance includes the RSD required reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Required Reserves Held with the NBS. In accordance with the said Decision, the required 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. Bank is obliged to keep the average daily balance of allocated dinar reserves at the level of the calculated dinar reserve requirements. In 2020 NBS paid interest on the balance of the Bank's obligatory RSD reserve at the annual interest rate of 0.75% until March 17, 2020, 0.50% from March 18 to April 17, 2020, 0.25% from April 18 to June 17, 2020, 0.10% from June 18 to November, 17 2020 and 0.10% from November 18, 2020 up to the year-end. The NBS, in accordance with the Decision on Interest Rates Applied by the NBS in the Monetary Policy Implementation Procedure, in order to mitigate the economic consequences of the COVID-19 pandemic, calculated dinar required reserves, pays interest at an interest rate increased by 0.50 pp on an annual basis. The amount on which interest is calculated on that basis is determined in the amount of the average daily balance of dinar loans that meet the conditions prescribed by the Decree, or the Law establishing a guarantee scheme as a measure of economic support to mitigate the consequences of the COVID-19 SARS-CoV-2 if each individual loan included in that balance is approved at an interest rate that is at least 0.50 pp lower than the maximum interest rate prescribed by the Decree or the Law for loans approved in dinars.

The required foreign currency reserve with the National Bank of Serbia represent the minimum foreign currency reserve amount allocated in accordance with the Decision on Required Reserves Held with the NBS. In accordance with the said Decision, the required 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 required foreign currency reserve rates remained unaltered during 2020 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 obliged to keep the average daily balance of allocated foreign currency reserves at the level of the calculated foreign currency reserve requirements. Foreign currency obligatory reserve does not accrue interest.

21. CASH AND BALANCES HELD WITH THE CENTRAL BANK (CONTINUED)

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	
Thousands of RSD	**2020.**	**2019.**	**2020.**	**2019.**
Balance at January 1	-	-	(153)	(211)
Impairment losses:				
Reversal for the year	-	-	69	54
Foreign exchange effects	-	-	-	4
Total for the year	-	-	69	58
Balance at December 31	**-**	**-**	**(84)**	**(153)**

22. PLEDGED FINANCIAL ASSETS

As at 31 December 2020, in order to secure liabilities based on repo transactions with NBS, the Bank pledged coupon Treasury bills of the Republic of Serbia issued in dinars with a nominal value of RSD 10,750,000 thousand.

Thousands of RSD	**2020.**	**2019.**
Pledged financial assets	11.630.733	-
Balance at December 31	**11.630.733**	**-**

23. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Receivables under derivative financial instruments include:

Thousands of RSD	**2020.**	**2019.**
Receivables per forward revaluation and currency swaps	48.333	48.520
Receivables per interest rate swaps	1.322.313	1.067.728
Receivables per interest rate options	69.694	44.231
Receivables per commodity swaps	7.303	6.837
Balance at December 31	**1.447.643**	**1.167.316**

24. SECURITIES

1. Securities include:

Thousands of RSD	2020.	2019.
Securities measured at amortized cost	11.822.472	48.292
Securities measured at fair value through OCI	88.927.147	105.030.563
Securities measured at fair value through profit or loss	2.073.599	1.542.911
Total	102.823.218	106.621.766
Impairment allowance	(268.440)	(344.977)
Balance at December 31	**102.554.778**	**106.276.789**

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	
Thousands of RSD	2020.	2019.	2020.	2019.
Balance at January 1	-	-	(344.977)	(577.307)
Impairment losses:				
Reversal for the year	-	-	18.542	127.588
Foreign exchange effects			215	304
Effects of the sales of securities	-	-	57.780	104.438
Total for the year	-	-	76.537	232.330
Balance at December 31	**-**	**-**	**(268.440)**	**(344.977)**

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

Thousands of RSD	Measurement	2020.	2019.
Receivables discounted bills of exchange	AC	20.006	48.284
Treasury bills issued by the Republic of Serbia	AC	11.774.802	-
	FVtOCI	82.657.099	98.232.719
	FVtPL	2.073.599	1.542.911
Municipal bonds	FVtOCI	14.602	29.207
Treasury bills of the Republic of Serbia and municipal bonds – hedged items	FVtOCI	6.014.670	6.423.668
Balance at December 31		**102.554.778**	**106.276.789**

24. SECURITIES (CONTINUED)

As of December 31, 2020, the Bank's receivables per discounted bills of exchange of RSD 20,006 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 and 1-month BEONIA plus 3.5% per annum.

As of December 31, 2020, the Bank's securities measured at amortized cost of RSD 11,774,802 thousand refer to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2027.

As of December 31, 2020, the Bank's securities measured at fair value through profit or loss of RSD 2,073,599 thousand pertain to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2028.

As of December 31, 2020, the Bank's securities measured at fair value through other comprehensive income totaling RSD 6,014,670 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 14,602 thousand refers to the municipal bonds maturing up to 2021. The amount of RSD 82,657,099 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 48.7 million whereas interest rate swops with the total nominal value of EUR 48.7 million were designated as hedging instruments. As of December 31, 2020, the Bank performed a hedge effectiveness test, which demonstrated that the hedge was highly effective.

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

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

Thousands of RSD	2020.	2019.
Foreign currency accounts held with:		
- other banks within UniCredit Group	26.680.673	1.299.175
- other foreign banks	379.710	364.342
Total foreign currency accounts	**27.060.383**	**1.663.517**
Overnight deposits:		
- in RSD	4.300	-
Total overnight deposits	**4.300**	**-**
Guarantee foreign currency deposit placed for purchase and sale of securities	4.703	4.704
Short-term foreign currency deposits	-	367.896
Foreign currency earmarked deposits	11.108	12.183
Short-term loans:		
- in RSD	4.363	590.263
Total short-term loans	**4.363**	**590.263**
Long-term loans:		
- in RSD	681.074	271.556
Total long-term loans	**681.074**	**271.556**
RSD finance lease receivables	17.117	33.101
Total	**27.783.048**	**2.943.220**
Impairment allowance	(36.219)	(2.008)
Balance at December 31	**27.746.829**	**2.941.212**

25. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

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	
Thousands of RSD	**2020.**	**2019.**	**2020.**	**2019.**
Balance at January 1	-	-	(2.008)	(18.187)
Impairment losses:				
(Charge for the year)/reversal	-	-	(36.192)	15.150
Foreign exchange effects	-	-	1.981	(44)
Write-off with debt acquittal	-	-	-	1.073
Total for the year	-	-	(34.211)	16.179
Balance at December 31	**-**	**-**	**(36.219)**	**(2.008)**

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

Thousands of RSD	2020.	2019.
UniCredit Bank Austria AG, Vienna	383.256	1.060.118
UniCredit Bank AG, Munich	11.299	36.498
UniCredit Bank Hungary Z.r.t., Hungary	30.305	9.118
UniCredit Bank Czech Republic and Slovakia A.S.	2.186	1.091
UniCredit S.P.A. Milan	26.244.505	178.663
Zagrebačka banka d.d.	738	2.409
UniCredit Bank BIH	3.299	5.907
UniCredit Bulbank, Sofia	-	24
UniCredit Bank ZAO Moscow	5.085	5.347
Balance at December 31	**26.680.673**	**1.299.175**

26. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

1. Loans and receivables due from customers include:

Thousands of RSD	2020.	2019.
Short-term loans:		
- in RSD	22.040.804	31.239.867
- in foreign currencies	487.297	564.577
Total short-term loans	22.528.101	31.804.444
Long-term loans:		
- in RSD	252.259.388	226.702.059
- in foreign currencies	12.557.906	12.546.929
Total long-term loans	264.817.294	239.248.988
Receivables in respect of acceptances, sureties and payments made per guarantees:		
- in RSD	-	19.349
- in foreign currencies	-	27.758
Total	-	47.107
RSD factoring receivables	860.317	935.477
RSD finance lease receivables	12.630.675	13.495.149
Other RSD loans and receivables	109.973	195.550
Total	300.946.360	285.726.715
Impairment allowance	(9.953.499)	(7.921.695)
Balance at December 31	**290.992.861**	**277.805.020**

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

26. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (CONTINUED)

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

Thousands of RSD	Individual		Collective	
	2020.	2019.	2020.	2019.
Balance at January 1	(3.950.973)	(3.938.084)	(3.970.722)	(3.139.914)
Impairment losses:				
Charge for the year	(1.030.677)	(471.858)	(2.571.566)	(1.539.831)
Foreign exchange effects	72	16.032	(8)	3.549
Unwinding (time value)	12.472	13.367	611	-
Effects of the portfolio sales	154.593	81.331	-	-
Write-off with debt acquittal		-	541	122.019
Write-off without debt acquittal*	748.578	348.239	653.580	583.455
Total for the year	(114.962)	(12.889)	(1.916.842)	(830.808)
Balance at December 31	**(4.065.935)**	**(3.950.973)**	**(5.887.564)**	**(3.970.722)**

*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 NBS (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.

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

Thousands of RSD	2020.		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	2.089.368	(9.756)	2.079.612
Corporate customers	199.076.819	(5.745.709)	193.331.110
Retail customers	99.780.173	(4.198.034)	95.582.139
Balance at December 31	**300.946.360**	**(9.953.499)**	**290.992.861**

Thousands of RSD	2019.		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	3.054.429	(13.391)	3.041.038
Corporate customers	185.986.498	(4.956.152)	181.030.346
Retail customers	96.685.788	(2.952.152)	93.733.636
Balance at December 31	**285.726.715**	**(7.921.695)**	**277.805.020**

26. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (CONTINUED)

4.
Corporate loans were mostly approved for maintaining current liquidity (current account overdrafts), financing working capital 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 2.48%, on the average, while RSD short-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 0.87% 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 3.07% 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 2.19% annually on the average, in line with the other costs and the Bank's interest rate policy.

In its product mix, the Group 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 2.7% to 3.8% annually for loans at variable rates, while the fixed interest rates ranged from 2.09% to 3.99% per annum.

During 2020, the Group initiated several offers in which clients had the opportunity to apply for cash loans with a repayment period of up to 83 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 4.99% to 7.5% annually with salary transfer and 7.5% to 10.5% annually without salary transfer. while those applied to cash loans at fixed interest rates were in the range between 8.95% and 11.2% annually with salary transfer and 18.5% to 21.5% annually without salary transfer.

In 2020, interest rates applied to investment foreign currency funding of small entities and entrepreneurs equaled 6/12-month EURIBOR plus 1.5% to 7.03% per annum, or, in instances of fixed-interest rate loans, from 3.25% to 3.45%. interest rates applied to RSD investments loans were in the range between 1-month or 3-month BELIBOR increased by 3.02% to 6.5% annually, or, in instances of fixed-rate loans, from 1% to 3% annually.

Interest rates applicable to loans for financing of the working and permanent working capital were set in the range from 6-month/12-month EURIBOR plus 0.96% to 6.46% annually. Annual interest rates on RSD working capital loans equaled 1-mont/2-month BELIBOR plus 1.4% to 13.4% or ranged from 2.3% to 25% if fixed.

Finance lease loans were approved to corporate clients for purchases of vehicles and equipment at interest rates in the range between 1.62% and 6.99% annually with for periods from 2 to 7 years. Finance lease funds were approved to individuals for purchase of automobiles at the average interest rate of 3.59% p.a. for periods from 2 to 7 years.

As a hedge against interest rate risk, the Group 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. During 2020 the hedge stated relationship was terminated due to the fact that the loan was early repaid. In 2019, the Group 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 Group 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 Group 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 Group's management assessed that economically justified reasons for this hedge no longer existed and decided to terminate it.

26. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (CONTINUED)

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

Thousands of RSD	2020.	2019.
Corporate customers		
- Energy	5.822.591	4.739.762
- Agriculture	7.325.798	6.574.234
- Construction industry	34.669.030	29.822.369
- Mining and industry	46.823.963	45.603.840
- Trade	43.107.263	39.720.486
- Services	31.856.799	29.324.262
- Transportation and logistics	20.310.021	20.578.469
- Other	9.161.354	9.623.076
	199.076.819	185.986.498
Public sector	2.089.368	3.054.429
Retail customers		
- Private individuals	93.861.040	91.301.010
- Entrepreneurs	5.919.133	5.384.778
	99.780.173	96.685.788
Total	**300.946.360**	**285.726.715**
Impairment allowance	(9.953.499)	(7.921.695)
Balance at December 31	**290.992.861**	**277.805.020**

The Group' 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.

27. INTANGIBLE ASSETS

1. Intangible assets, net:

Thousands of RSD	2020.	2019.
Software and licenses	1.437.345	1.369.947
Investments in progress	701.194	539.584
Balance at December 31	**2.138.539**	**1.909.531**

2. Movements on the account of intangible assets in 2020 are presented in the table below:

Thousands of RSD	Software and licences	Investment in Progress	Total
Cost			
Balance at January 1, 2020	4.389.930	539.584	4.929.514
Additions	625.749	161.610	787.359
Impairment losses	(12.844)	-	(12.844)
Other	(59.215)	-	(59.215)
Balance at December 31, 2020	**4.943.620**	**701.194**	**5.644.814**
Accumulated amortization and impairment losses			
Balance at January 1, 2020	3.019.983	-	3.019.983
Amortization charge for the year	492.475	-	492.475
Impairment losses	(3.377)	-	(3.377)
Other	(2.806)	-	(2.806)
Balance at December 31, 2020	3.506.275	-	3.506.275
Net book value at December 31, 2020	**1.437.345**	**701.194**	**2.138.539**
Net book value at January 1, 2020	**1.369.947**	**539.584**	**1.909.531**

27. INTANGIBLE ASSETS (CONTINUED)

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

Thousands of RSD	Software and licences	Investment in Progress	Total
Cost			
Balance at January 1, 2019	3.885.249	388.667	4.273.916
Additions	585.578	159.790	745.368
Impairment losses	(54.603)	(8.873)	(63.476)
Other	(26.294)	-	(26.294)
Balance at December 31, 2019	4.389.930	539.584	4.929.514
Accumulated amortization and impairment losses			
Balance at January 1, 2019	2.646.358	-	2.646.358
Amortization charge for the year	398.475	-	398.475
Impairment losses	(21.865)	-	(21.865)
Other	(2.985)	-	(2.985)
Balance at December 31, 2019	3.019.983	-	3.019.983
Net book value at December 31, 2019	**1.369.947**	**539.584**	**1.909.531**
Net book value at January 1, 2019	**1.238.891**	**388.667**	**1.627.558**

28. PROPERTY, PLANT AND EQUIPMENT

1. Property, plant and equipment comprise:

Thousands of RSD	2020.	2019.
Buildings	543.338	543.044
Equipment and other assets	706.981	698.214
Leasehold improvements	177.750	191.456
Investments in progress	30.316	143.719
Right-of-use assets	2.120.063	2.320.283
Balance at December 31	**3.578.448**	**3.896.716**

28. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2. Movements on the account of property and equipment in 2020 are presented below:

Thousands of RSD	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Right-of-use assets	Total
Cost/Revalued value						
Balance at January 1, 2020	685.688	1.937.810	540.211	143.719	2.735.561	6.042.989
Additions	-	1.959	-	150.236	177.762	329.957
Transfer from investments in progress	-	233.909	29.730	(263.639)	-	-
Disposal and retirement	-	(20.649)	(4.011)	-	(2.954)	(27.614)
Effect of the change in fair value	18.781	-	-	-	-	18.781
Modifications	-	-	-	-	63.732	63.732
Balance at December 31, 2020	704.469	2.153.029	565.930	30.316	2.974.101	6.427.845
Accumulated depreciation and impairment losses						
Balance at January 1, 2020	142.644	1.239.596	348.755	-	415.278	2.146.273
Depreciation charge for the year	13.507	223.211	43.436	-	441.714	721.868
Disposal and retirement	-	(16.759)	(4.011)	-	(2.954)	(23.724)
Effect of the change in fair value	4.980	-	-	-	-	4.980
Balance at December 31, 2020	161.131	1.446.048	388.180	-	854.038	2.849.397
Net book value at December 31, 2020	**543.338**	**706.981**	**177.750**	**30.316**	**2.120.063**	**3.578.448**
Net book value at January 1, 2020	**543.044**	**698.214**	**191.456**	**143.719**	**2.320.283**	**3.896.716**

Following the change in accounting policy as of December 31, 2019, property used for performance of the Group's own business activity is valued using the revaluation method. As of December 31, 2020, Group has hired a certified appraiser NAI WMG doo, Belgrade to assess the fair value of the properties used for performance of Group's own business activity in accordance with IFRS 13. According to obtained appraisal, the fair value of property used for performance of Group's own business activity amounts to RSD 543,338 thousand. The appraiser determined the fair, liquidation and construction value of each individual property using the yield method as well as valuation techniques for which there were sufficient available data. 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 Group, 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. If the Group had continued to apply the cost model, the net present value as of December 31, 2020 would have been RSD 522,906 thousand for property used for performance of the Group's business activity.

The Group does not have pledged property, plant and equipment.

28. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Thousands of RSD	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Right-of-use assets	Total
Cost/Revalued value						
Balance at January 1, 2019	671.034	1.815.098	490.435	122.651	-	3.099.218
Effects of the first-time adoption of IFRS 16	-	-	-	-	2.608.392	2.608.392
Opening balance after the first time adoption of IFRS 16	671.034	1.815.098	490.435	122.651	2.608.392	5.707.610
Additions	-	65	-	258.343	162.649	421.057
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	14.654	-	-	-	-	14.654
Other	-	(13.508)	-	-	-	(13.508)
Modifications	-	-	-	-	(35.480)	(35.480)
Balance at December 31, 2019	685.688	1.937.810	540.211	143.719	2.735.561	6.042.989
Accumulated depreciation and impairment losses						
Balance at January 1, 2019	119.258	1.065.245	315.059	-	-	1.499.562
Depreciation charge for the year	14.513	227.196	39.730	-	420.395	701.834
Disposal and retirement	(159)	(39.440)	(6.034)	-	-	(45.633)
Effect of the change in the accounting policy	9.032	-	-	-	-	9.032
Other	-	(13.405)	-	-	-	(13.405)
Modifications	-	-	-	-	(5.117)	(5.117)
Balance at December 31, 2019	142.644	1.239.596	348.755	-	415.278	2.146.273
Net book value at December 31, 2019	**543.044**	**698.214**	**191.456**	**143.719**	**2.320.283**	**3.896.716**
Net book value at January 1, 2019	**551.776**	**749.853**	**175.376**	**122.651**	**2.608.392**	**4.208.048**

4. The right-of-use assets include:

Thousands of RSD	2020.	2019.
Business premises	2.016.517	2.218.058
Storage and warehouse area	3.622	4.242
Parking spots	78.236	90.951
Automobiles	20.450	6.393
Other equipment	1.238	639
Balance at December 31	**2.120.063**	**2.320.283**

28. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

5. Movements on the right-of-use assets during 2020 are presented below:

Thousands of RSD	Business premises	Storage and warehouse	Parking spots	Automobiles	Other equipment	Total
Gross carrying value						
Balance at January 1, 2020	2.614.132	4.803	105.408	9.620	1.598	2.735.561
Additions	156.476	-	-	18.781	2.505	177.762
Disposal and retirement	(2.954)	-	-	-	-	(2.954)
Modifications						
- positive effects	149.658	59	1.967	-	320	152.004
- negative effects	(88.272)	-	-	-	-	(88.272)
	61.386	59	1.967	-	320	63.732
Balance at December 31, 2020	2.829.040	4.862	107.375	28.401	4.423	2.974.101
Accumulated depreciation						
Balance at January 1, 2020	396.074	561	14.457	3.227	959	415.278
Depreciation charge	419.403	679	14.682	4.724	2.226	441.714
Disposal and retirement	(2.954)	-	-	-	-	(2.954)
Balance at December 31, 2020	812.523	1.240	29.139	7.951	3.185	854.038
Net book value at December 31, 2020	**2.016.517**	**3.622**	**78.236**	**20.450**	**1.238**	**2.120.063**

6. Movements on the right-of-use assets during 2019 are presented below:

Thousands of RSD	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**

29. INVESTMENT PROPERTY

Movements on the account of investment property in 2020 are presented below:

Thousands of RSD	Investment property	Investments in progress	Total
Fair value			
Balance at January 1, 2020	3.528	-	3.528
Effect of the change in fair value	(1)	-	(1)
Balance at December 31, 2020	**3.527**	**-**	**3.527**
Balance at January 1, 2020	**3.528**	**-**	**3.528**

Following the change in accounting policy as of December 31, 2019, investment property is valued at fair value. Certified Appraiser NAI WMG doo, Belgrade performed assessment of the fair value of investment property for the purpose of financial reporting as of December 31, 2020 in accordance with IFRS 13. According to obtained assessment, the fair value of investment property amounts to RSD 3,527 thousand. The appraiser determined the fair, liquidation and construction value of each individual property using the yield method as well as appraisal techniques for which sufficient data were available. If the Group had continued to apply the cost model, the net present value as of December, 31 2020 would have been RSD 1,266 thousand for investment property.

30. OTHER ASSETS

1. Other assets relate to:

Thousands of RSD	2020.	2019.
Other assets in RSD:		
Fee and commission receivables calculated per other assets	99.073	74.926
Advances paid, deposits and retainers	66.271	37.666
Receivables per actual costs incurred	350.938	317.211
Receivables from the RS Health Insurance Fund	50.601	30.341
Other receivables from operations	502.234	492.379
Assets acquired in lieu of debt collection	7.667	5.517
Receivables for prepaid taxes and contributions	10	10
Accrued other income receivables	24.733	18.943
Deferred other expenses	137.683	109.736
Total:	**1.239.210**	**1.086.729**
Other assets in foreign currencies:		
Fee and commission receivables calculated per other assets	364	670
Advances paid, deposits and retainers	-	87
Other receivables from operations	4.692	27.260
Accrued other income receivables	74.985	206
Total:	**80.041**	**28.223**
Total	**1.319.251**	**1.114.952**
Impairment allowance	(32.036)	(19.770)
Balance at December 31	**1.287.215**	**1.095.182**

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

	Individual		Collective	
Thousands of RSD	2020.	2019.	2020.	2019.
Balance at January 1	(2.498)	(784)	(17.272)	(13.962)
Impairment losses:				
(Charge for the year)/reversals	366	(11.868)	(86.733)	(55.253)
Foreign exchange effects	-	3	-	-
Write-off with debt acquittal	-	-	69	76
Write-off without debt acquittal	-	10.151	74.032	51.867
Total for the year	**366**	**(1.714)**	**(12.632)**	**(3.310)**
Balance at December 31	**(2.132)**	**(2.498)**	**(29.904)**	**(17.272)**

31. LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Liabilities under derivative financial instruments include:

Thousands of RSD	2020.	2019.
Types of instruments:		
- currency swaps and forwards	196.453	56.072
- interest rate swaps	1.359.311	1.099.656
- interest rate options	69.694	44.231
- commodity swap	7.303	6.837
Balance at December 31	**1.632.761**	**1.206.796**

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

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

Thousands of RSD	2020.	2019.
Demand deposits:		
- in RSD	3.422.016	3.495.580
- in foreign currencies	947.160	541.052
Total demand deposits	**4.369.176**	**4.036.632**
Overnight deposits:		
- in RSD	674.344	478.598
- in foreign currencies	4.026.360	12.465.078
Total overnight deposits	**4.700.704**	**12.943.676**
Short-term deposits:		
- in RSD	4.960.151	4.756.332
- in foreign currencies	11.538.622	5.095.785
Total short-term deposits	**16.498.773**	**9.852.117**
Long-term deposits:		
- in RSD	1.474.198	2.003.915
- in foreign currencies	38.086.854	60.345.958
Total long-term deposits	**39.561.052**	**62.349.873**
Long-term borrowings:		
- in RSD	3.642.575	2.683.593
- in foreign currencies	50.272.464	36.098.032
Total long-term borrowings	**53.915.039**	**38.781.625**
Loans under repo transactions:		
- in RSD	10.536.370	-
Total loans under repo transactions:	**10.536.370**	**-**
Other financial liabilities:		
- in RSD	276	-
- in foreign currencies	87.448	390.861
Total other financial liabilities	**87.724**	**390.861**
Balance at December 31	**129.668.838**	**128.354.784**

Short-term RSD deposits were placed by other banks for periods of up to a year at annual interest rates from up to 2.2%, while short-term foreign currency deposits of other banks maturing within a year accrued interest at the rates ranging from -1.4% to 1.3% annually, depending on the currency. The Group received long-term foreign currency deposits placed by banks for periods from 5 years at interest rates ranging from 0.98% per annum.

32. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (CONTINUED)

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

Thousands of RSD	2020.	2019.
European Bank for Reconstruction and Development (EBRD)	24.901.509	8.873.790
Kreditanstalt fur Wiederaufbau Frankfurt am Main ("KfW")	3.610.813	2.364.232
International Finance Corporation, Washington	344.219	687.739
European Fond for Southeast Europe SA, Luxembourg	9.640.007	9.863.880
Green for Growth Fund, Southeast Europe, Luxembourg	4.407.012	3.487.936
UniCredit Bank Austria AG	-	354.252
UniCredit S.P.A. Milan	11.011.479	13.149.796
Balance at December 31	**53.915.039**	**38.781.625**

The above listed long-term borrowings were approved to the Group for periods from 3 to 12 years at nominal interest rates ranging from 0.29% to 2% per annum.

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

1. Deposits and other liabilities due to customers comprise:

Thousands of RSD	2020.	2019.
Demand deposits:		
- in RSD	100.327.925	77.757.053
- in foreign currencies	113.452.178	100.048.311
Total demand deposits	**213.780.103**	**177.805.364**
Overnight deposits:		
- in RSD	2.521.472	2.260.866
- in foreign currencies	2.497.072	428.352
Total overnight deposits	**5.018.544**	**2.689.218**
Short-term deposits:		
- in RSD	15.401.218	15.316.815
- in foreign currencies	17.178.171	15.046.814
Total short-term deposits	**32.579.389**	**30.363.629**
Long-term deposits:		
- in RSD	1.222.260	2.100.652
- in foreign currencies	14.368.365	15.149.604
Total long-term deposits	**15.590.625**	**17.250.256**
Long-term borrowings:		
- in foreign currencies	874.197	1.908.494
Total long-term borrowings	**874.197**	**1.908.494**
Other financial liabilities:		
- in RSD	108.189	133.229
- in foreign currencies	422.429	528.907
Total other financial liabilities	530.618	662.136
Balance at December 31	**268.373.476**	**230.679.097**

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

Thousands of RSD	2020.	2019.
Public sector	579.296	2.075.709
Corporate customers	176.431.571	148.421.801
Retail customers	90.488.412	78.273.093
Long-term borrowings (Note 33.3)	874.197	1.908.494
Balance at December 31	**268.373.476**	**230.679.097**

RSD demand deposits of corporate customers accrued interest at the annual rate of 0.15%, on the average, while EUR-denominated demand deposits accrued interest at the annual rate of 0,02%. Corporate RSD term deposits accrued interest at the rates of as much as up to 1.77% annually on the average, while EUR-denominated corporate deposits were placed at an interest rate of 1.10% per annum.

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (CONTINUED)

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 0.1% to 1.05% annually, depending on the period of placement. Short-term RSD deposits of retail customers accrued interest at the rates ranging from 0.3% to 2.2% annually, depending on the period of placement. RSD deposits placed by small entities and entrepreneurs were deposited at annual interest rates between 0.4% and 2.4% while foreign currency deposits of these customers accrued interest at the rates ranging from 0.1% to 0.7% per annum.

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

Thousands of RSD	2020.	2019.
NBS - European Investment Bank, Luxembourg	874.197	1.903.707
Government of the Republic of Italy	-	4.787
Balance at December 31	**874.197**	**1.908.494**

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

34. LIABILITIES UNDER DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Liabilities under financial derivatives designated as risk hedging instruments include:

Thousands of RSD	2020.	2019.
Liabilities under interest rate swaps designated as hedging instruments		
- micro hedging	116.377	158.188
Balance at December 31	**116.377**	**158.188**

In micro fair value hedging, the Group uses an interest rate swap to protect itself against exposure to changes in the fair value of local municipality bonds and RS Treasury bills (Note 24.3), as well as a loan with a fixed yield rate in 2019 (Note 26.4).

35. PROVISIONS

1. Provisions relate to::

Thousands of RSD	2020.	2019.
Individual provisions for off-balance sheet items	97.754	58.504
Collective provisions for off-balance sheet items	239.613	135.762
Provisions for other long-term employee benefits	137.427	97.134
Provisions for potential litigation losses	1.824.328	1.003.882
Balance at December 31	**2.299.122**	**1.295.282**

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

Thousands of RSD	Individual Provisions for Off - Balance Sheet Items (Notes 4(b) and 5(i)	Collective Provisions for Off - Balance Sheet Items (Notes 4(b) and 5(i)	Provisions for Long-Term Employee Benefits (Notes 3(y) and 5(viii)	Provisions for Potential Litigation Losses (Notes 3(w), 5(vii) and 41.1)	Total
Balance at January 1	58.504	135.762	97.134	1.003.882	1.295.282
Charge for the year:					
- in the income statement	85.185	215.136	16.664	1.092.180	1.409.165
- in the statement of other comprehensive income	-	-	27.481	-	27.481
	85.185	215.136	44.145	1.092.180	1.436.646
Release of provisions	-	-	(3.852)	(172.832)	(176.684)
Reversal of provisions (Notes 13 and 18)	(45.935)	(111.285)	-	(98.902)	(256.122)
Balance at December 31	**97.754**	**239.613**	**137.427**	**1.824.328**	**2.299.122**

36. DEFERRED TAX ASSETS AND LIABILITIES

1. Deferred tax assets and liabilities relate to:

Thousands of RSD	2020.			2019.		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	154.457	-	154.457	66.221	-	66.221
Deferred tax assets in respect of unrecognized current year expenses	190.921	-	190.921	123.371	-	123.371
Deferred tax assets in respect of the first-time adoption of IFRS	27.324	-	27.324	40.986	-	40.986
Deferred tax assets in line with the Law on Conversion of Housing Loans Indexed to CHF	41.710	-	41.710	83.420	-	83.420
Deferred tax liabilities as per change in the value of fixed assets	-	(9.696)	(9.696)	-	(8.836)	(8.836)
Deferred tax liabilities arising from revaluation of securities	-	(510.334)	(510.334)	-	(719.081)	(719.081)
Deferred tax assets in respect of actuarial gains on defined benefit plans	7.237	-	7.237	3.114	-	3.114
Total	**421.649**	**(520.030)**	**(98.381)**	**317.112**	**(727.917)**	**(410.805)**

2. Movements on temporary differences during 2020 are presented as follows:

Thousands of RSD	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	66.221	88.236	-	154.457
Deferred tax assets in respect of unrecognized current year expenses	123.371	67.550	-	190.921
Deferred tax assets in respect of the first-time adoption of IFRS	40.986	(13.662)	-	27.324
Deferred tax assets in line with the Law on Conversion of Housing Loans Indexed to CHF	83.420	(41.710)	-	41.710
Deferred tax liabilities as per change in the value of fixed assets	(8.836)	-	(860)	(9.696)
Deferred tax liabilities arising from revaluation of securities	(719.081)	-	208.747	(510.334)
Deferred tax assets in respect of actuarial gains on defined benefit plans	3.114	-	4.123	7.237
Total	**(410.805)**	**100.414**	**212.010**	**(98.381)**

37. OTHER LIABILITIES

1. Other liabilities include:

Thousands of RSD	2020.	2019.
Advances received. deposits and retainers:		
- in RSD	84.093	133.926
- in foreign currencies	4.820	5.015
Trade payables:		
- in RSD	241.983	328.591
- in foreign currencies	245.920	205.057
Lease liabilities (Note 37.2):		
- in RSD	502.592	550.250
- in foreign currencies	1.646.566	1.776.082
Other liabilities:		
- in RSD	7.664.355	755.644
- in foreign currencies	1.142.715	980.882
Fees and commissions payable per other liabilities:		
- in RSD	5.358	11.734
- in foreign currencies	3	15.459
Deferred other income:		
- in RSD	231.666	289.596
- in foreign currencies	63.495	68.264
Accrued other expenses:		
- in RSD	555.710	533.891
- in foreign currencies	41.936	73.095
Liabilities per managed funds	30.024	24.489
Taxes and contributions payable	92.965	68.348
Balance at December 31	**12.554.201**	**5.820.323**

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

	2020.		2019.	
Thousands of RSD	Present value	Undiscounted cash flows	Present value	Undiscounted cash flows
Maturity:				
- within a year	435.140	476.730	395.174	442.749
- within 2 years	407.531	440.939	380.844	419.378
- within 3 years	366.827	392.303	365.324	396.369
- within 4 years	340.867	358.712	340.644	363.784
- within 5 years	312.996	323.630	322.645	338.835
- after 5 years	285.797	304.505	521.701	546.514
Balance at December 31	**2.149.158**	**2.296.819**	**2.326.332**	**2.507.629**

37. OTHER LIABILITIES (CONTINUED)

3. Breakdown of the total payments, i.e., outflows per lease arrangements in 2020 and 2019 is provided below:

Thousands of RSD	2020.	2019
Fixed payments	231.333	214.176
Variable payments	234.526	231.735
Total outflows	**465.859**	**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 465,859 thousand, RSD 418,351 thousand pertains to the repayment of principal, which is presents within cash flows from financing activities, while RSD 47,508 thousand refers to the payment of interest, which is presented within cash flows from operating activities in the Group's statement of cash flows.

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

Thousands of RSD	2020.	2019.
Depreciation charge of the right-of-use assets (Note 28.5, 28.6)	(441.714)	(420.395)
Interest expenses per lease liabilities (Note 7)	(47.508)	(51.544)
Rental costs (Note 19.2)	(373.567)	(361.604)
Sublease income	1.263	2.286
Balance at December 31	**(861.526)**	**(831.257)**

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

In accordance with the Law on Accounting, the Group reconciled its balances of payables and receivables with its debtors and creditors.

Out of the total amount of receivables for balance reconciliation RSD 411,545,061 thousand (66,388 open items), unreconciled balances totaled RSD 193,194 thousand, gross (53 open items i.e. 0.08%) while non-responded balance confirmation requests amounted to RSD 123,200,370 thousand (22,306 open items i.e. 33.60%).

Out of the total amount of liabilities for balance reconciliation RSD 355,934,729 thousand (89,882 open items), unreconciled balances totaled RSD 33,216 thousand (31 open items i.e. 0.034%), while non-responded balance confirmation requests amounted to RSD 170,356,442 thousand (32,087 open items i.e. 35.70%).

As for off-balance sheet items in total amount for reconciliation of RSD 681,333,690 thousand (23,551 open items), the unreconciled balances amounted to RSD 7,504 thousand (25 open items i.e. 0.11%) and confirmation requests totaling RSD 474,213,910 thousand (13,968 open items i.e. 59.31%) were not responded to.

39. EQUITY

1. Equity is comprised of::

Thousands of RSD	2020.	2019.
Issued capital – share capital	23.607.620	23.607.620
Share premium	562.156	562.156
Retained earnings	6.479.350	9.367.552
Reserves	53.443.901	53.403.854
Balance at December 31	**84.093.027**	**86.941.182**

As of December 31. 2020, the Group'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 Group 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.

39. EQUITY (CONTINUED)

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

Thousands of RSD	2020.	2019.
Actuarial gains per defined employee benefits	(23.358)	(19.987)
Net fair value adjustments of debt financial instruments measured at FVtOCI	(1.094.336)	1.843.948
Net fair value adjustments of debt financial instruments measured at FVtOCI due to impairment	(88.564)	(284.079)
Net fair value adjustments of fixed assets	4.874	50.073
Other comprehensive income after taxes	**(1.201.384)**	**1.589.955**

40. CASH AND CASH EQUIVALENTS

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

Thousands of RSD	2020.	2019.
In RSD:		
Gyro account (Note 21)	21.380.227	24.180.540
Cash on hand (Note 21)	4.262.874	4.242.996
	25.643.101	28.423.536
In foreign currencies:		
Foreign currency accounts (Note 25)	27.060.383	1.663.517
Cash on hand (Note 21)	3.052.670	1.411.454
Other cash funds (Note 21)	35.274	45.793
	30.148.327	3.120.764
Balance at December 31	**55.791.428**	**31.544.300**

41. CONTINGENT LIABILITIES AND COMMITMENTS

1. Litigation

As of December 31, 2020, there were 19,733 legal suits filed against the Group (including 10 labor lawsuits) with claims totaling RSD 8,999,861 thousand. In 139 of these proceedings plaintiffs are legal entities and in 19,594 proceedings private individuals appear as plaintiffs/claimants.

The Group made provisions of RSD 1,824,328 thousand in respect of the legal suits filed against it (Note 35). The aforesaid amount of provisions includes those for the labor lawsuits filed.

In the majority of lawsuits filed against the Group, both individuals and legal entities in the capacity of plaintiffs, they mostly refer to lawsuits for loan processing fees (cash and housing), loan monitoring fees and fees to NKOSK, and to a lesser extent to lawsuits for exchange rate differences, interest rates, currency clauses and changed circumstances, as the basis of the dispute. The subject of the lawsuits is also the determination of the nullity of the mentioned provisions of the loan agreement and the acquisition without grounds.

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 Group, i.e., the estimate that the Group will incur no outflows in respect of those legal suits or that there are minor contingent liabilities at issue, which require no provisioning.

2. Off-balance sheet exposed to credit risk are presented in table below:

	2020.	
Thousands of RSD	**Off-Balance Sheet Items exposed to credit risk**	**Provisions for Off - Balance Sheet Items**
Guarantees and other irrevocable commitments	123.994.252	(201.627)
Other Off-Balance Sheet Items	77.380.242	(135.740)
Balance at December 31	**201.374.494**	**(337.367)**

	2019.	
Thousands of RSD	**Off-Balance Sheet Items exposed to credit risk**	**Provisions for Off - Balance Sheet Items**
Guarantees and other irrevocable commitments	137.038.825	(164.858)
Other Off-Balance Sheet Items	58.861.958	(29.408)
Balance at December 31	**195.900.783**	**(194.266)**

41. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

3. The Group's contingent liabilities are provided in the table below:

Thousands of RSD	2020.	2019.
Contingent liabilities		
Payment guarantees		
- in RSD	11.503.916	11.617.403
- in foreign currencies	14.052.969	10.334.376
Performance guarantees		
- in RSD	54.757.825	52.906.243
- in foreign currencies	3.543.423	2.137.706
Letters of credit		
- in RSD	13.647	4.129
- in foreign currencies	1.891.309	2.946.501
Foreign currency sureties received	3.644.986	1.193.567
Irrevocable commitments for undrawn loans	14.039.674	38.275.207
Other irrevocable commitments	20.546.503	17.623.693
Balance at December 31	**123.994.252**	**137.038.825**

4. Breakdown of the Group's irrevocable commitments is provided below:

Thousands of RSD	2020.	2019.
Commitments		
Current account overdrafts approved	4.444.473	5.030.420
Unused portion of approved credit card loan facilities	982.260	1.039.317
Unused framework loans	7.584.412	31.404.245
Letters of intent	1.028.529	801.225
Other irrevocable commitments	20.546.503	17.623.693
Balance at December 31	**34.586.177**	**55.898.900**

In the ordinary course of business, the Group enters into agreements for contingent liabilities held in off-balance sheet record, which include guarantees, letters of credit, unused credit lines and credit card limits. These financial liabilities are recognized in the balance sheet if and when they become payable.

5. The Group's undrawn foreign line of credit funds amounted to RSD 10,523,996 thousand as of December 31, 2020 (2019: RSD 16.305.164 thousand).

42. RELATED PARTY DISCLOSURES

The Group is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Group's common stock shares (100%). Related parties of the Group are: parent bank, subsidiaries of the Group, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Management Board and managers who as members of the Group's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Group ("key management"), close family members of key management as well as legal entities that are under the control or influence of key management and close members of their families, in accordance with IAS 24.

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.

1. Related party transactions

Exposures and liabilities as of December 31, 2020 arising from related party transactions are presented below:

	2020.		
Thousands of RSD	Parent Bank	Key management	Other related parties*
Financial assets			
- Loans, receivables and other assets	26.273.402	101.199	2.531.684
Financial liabilities			
- Deposits and other liabilities	57.039.267	207.095	1.064.812
Off balance sheet items			
- Contingent liabilities for given guarantees and sureties	3.867.595	-	7.144.094
- Commitments for undrawn loans	-	620	818.772
- Received guarantees and sureties	5.477.140	-	7.815.468
- Liabilities for guarantees issued in favor of creditors of the bank	3.644.986	-	-
- Nominal value of the derivatives	-	-	49.844.575

Exposures and liabilities as of December 31, 2019 arising from related party transactions are presented below:

	2019.		
Thousands of RSD	Parent Bank	Key management	Other related parties*
Financial assets			
- Loans, receivables and other assets	577.594	85.226	2.774.657
Financial liabilities			
- Deposits and other liabilities	80.795.750	127.763	7.603.339
Off balance sheet items			
- Contingent liabilities for given guarantees and sureties	4.371.530	-	6.422.748
- Commitments for undrawn loans	78.689	720	949.566
- Received guarantees and sureties	6.185.815	-	6.345.260
- Liabilities for guarantees issued in favor of creditors of the bank	1.193.567	-	-
- Nominal value of the derivatives	-	-	51.027.028

42. RELATED PARTY DISCLOSURES (CONTINUED)

Thousands of RSD	2020.			2019		
	Parent Bank	Key management	Other related parties*	Parent Bank	Key management	Other related parties*
Impairment allowance for balance and off balance exposures	35.779	16	6.121	792	268	4.306

Revenues and expenses generated in 2020 arising from transactions with related parties are presented in the following table:

Thousands of RSD	2020.		
	Parent Bank	Key management	Other related parties*
Interest incomes	8.524	2.061	104.066
Interest expenses	(505.435)	(521)	(470.229)
Fee and commission incomes	51.029	139	344.610
Fee and commission expenses	(8.880)	-	(269.780)
Other incomes	-	-	5.546
Other expenses	(203.050)	-	(701.494)
Total	**(657.812)**	**1.679**	**(987.281)**

Revenues and expenses generated in 2019 arising from transactions with related parties are presented in the following table:

Thousands of RSD	2019.		
	Parent Bank	Key management	Other related parties*
Interest incomes	18.196	1.841	368.633
Interest expenses	(427.487)	(545)	(789.584)
Fee and commission incomes	60.690	239	475.659
Fee and commission expenses	-	-	(239.635)
Other incomes	-	-	7.237
Other expenses	(10)	-	(643.408)
Total	**(348.611)**	**1.535**	**(821,098)**

Loan loss provison (ECL) for balance and off-balance exposures of relatied parties recognized in income statement are presented below:

Thousands of RSD	2020.			2019		
	Parent Bank	Key management	Other related parties*	Parent Bank	Key management	Other related parties*
Net increase/(decrease) in impairment allowance	34.987	(252)	1.815	(13.668)	220	(4.732)

*Other related parties include entities that are member of the same UniCredit Group or under joint control, close family member of key management as well as legal entities that are under the control or influence of key management and close member of their families.

42. RELATED PARTY DISCLOSURES (CONTINUED)

2. Key management payments

Key management payments during 2020 and 2019 are presented below:

Thousands of RSD	2020.	2019.
Short-term employee benefits	249.015	255.858
Other long-term benefits	14.582	3.561
Share-based payments	3.851	2.970
Balance at December 31	**267.448**	**262.389**

Other long-term benefits include payments based on long-term reward schemes. Employees - members of key management involved in these remuneration schemes, were selected based on the criteria of contributing to the long-term and growing profitability of the Group. Share-based payments include payments during the year based on shares granted under appropriate reward schemes.

Compensations for members of the Management Board and the Audit Committee paid in 2020 amounts to RSD 5,978 thousand (in 2019: RSD 7,048 thousand) and they are included in the amount of short-term remuneration of key management.

43. EVENTS AFTER THE REPORTING PERIOD

As of these financial statements' issuance date, the impact of the COVID-19 pandemic continues. The duration of the pandemic and the extent of the impact on the economy are uncertain. With a strong capital and liquidity position, the Group actively monitors developments and assesses the impact on its operations, financial results, financial position and cash flows. At the date of issue of these financial statements, there were no significant events that would require adjustments to or disclosures in the accompanying unconsolidated financial statements of the Group (adjusting events).

Belgrade, February 17, 2021

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

Ana Maslovarić
Head of Strategy, Planning and Controlling Department

Mirjana Kovačević
Head of the Accounting Department