UNICREDIT BANK SERBIA JSC BELGRADE

Unconsolidated Financial Statements
Year Ended December 31, 2016 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

CONTENTS

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying unconsolidated financial statements of UniCredit Bank Srbija A.D., Beograd (hereinafter: the "Bank") enclosed on pages 2 to 85, which comprise the statement of the financial position as of December 31, 2016 and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Other Matter

As disclosed in Note 2(a) to the unconsolidated financial statements, the Bank is a parent entity and its newly consolidated financial statements prepared in accordance with the International Financial Reporting Standards have been issued separately. The Bank's newly consolidated financial statements as of and for the year ended December 31, 2016 were audited by us. In our independent auditors' report dated February 27, 2017 we expressed an unqualified audit opinion.

Belgrade, February 27, 2017

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

STATEMENT OF FINANCIAL POSITION
As of December 31, 2016
(Thousands of RSD)

	Note	December 31, 2016	December 31, 2015
Cash and cash funds held with the central bank	3.k, 19	28.085.266	43.747.168
Financial assets at fair value through profit and loss, held for trading	3.j, 3.o, 20	2.315.317	2.563.666
Financial assets available for sale	3.j, 3.p, 21	76.320.664	69.683.951
Financial assets held to maturity	3.j, 3.n, 22	42.957	221.362
Loans and receivables due from banks and other financial institutions	3.j, 3.m, 23	20.282.162	8.467.556
Loans and receivables due from customers	3.j, 3.m, 24	201.321.112	180.375.137
Fair value adjustments of risk hedged items	3.l, 25	222.845	171.733
Receivables per financial derivatives designated as risk hedging instruments	26	375	-
Equity investments in subsidiaries	3.z, 27	112.644	-
Intangible assets	3.r, 3.t, 28	917.810	934.118
Property, plant and equipment	3.q, 3.t, 29	1.577.325	1.181.740
Investment property	30	1.397	1.430
Deferred tax assets	3.i, 31	164.592	141.956
Other assets	32	867.668	793.994
Total assets		332.232.134	308.283.811
Financial liabilities carried at fair value through profit and loss, held for trading	3.j, 33	234.232	141.623
Liabilities per financial derivatives designated as risk hedging instruments	3.l, 34	540.097	492.401
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.j, 3.u, 35	82.090.424	82.818.208
Deposits and other liabilities due to customers	3.j, 3.u, 36	178.232.370	155.008.349
Fair value adjustments of risk hedged items	3.l, 37	103	-
Subordinated liabilities	3.j, 3.u, 38	3.082.125	3.019.370
Provisions	3.v, 3.y, 39	953.369	837.182
Current tax liabilities	3.i, 18.4	29.200	99.256
Other liabilities	40	2.865.999	4.453.140
Total liabilities		268.027.919	246.869.529
Issued (share) capital	42.1	24.169.776	24.169.776
Profit	42.1	6.226.600	6.366.383
Reserves	42.1	33.807.839	30.878.123
Total equity		64.204.215	61.414.282
Total liabilities and equity		332.232.134	308.283.811

Belgrade, February 24, 2017

Signed by the management of UniCredit Bank Serbia JSC Belgrade by:

Csilla Ihász
Management Board CEO

Alen Dobrić
Management Board Member

Sandra Vojnović
Director of the Strategy and Finance Division

Mirjana Kovačević
Head of Accounting Department

INCOME STATEMENT
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016	2015
Interest income	3.d, 7	15.373.032	17.534.837
Interest expenses	3.d, 7	(3.285.734)	(5.230.656)
Net interest income		12.087.298	12.304.181
Fee and commission income	3.e, 8	3.807.495	3.588.795
Fee and commission expenses	3.e, 8	(1.147.688)	(861.418)
Net fee and commission income		2.659.807	2.727.377
Net gains/(losses) on the financial assets held for trading	3.f, 9	30.989	(15.133)
Net (losses)/gains on the hedges against risks	3.g,10	(3.744)	11.501
Net gains on the financial assets available for sale	3.p, 11	166.256	137.609
Net foreign exchange gains and positive currency clause effects	3.c, 12	1.432.640	1.528.839
Other operating income	13	154.246	338.976
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	3.j, 14	(3.000.609)	(3.766.429)
Staff costs	15	(2.635.677)	(2.355.980)
Depreciation and amortization charge	3.q, 3.r, 16	(597.671)	(531.579)
Other expenses	17	(3.768.937)	(3.793.123)
Profit before taxes		6.524.598	6.586.239
Income tax	3.i, 18	(297.998)	(219.856)
Profit after taxes		6.226.600	6.366.383
Earnings per share			
Basic earnings per share (in RSD, rounded)	42.2	2.638	2.697
Diluted earnings per share (in RSD, rounded)	42.2	2.638	2.697

Belgrade, February 24, 2017

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STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016	2015
PROFIT FOR THE YEAR		6.226.600	6.366.383
Components of other comprehensive income that cannot be reclassified to profit or loss			
- Actuarial losses		(2.533)	(9.246)
Components of other comprehensive income that can be reclassified to profit or loss			
- Net fair value adjustments of financial assets available for sale		(834.514)	2.297.522
Gains from taxes on the other comprehensive income for the year	31.2	380	1.386
Total (negative)/positive other comprehensive income for the year	42.3	(836.667)	2.289.662
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		5.389.933	8.656.045

Belgrade, February 24, 2017

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STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016	2015
ISSUED CAPITAL			
Balance, beginning of year		23.607.620	23.607.620
Balance, end of year	42.1	23.607.620	23.607.620
SHARE PREMIUM			
Balance, beginning of year		562.156	562.156
Balance, end of year	42.1	562.156	562.156
OTHER RESERVES FROM PROFIT			
Balance, beginning of year		28.254.097	25.289.292
Prior year's retained earnings distribution		3.766.383	2.964.805
Balance, end of year	42.1	32.020.480	28.254.097
REVALUATION RESERVES			
Balance, beginning of year		2.807.920	433.922
Effect of the market value adjustment of securities available for sale		(1.008.738)	2.373.998
Balance, end of year	42.1	1.799.182	2.807.920
UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE			
Balance, beginning of year		(174.224)	(97.748)
Effect of the market value adjustment of securities available for sale		174.224	(76.476)
Balance, end of year	42.1	-	(174.224)
ACTUARIAL LOSSES PER DEFINED BENEFIT PLANS			
Balance, beginning of year		(9.670)	(1.810)
Movements during the year		(2.153)	(7.860)
Balance, end of year	42.1	(11.823)	(9.670)
RETAINED EARNINGS			
Balance, beginning of year		6.366.383	5.464.805
Prior year's profit distribution – allocation to dividend		(2.600.000)	(2.500.000)
Prior year's profit distribution – allocation to reserves		(3.766.383)	(2.964.805)
Profit for the year		6.226.600	6.366.383
Balance, end of year	42.1	6.226.600	6.366.383
TOTAL EQUITY		64.204.215	61.414.282

Belgrade, February 24, 2017

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Head of Accounting Department

STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016	2015
Cash generated by operating activities		21.268.765	21.345.732
Interest receipts		11.435.217	12.675.304
Fee and commission receipts		3.825.544	3.629.351
Receipts of other operating income		6.007.662	5.040.628
Dividend receipts and profit sharing		342	449
Cash used in operating activities		(14.902.959)	(15.124.337)
Interest payments		(3.457.497)	(4.983.344)
Fee and commission payments		(1.147.232)	(871.627)
Payments to, and on behalf of employees		(2.554.429)	(1.988.681)
Taxes, contributions and other duties paid		(436.661)	(70.613)
Payments for other operating expenses		(7.307.140)	(7.210.072)
Net cash inflows from operating activities prior to changes in loans and deposits		6.365.806	6.221.395
Decrease in loans and increase in deposits received and other liabilities		49.432.917	32.305.704
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not intended for investments		547.925	-
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		48.884.992	32.305.704
Increase in loans and decrease in deposits received and other liabilities		(21.333.028)	(24.260.016)
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(21.333.028)	(22.784.862)
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not intended for investments		-	(1.475.154)
Net cash generated by operating activities before income taxes		34.465.695	14.267.083
Income taxes paid		(390.309)	-
Dividends paid		(5.100.000)	-
Net cash generated by operating activities		28.975.386	14.267.083
Cash generated by investing activities		-	-
Other proceeds from investing activities		-	-
Cash used in investing activities		(3.562.103)	(7.897.605)
Outflows per investments in investment securities		(2.490.290)	(7.329.344)
Equity investments in subsidiaries, associates and joint ventures		(112.644)	-
Purchases of intangible assets, property, plant and equipment		(959.169)	(568.261)
Net cash used in investing activities		(3.562.103)	(7.897.605)

STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016	2015
Cash generated by financing activities		-	-
Borrowings, inflows		-	-
Cash used in financing activities		(28.966.596)	(1.878.632)
Net cash used for subordinated liabilities		-	-
Net cash used in repayment of borrowings		(28.966.596)	(1.878.632)
Net cash used in financing activities		(28.966.596)	(1.878.632)
Total cash inflows		70.701.682	53.651.436
Total cash outflows		(74.254.995)	(49.160.590)
Net cash (decrease)/ increase		(3.553.313)	4.490.846
Cash and cash equivalents, beginning of year	3.k, 43	20.407.612	15.651.919
Foreign exchange gains		-	264.847
Foreign exchange losses		(37.193)	-
CASH AND CASH EQUIVALENTS, END OF YEAR	3.k, 43	16.817.106	20.407.612

Belgrade, February 24, 2017

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Management Board CEO

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Management Board Member

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Translation of the Auditors' Report issued in the Serbian language

1. BANK'S ESTABLISHMENT AND ACTIVITY

UniCredit Bank Serbia JSC Belgrade (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.

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, 2016, the Bank was comprised of the Head Office in Belgrade and 71 branch offices located in towns throughout the Republic of Serbia (December 31, 2015: 71 branch offices).

As of December 31, 2016, the Bank had 1.205 employees (December 31, 2015: 1.145 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

(a) Basis of Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred to as: the "Law", Official Gazette of the Republic of Serbia no. 63/2013). As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by the International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance. In addition, in accordance with the Amendments and Supplements to the Law on Banks (Official Gazette of the Republic of Serbia no. 14/2015), upon preparation of the annual financial statements, banks in the Republic of Serbia are obligated to apply the International Financial Reporting Standards, subsequent revisions and amendments thereto and related interpretations as from their issue date by the competent authorities.

The accompanying 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. 71/2014 and 135/2014). The Bank holds sole (100%) equity interests in entities UniCredit Leasing Srbija d.o.o., Beograd and UniCredit Partner d.o.o., Beograd. In these unconsolidated financial statements equity investments in subsidiaries are presented at cost. Newly consolidated financial statements are issued at February 27, 2017.

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

- financial assets available for sale stated at fair value;
- derivative financial instruments stated at fair value; and
- financial assets and liabilities held for trading stated at fair value.

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

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

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

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

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

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

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

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

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

(b) Standards and Interpretations Issued that Came into Effect under Decision on Adoption of the Translations

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);

- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);

- Amendments to IAS 38 "Intangible Assets" (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);

- Amendments to IFRS 2 "Share-Based Payment": Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);

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

(b) Standards and Interpretations Issued that Came into Effect under Decision on Adoption of the Translations (Continued)

- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);

- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after July 1, 2009);

- "Conceptual Framework for Financial Reporting 2010" being an amendments to "Framework for the Preparation and Presentation of Financial Statements" (effective for transfer of assets from customers received on or after September 2010);

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);

- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);

- Amendments to various standards and interpretations "Improvements to IFRSs" resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);

- Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction" – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010);

- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);

- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2013);

- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after January 1, 2013);

- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance" (effective for annual periods beginning on or after January 1, 2013);

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

(b) Standards and Interpretations Issued that Came into Effect under Decision on Adoption of the Translations (Continued)

- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to various standards “Improvements to IFRSs (2009-2011 Cycle)” issued in May 2012, resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013); and
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013).

(c) Standards and Interpretations in Issue in the Current Period but not yet Translated and Adopted

As of these financial statements issuance date, the following standards and amendments were issued by IASB and interpretations issued IFRIC, but were not officially adopted and translated in the Republic of Serbia:

- Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014).
- Amendments to IFRS 10 “Consolidated Financial Statements,” IFRS 12 “Disclosures of Involvement with Other Entities” and IAS 27 “Separate Financial Statements” - Exemption from Consolidation of Subsidiaries under IFRS 10 'Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 “Impairment of Assets” - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 “Financial Instruments:” Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);
- IFRIC 21 “Levies“ (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014);

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

(c) Standards and Interpretations in Issue in the Current Period but not yet Translated and Adopted (Continued)

- Amendments resulting from Annual Improvements 2010-2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);

- Amendments resulting from Annual Improvements 2011-2013 Cycle (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);

- Amendments to IFRS 11 “Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);

- IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IFRS 10, IFRS 12 and IFRS 28 “Investment Entities: Applying the Consolidation Exception”. These amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value. (These amendments shall be applied retrospectively for annual periods beginning on or after January 2016 with early adoption permitted.);

- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2016).

(d) Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, their amendments, revisions and interpretations were in issue but not yet effective (with supported early application) for the financial year ended December 31, 2016:

- IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

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

(d) Standards and Interpretations in Issue not yet in Effect (Continued)

The Key requirements of IFRS 9 are:

- All recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election upon initial recognition to measure an equity investment (that is not held for trading) at fair value through other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

- IFRS 15 "Revenue from Contracts with Customers," defining the framework for revenue recognition. IFRS 15 supplants IAS 18 "Revenue," IAS 11 "Construction Contracts," IFRIC 13 "Customer Loyalty Programs," IFRIC 15 "Agreements for the Construction of Real Estate" and IFRIC 18 "Transfers of Assets from Customers." IFRS 15 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- IFRS 16 "Leases" provides a comprehensive model for identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As from its effective date, January 1, 2019, this standard shall supplant the following lease standards and interpretations: IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease," SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease."

- Amendments to IFRS 2 "Share-Based Payment" - Classification and Measurement of Share-Based Payment Transactions, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

(d) Standards and Interpretations in Issue not yet in Effect (Continued)

- 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 ought to have been effective for annual periods beginning on or after January 1, 2016; however, in December 2015 IASB deferred the effective date indefinitely, with early adoption permitted.

- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative require and entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Amendments to IAS 7 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

- Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealized Losses, shall be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

(e) Comparative Information

Comparative information in the accompanying financial statements represents the data from the Bank’s financial statements for 2015.

(f) Use of Estimates

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

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

(g) Statement of Compliance

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies presented hereinafter have been consistently applied for all years presented in the accompanying financial statements.

(a) Consolidation

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

(b) Going Concern

The Bank's financial statements have been prepared under going concern assumption, which entails that the Bank will continue its operations for an indefinite period in the foreseeable future.

(c) Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official 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 exchange rates prevailing at the reporting date.

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

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

	December 31, 2016	December 31, 2015
USD	117,1353	111,2468
EUR	123,4723	121,6261
CHF	114,8473	112,5230

(d) Interest Income and Expenses

Interest income and expenses are recognized in profit and loss and are calculated using the effective interest method. The effective interest rate is the rate that precisely discounts the estimated future cash disbursement or payment through the expected duration of the financial instrument or, where appropriate, a shorter period, on the net carrying value of financial assets or financial liabilities. When calculating the effective interest rate, the Bank performs an assessment of cash flows, taking into consideration all conditions of the agreement related to the financial instrument, but not considering future credit losses.

The calculation of the effective interest rate includes all fees and commissions paid and received, which are a constituent part of the effective interest rate. Transaction costs are costs directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expenses recognized in profit or loss include:

- interest on financial assets and financial liabilities that are measured at amortized cost calculated using the effective interest rate method;
- interest on securities available for sale calculated using the effective interest rate method; and
- interest on coupon securities held for trading.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses (Continued)

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

Regular interest income from impaired loans and receivables due from customers is calculated based on the net amounts of loans using the effective interest method in accordance with IAS/IFRS. Calculation of penalty interest income from impaired loans is suspended from the assignment of the default status to the client and recorded therefrom within off-balance sheet items, except for a portion of the legally prescribed penalty interest on written off loans without debt aquittance, 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 aquittance.

Impaired loans and receivables ae those due from customers with default (non-performing) status (internal ratings 8-, 9 and 10), which is explained in more detail in the Rulebook on Calculating Provisions under IAS/IFRS and the Methodology for Default Status Identification under Basel II Standards.

(e) Fee and Commission Income and Expenses

Fee and commission income and expenses that are integral parts 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.

Other fee and commission income is recorded upon service rendering. It mainly comprises fees for services rendered in the domestic and foreign payment transfers, issue of guarantees and letters of credit and other banking services.

Other 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 the Financial Assets Held for Trading

Net gains/losses on the financial assets held for trading comprise net gains/losses arising from trade in assets and liabilities, including all realized and unrealized changes in the fair values thereof.

(g) Net Gains on the Hedges against Risks

Net gains on the hedges against risks include net gains on changes in fair values of derivatives designated as risk hedging instruments and changes in fair values of loans, receivables and securities as hedged items, arising from the risks against which the items are hedged.

(h) Lease Liabilities

Payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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

(i) Income Tax Expenses

Tax expense comprises 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)

(i) Income Tax Expenses (Continued)

(i) Current Income Tax

Current tax is expected tax payable or receivable on the 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 2016 equals 15%. The taxable base is the profit before taxes shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia.

The Republic of Serbia Corporate Income Tax Law was amended at the end of 2015 with the amendments effective as from the preparation of the .tax statement for 2016, i.e., a tax period ending in 2016. Accordingly, the Bank's tax statement for 2016 will be prepared under the rules applicable in accordance with the 2015 amendments to the Corporate Income Tax Law.

(ii) Deferred Income Taxes

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(iii) Other Taxes and Contributions

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

(j) Financial Assets and Liabilities

(i) Recognition and Initial Measurement

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

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

(ii) Classification

The Bank classified its financial assets into the following categories:
- loans and receivables;
- held-to-maturity investments;
- financial assets and liabilities at fair value through profit and loss; and
- financial assets available for sale.

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

The Bank classifies its financial liabilities as measured at amortized cost or liabilities at fair value through profit or loss. Please refer to accounting policy 3(u).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(iii) Derecognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset.

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 the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. 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, repurchase 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 similar to repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

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

Financial Liabilities

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

(iv) Offsetting

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

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

(v) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, 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, minus any reduction for impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(vi) 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.

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

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

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

Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price. When the Bank has position with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

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

(vii) Impairment Identification and Measurement

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(vii) Impairment Identification and Measurement (Continued)

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

When certain loans and receivables, as well as investments in securities, are determined to be irrecoverable, these are written off. Write-off of loans and receivables represents derecognition of such assets within the statement of financial position, where write-off of loans without debt aquittance is distinguished from write-off with debt aquittance. Loans are written off without debt aquittance in instances where the Bank has estimated that loans will not be collected, but does not waive its contractual and legal rights in respect of the loan except for a portion of the legally prescribed penalty interest to the accrual of which the Bank would still be entitled even after the conducted write-off without debt aquittance, where the Bank has decided to cease further calculation and recording of interest as from the moment of such write-off. In such cases, the Bank ceases to recognize loans and receivables within the statement of financial position (balance sheet) and commences recording those within the off-balance sheet items. The Bank writes off loans and receivables with debt aquittance when these are estimated as irrecoverable and that it is not economically justifiable to take further actions toward their collections. In such instances, the written-off loans and receivables are derecognized from the statement of financial position without any further recording whatsoever.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Cash and Cash Funds Held with the Central Bank

Cash and cash funds 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 cash funds 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 funds 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.

(l) Derivatives Held for Hedges against Risks and Hedge Accounting

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

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

(i) Fair Value Hedges

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

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

(m) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Loans and receivables are presented net of specific and collective allowances for impairment. Specific and collective allowances are made against the carrying amount of loans and advances that are identified as being impaired in order to reduce their value to recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement within the line item "net losses from impairment of financial assets."

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Held-to-Maturity Financial Assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value,
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal, and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(o) Financial Assets at Fair Value through Profit and Loss

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or upon initial recognition are designated by the Bank as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that the Bank acquired or incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or derivatives.

Financial assets at fair value through profit or loss are measured at fair value. Changes in the fair value are presented within the income statement.

(p) Financial Assets Available for Sale

Financial assets available for sale are non-derivative financial assets designated as available for sale or assets not otherwise classified. Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as another category of financial asset. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost net of impairment allowances. Impairment allowance is charged to the income statement as the difference between the carrying value of a financial asset and the present value of its estimated future cash flows. All other available-for-sale investments are carried at fair value.

Interest income from debt instruments classified as assets available for sale is recognized in profit or loss using the effective interest method. Dividend income from debt instruments classified as assets available for sale is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, where upon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss under net gains/losses on financial assets available for sale.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial assets for the foreseeable future or until maturity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. 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 that equipment. 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 or property and equipment, and is recognized net within other income/expenses in profit or loss.

(ii) Subsequent Expenditure

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

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

(iii) Depreciation

Items of property and equipment are depreciated from the following month when they are available for use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives 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	Estimate 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%

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

(r) Intangible Assets

Intangible assets comprise software, licenses and other intangible assets.

Intangible assets purchased by the Bank 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)

(r) Intangible Assets (Continued)

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of an intangible asset, from the date that it is available for 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 are reassessed at each financial year-end and adjusted as appropriate.

(s) Leases – the Bank as a Lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Bank's statement of financial position.

(t) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount 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 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.

(u) Deposits, Borrowings and Subordinated Liabilities

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Provisions

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

(x) Financial Guarantees

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

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

(y) Employee Benefits

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

Pursuant to the Labor Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfillment of the prescribed conditions stated at December 31, 2016 represent the present value of the expected future payments to employees determined by actuarial assessment using assumptions such as mortality rate tables, employee turnover and disability rates, projected annual salary growth rate of 2%, annual discount rate 5.25% with expected inflation rate of 1.5%, as well as well as margins on annuities to a vanishing point as prepared by the actuary. In addition, in 2016 the Bank accrued expenses for unused annual leaves (vacations).

(z) Investments in Subsidiaries

A subsidiary is an entity under the Bank's control. Control over subsidiaries is achieved if the Bank has exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of returns. Equity investments are initially measured at cost. At each reporting date, the Bank assesses whether there is objective evidence that its equity investments have suffered impairment. Impairment losses, if any, are charged to the income statement.

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

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

- Credit risk, including the residual risk, dilution risk, settlement/delivery risk, and counterparty risk;
- Concentration risk, which includes risks of exposure to a single entity or a group of related entities;
- Liquidity risk;
- Market risks (interest rate risk, currency risk and other market risks);
- Operational risk;
- Investment risk;
- Strategic risk;
- Compliance risk; and
- Money laundering and terrorist financing risks.

Credit risk is the risk of possible negative effects on financial result and equity of the Bank caused by the borrower default on its obligations to the Bank. Credit risk includes risks which represent the likelihood of occurrence of adverse effects on the Bank's financial result and equity due to:

- Residual risk –the fact that credit risk mitigation techniques are less efficient than anticipated or their implementation does not have sufficient influence on reduction of risks to which the bank is exposed.
- Dilution risk – reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the debtor
- Settlement/delivery risk – unsettled transactions or counterparty's failure to fulfil his part of the deal in a transaction or settlement of monetary liabilities under that transaction
- Counterparty risk – consequence of failure to fulfil his part of the deal in a transaction before final settlement of cash flows of the transaction or settlement of monetary liabilities under that transaction.

Liquidity risk is the possibility of occurrence of adverse effects on financial result and equity of the Bank caused by the Bank's inability to fulfil its due obligations as a result of withdrawal of existing sources of financing and/or impossibility of securing new sources of financing, or difficulties in converting assets into liquid funds due to market disturbances.

Market risks include interest rate risk, foreign exchange risk and other market risks. Interest rate risk is a risk of negative effects on financial result and equity of the Bank caused by changes in the level of interest rate. Foreign exchange risk is the risk of negative effects on financial result and equity of the Bank caused by changes in the exchange rate. Other market risks include price risk on equity securities, price risk on debt securities, settlement/delivery risk and counterparty risk.

Operational risk is the risk of negative effects on the financial result and equity of the Bank caused by human error, inadequate internal procedures and processes, inadequate management of the information system and other systems in the Bank, as well as by unpredictable external events.

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 monitoring. The Supervisory Board defines strategies and policies for managing key risk types that the Bank is exposed to in its operations. In addition, the Supervisory Board is in charge of prior approval of large exposures to a single entity or a group of related entities exceeding 10% of the Bank's own equity as well as of increase of such exposures to above 20% of the Bank's own equity. The Bank's Audit Committee assists the Supervisory Board in performance of its function by considering the Bank's most important internal bylaws and enactments before these are adopted by the Supervisory Board. The Management Board of the Bank is in charge of implementation of the approved risk management strategies and policies, and implementation of the procedures for risk identification, measurement and assessment.

Important role in loan approval process is assigned to the Credit Committee, which is in charge of making decisions about credit applications within its competence level, or giving recommendation for higher credit approval competence level.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Introduction and Overview (Continued)

Risk Management Framework (Continued)

Internal organization of the Bank ensures functional and organizational separation of risk management and other regular business activities. The Bank has a separate Risk Management Division in its organizational structure. The Risk Management Division covers risk management through the activities of five departments: Strategic Risk Management and Control, Retail Credit Operations, Corporate Underwriting, Corporate Special Credit, and Financial and Operational Risk Department. All departments report directly to the member of the Management Board in charge of risk management, thereby ensuring avoidance of conflicts of interest and separation of the risk management and regular operating activities.

Internal Audit Department

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

(b) Credit Risk

Credit process in the Bank is based on strict segregation of the competences and responsibilities in credit operations between risk assuming activities in charge of the business 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 Bank applies the following internal bylaws: Risk Management Rulebook, Rules on Competences for Credit Business, documents which define rules for internal credit rating assignment, Rules of Procedure for the Credit Committee, Credit Risk Mitigation Policy, Real Estate Valuation Policy, Guidelines for the Management of Corporate Special Credit Clients, Rules on the IAS/IFRS Provisioning and other enactments. The Bank's goal is to protect itself against the risks and to optimize the level of the risks assumed by defining adequate procedures and individual responsibilities in the risk management process.

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Competences, responsibilities and authorities of persons involved in 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 in order to ensure that the two sides involved in the credit process check each other – the one proposing and the other approving a loan.

Credit Risk Reporting

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

RMIS has to fulfil the four main functions:

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

The scope of monitoring, management and reporting on credit risk on portfolio level includes monitoring of loan loss provisions (impairment allowances of balance sheet assets and provisions for probable losses per off-balance sheet items), as well as special reserves for estimated losses calculated in accordance with the NBS Decision on Classification and relevant internal bylaws of the Bank.

Credit Risk Parameters

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

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

The Bank uses internal credit rating models. Rating models define specific rating for clients with similar credit risk levels. Each rating grade is related to certain PD parameter. The Bank also internally calculates and applies other credit risk parameters.

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

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

Limits

The Bank manages credit risk concentration of the portfolio by setting limits. Limits are defined by the Bank's internal bylaws and/or NBS regulations and compliance with those is monitored and reported on an ongoing basis.

In accordance with NBS regulations, the Bank's total exposure to a single client or a group of related entities should not exceed 25% of the Bank's total capital after applying all the prescribed deductible items. Sum of all exposures that exceed 10% of the Bank's capital cannot be higher than 400% of the Bank's capital. Total exposures to a single client or a group of related entities that each exceed 10% of the Bank's capital have to be approved by the Supervisory Board.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports

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

- CRO Report to the Supervisory Board;
- Risk Report (RR);
- Credit Risk Dashboard Report; and
- Credit Portfolio Overview.

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

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

Risk Report is prepared monthly and quarterly by the Strategic Risk Management and Control Department for reporting to UniCredit Group, where the quarterly report is more detailed of the two and wider in scope. RR is delivered to the relevant units of UniCredit Group using Tagetik application, by filling in a standard set of tables with the required data. Standard monthly RR includes, among other things, the following:

- Structure and development of the loan portfolio by risk classes;
- Amounts and movements of provisions in accordance with IFRS;
- Collateral coverage of the loan portfolio;
- Main indicators of credit risk and their development;
- Comments on the most significant movements and credit risk trend; and
- Overview of the largest clients with default status.

Quarterly RR includes data shown on a monthly basis but dispersed per segments as well as additional information related to:

- Collateral structure;
- Off balance sheet structure;
- Overview of portfolio per loan type and currency;
- Breakdown of the loan portfolio per industry;
- Maturity structure of the loan portfolio depending on loan tenor; and
- Overview of large exposures toward a single client or a group of related entities.

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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

Credit Portfolio Overview is prepared on a quarterly basis and is presented to the Bank's Credit Committee. 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 within the 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 analysis and reporting and other activities that contribute to the accuracy of credit risk parameters.

Ad hoc analysis and reporting are applied in case of 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 defined rating grades, significant need for additional provisions, signs of mismatching in organization, implemented system or procedures, change of any of the credit risk parameters or in calculation of provisions.

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Credit Risk Exposure

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

	Cash and cash funds held with the central bank (Note 19)		Held-to-maturity financial assets (Note 22)		Loans and receivables due from banks and other financial institutions (Note 23)		Loans and receivables due from customers (Note 24)		Financial assets at FVTPL held for trading (Note 20)		Available-for-sale financial assets (Note 21)		Other assets (Note 32)		Off-balance sheet items	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Individually impaired																
Corporate clients, rating 10	-	-	623	16,252	-	-	6,194,783	14,739,127	-	-	-	-	97,176	112,179	5,154	28,148
Corporate clients, rating 9	-	-	-	-	-	-	-	68,419	-	-	-	-	91	135	-	-
Corporate clients, restructured loans	-	-	-	-	6	2	14,398,550	15,085,145	-	-	-	-	139,650	119,311	369,075	229,003
Retail clients, > 90 days past due	-	-	-	-	-	-	4,034,605	4,113,123	-	-	-	-	92,780	84,821	1,209	1,002
Gross loans	-	-	623	16,252	6	2	24,627,938	34,005,814	-	-	-	-	329,697	316,446	375,438	258,153
Impairment allowance	-	-	623	16,252	3	1	14,704,396	19,899,044	-	-	-	-	315,567	294,594	99,508	79,538
Carrying value	-	-	-	-	3	1	9,923,542	14,106,770	-	-	-	-	14,130	21,852	275,930	178,615
Group-level impaired																
Corporate clients, rating 1 - 6	43,692	36,431	43,526	222,454	20,313,536	8,483,032	119,587,854	114,921,292	-	-	2,583,082	2,897,174	290,332	20,843	110,501,685	94,119,737
Corporate clients, rating 7	-	-	-	8,021	-	270	6,095,293	3,697,462	-	-	-	-	618	312	5,970,505	1,145,760
Corporate clients, rating 8	-	-	-	-	-	-	3,095,824	1,757,840	-	-	-	-	521	166	367,794	305,360
Retail clients, < 90 days past due	-	-	-	-	-	-	63,846,878	46,842,306	-	-	-	-	482	1,061	1,619,058	1,427,551
Gross loans	43,692	36,431	43,526	230,475	20,313,536	8,483,302	192,625,849	167,218,900	-	-	2,583,082	2,897,174	291,953	22,382	118,459,042	96,998,408
Impairment allowance	775	398	569	9,113	31,377	15,747	1,285,862	1,005,727	-	-	-	-	559	10,952	197,727	132,563
Carrying value	42,917	36,033	42,957	221,362	20,282,159	8,467,555	191,339,987	166,213,173	-	-	2,583,082	2,897,174	291,394	11,430	118,261,315	96,865,845
Carrying value of **rated** assets	42,917	36,033	42,957	221,362	20,282,162	8,467,556	201,263,529	180,319,943	-	-	2,583,082	2,897,174	305,524	33,282	118,537,245	97,044,460
Carrying value of non-rated assets	28,042,349	43,711,135	-	-	-	-	57,583	55,194	2,315,317	2,563,666	73,737,582	66,786,777	562,144	760,712	-	-
Total carrying value	28,085,266	43,747,168	42,957	221,362	20,282,162	8,467,556	201,321,112	180,375,137	2,315,317	2,563,666	76,320,664	69,683,951	867,668	793,994	118,537,245	97,044,460

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Implementation of Basel Standards

In the area of Basel II standard implementation the focus of activities was placed mainly on the monitoring and confirming of predictive capabilities of the internally developed rating models and their parameters for corporate, retail, entrepreneur and small entity segments. In 2016 the Bank performed internal validation of all internally developed rating models and credit risk parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD), which confirmed their predictive capabilities and calibration against the identified risk level in the current banking operations. According to the resulting internal validation recommendations, the Bank calibrated PD model for corporate segment clients as well as certain components of LGD model. The forbearance methodological concept has also been improved in order to implement the regulations of the National Bank of Serbia in this area and in order to advance regulatory monitoring and recording of rescheduled/restructured loans and loans where the borrowers are facing financial difficulties in repayment. For 2017 the Bank is planning full implementation of Basel III standard for the purpose of reporting to the National Bank of Serbia, while it has been reporting to UniCredit Group under Basel III standards since 2014.

Internal Rating System (Rating Scale)

The ranking rules for customers are established at the level of the UniCredit Group and as such are uniform for each member of the Group. The Bank's rating system was developed and has been in use since 2004 at the Group level for clients classified in the corporate clients group. For retail clients and entrepreneurs, the rating system was internally developed and has been in use since 2010. The Bank uses the Group's rating models for multinational companies, banks, insurance companies and exposures to states/governments. The Master 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 obligations, in part or in full, within the period of 1 year.

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

The internal master scale is compliant with Basel standards, meaning that each rating subgroup has a PD parameter associated with it, with probability that a customer with particular characteristics will be unable to settle liabilities toward the Bank and will be in default. For the first 24 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 statistical analysis based on 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 credit rating is performed annually.

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

Ratings 8+ and 8- cover those companies without individual provisioning which are subject to special workout or credit-reduction measures.

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

Rating 9 comprises customers with loans provided for on an individual basis or those where a portion of the receivable 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 II criteria, with special credit loss provisioning calculation.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology

The procedure which is based on the Rulebook on Calculating Provisions in accordance with IAS/IFRS and adopted rules is conducted in two steps:

- assessment of individual/specific provision (at group or individual level) for clients where impairment of value already occurred, and
- assessment of impairment on a portfolio level for loans where impairment in value does not exist or exists but it has not yet been identified.

Special Provisioning/Individual impairment Allowance Rules and Principles

A financial asset is impaired and impairment has occurred if there is objective evidence of impairment resulting from one or more events after initial recognition which impact future cash flows associated with such financial asset. The Bank reviews at least once in three months whether there is objective evidence of impairment of a financial assets or group of assets. If there is such evidence, the Bank is required to calculate the amount of impairment for the purpose of deciding whether to recognize an impairment loss. In other words, if there is any such evidence of impairment, the Bank should estimate the recoverable amount for such assets or group of assets and recognize an impairment loss.

In determining the adequate amount of provision a distinction is made between the need for calculating a special provision on an individual basis and a special provision on a group basis for clients grouped in categories with similar risk characteristics, including segments to which the client belongs and total amount of exposure at client level. Total exposure of clients consists of the balance of receivable and off-balance balance of receivables, including undrawn amounts of loans.

The process of calculating a special provision on an individual basis is intended to measure impairment at client level. Individual provisions are measured as the difference between the book value of a receivable and present value of expected future cash flows (excluding future impairments not recognized as already occurred) discounted using the effective interest rate for the particular financial asset (e.g. effective interest rate specified in the contract). In other words, the provision is set in the amount of the individual receivable for which collection is doubtful. In the event that the effective interest rate is not available, in calculating the provision an alternative interest rate is used, which is defined in accordance with the Bank's internal bylaws. In determining the present value of a receivable, first the discounted cash flow from repayment of principal, interest and any other cash flows associated with the loan are determined. Thereafter, the discounted cash flow from the net realizable value of impaired assets is determined for the given loan. Finally, the net present value of future cash flows is compared to the carrying amount of the particular asset and the amount of the provision for impairment of the given loan is calculated and reported in the income statement.

Calculation of provisions for exposures that are impaired and which are not classified as individually significant is performed on a group basis by grouping clients with a default status into homogenous categories with similar risk characteristics. In defining homogenous categories, the Bank uses segmentation criteria in developing the model for computing the loss rate upon occurrence of loss given default (LGD model).

General Provisioning Rules and Principles

In determining provisions for exposures for which there are no objective evidence of impairment the Bank uses the general provisioning method (IBNR). According to this method, provisions are calculated not just for exposures for which an event has been identified which leads to impairment, but also for exposures for which an event that leads to impairment has occurred, but has yet not been identified by the Bank. Even though for such loans no indications of impairment exist, nor any credit risk losses as at the reporting date, historical information suggests that over time, for a portion of these loans, contractual obligations toward the Bank will not be performed.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016
All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology (Continued)

General Provisioning Rules and Principles (Continued)

The method of general provisioning is based on the concept of expected loss according to Basel II standards. Expected loss represents the average loss for a credit portfolio in the period of one year and depends on credit risk parameters. A parameter which links the concept of expected losses with the method of general provisioning is the period of identification of an occurred loss (Loss Confirmation Period – LCP). LCP represents a time period expressed as the number of months between the moment of occurrence or potential occurrence of an event that results in loan impairment and the moment when an event has been identified by the Bank. Identification of the event itself is linked to the fulfilment of criteria for default status.

In order for an occurred (but still not identified) loss to be covered for a part of the credit portfolio without the existence of objective evidence of loan impairment, a general provision is calculated as the product of the expected loss for the period of one year and the LCP parameter expressed for parts of the year. The value of the LCP parameter is 12 months for legal entities, SME and entrepreneurs and individuals in accordance with the internal segmentation (corporate and retail segments) and 4 months for banks in accordance with the range recommended by the UniCredit Group, which is from 4 to 12 months.

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

	Held-to-maturity financial assets (Note 22)		Loans and receivables due from banks and other financial institutions (Note 23)		Loans and receivables due from customers (Note 24)		Other assets (Note 32)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2016										
Corporate clients, rating 10	623	-	-	-	6.194.783	894.875	97.176	952	5.154	88
Corporate clients, rating 9	-	-	-	-	-	-	91	-	-	-
Corporate clients, restructured loans	-	-	6	3	14.398.550	8.186.047	139.650	12.684	369.075	274.983
Retail clients, > 90 days past due	-	-	-	-	4.034.605	842.620	92.780	494	1.209	859
Total	**623**	**-**	**6**	**3**	**24.627.938**	**9.923.542**	**329.697**	**14.130**	**375.438**	**275.930**
December 31, 2015										
Corporate clients, rating 10	16.252	-	-	-	14.739.127	2.011.873	112.179	8.904	28.148	4.031
Corporate clients, rating 9	-	-	-	-	68.419	50.072	135	2	-	-
Corporate clients, restructured loans	-	-	2	1	15.085.145	10.505.094	119.311	11.821	229.003	173.734
Retail clients, > 90 days past due	-	-	-	-	4.113.123	1.539.731	84.821	1.125	1.002	850
Total	**16.252**	**-**	**2**	**1**	**34.005.814**	**14.106.770**	**316.446**	**21.852**	**258.153**	**178.615**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology (Continued)

General Provisioning Rules and Principles (Continued)

The aging structure of matured and unimpaired loans as of December 31, 2016 is provided in the table below:

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
Loans and receivables due from customers					
Gross	3.533.362	330.325	33.985	-	3.897.672
Impairment allowance	(65.517)	(12.907)	(1.299)	-	(79.723)
Net carrying value	3.467.845	317.418	32.686	-	3.817.949

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 risk as much as possible. Therefore the Bank is especially dedicated to the management of collaterals, maintaining the acceptable relationship between the undertaken risk and real rate of the collateral recovery, control and mitigation of risks related to quality, concentration, or insurance of the receivables, maturity, currency, etc. Aiming at further enhancement of processes and systems with regards to credit risk mitigation, the Bank set up a special unit, whose activities included collateral appraisal, process of collateral monitoring, accurate reporting, management of the relationships with external associates, preparations of expert opinions, improvement of data quality and statistical monitoring of collaterals.

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

- financial collaterals (cash deposits), allowed to be recognized in full amounts;
- payment guarantees issued by first-class banks and governments, allowed to be recognized at full amounts;
- mortgages on residential or commercial property, recognized up to 70% or 60%, respectively of the appraised value of property;
- pledge liens over receivables, recognized up to 70%;
- pledge liens over movable assets, recognized up to 50%; 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 specified by the Bank’s policy “Credit Risk Mitigation Policy – Special Local Standards”.

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4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology (Continued)

Security Instruments - Collaterals

Appraised fair values of collaterals securitizing the Bank's loans up to the credit risk exposure level as of December 31, 2016 are presented in the table below:

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Held-to-maturity financial assets		Available-for-sale financial assets		Other assets		Off-balance sheet assets	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Corporate clients, rating 10	**-**	**-**	**838.933**	**1.188.406**	**-**	**-**	**-**	**-**	**-**	**-**	**826**	**-**
Real estate	-	-	831.353	1.188.406	-	-	-	-	-	-	-	-
Other	-	-	7.580	-	-	-	-	-	-	-	826	-
Corporate clients, rating 9	**-**	**-**	**-**	**61.847**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-		61.847	-	-	-	-	-	-		-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	**-**	**-**	**6.131.575**	**7.422.265**	**-**	**-**	**-**	**-**	**-**	**-**	**76.252**	**33.251**
Real estate	-	-	4.440.111	4.587.567	-	-	-	-	-	-	58.780	32.885
Other	-	-	1.691.464	2.834.698	-	-	-	-	-	-	17.472	366
Retail clients, > 90 days past due	**-**	**-**	**437.005**	**473.214**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	436.616	471.667	-	-	-	-	-	-	-	-
Other	-	-	389	1.547	-	-	-	-	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**-**	**-**	**63.520.472**	**58.653.183**	**-**	**-**	**-**	**-**	**-**	**-**	**9.620.687**	**11.037.243**
Real estate	3.193	-	48.556.331	41.087.689	-	-	-	-	-	-	4.889.206	2.984.518
Other	-	-	14.964.141	17.565.494	-	-	-	-	-	-	4.731.481	8.052.725
Total	**3.193**	**-**	**70.927.986**	**67.798.915**	**-**	**-**	**-**	**-**	**-**	**-**	**9.697.765**	**11.070.495**

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

The Bank will publish information and data in accordance with NBS Guidelines for Publishing Bank Data and Information on the Asset Quality within disclosures required by the Decision on the Publishing of Bank Data and Information (Official Gazette of RS no. 125/2014 and 4/2015). Such information will be disclosed on the Bank’s website.

(c) Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, calls on guarantees, margins and other obligations to pay out cash and cash equivalents. The Bank does not maintain cash resources to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is not unusual for banks never to cover their balances, given that business transactions are often carried out for indefinite periods and are of different types. Open positions potentially increase profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, the interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank’s management believes that the diversification of deposits by the type of deposit placed and the number of customers, as well as the historical experience of the Bank, provide adequate assurance that its deposits represent a stable and reliable source of finance.

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

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

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

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

The Bank is under obligation to report to the National Bank of Serbia if the liquidity ratio is not within prescribed parameters for two working days, and must do so on the next working day. If the Bank determines a critically low liquidity ratio, it must report this to the National Bank of Serbia at the latest by the next working day. Such report should contain information on the amount of liquid assets that are not available, on the reasons for the lack of liquidity and on planned activities for resolving the cause of illiquidity. The Financial and Operational Risk Department prepares a report on daily liquidity for the National Bank of Serbia at daily and monthly levels.

The Bank’s liquidity management is the responsibility of the Head of the Assets and Liabilities Management (“ALM”) and Head of the Markets Department. The Liquidity Centre of UniCredit Group monitors the liquidity of its subsidiaries, maintains liquidity policy in the region and, when needed, orders corrective measures that are to be carried out by a subsidiary. Short term liquidity management in responsibility of Markets Department.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (Continued)

Depending on the crisis severity, the Bank may declare the Warning Stage or the Alert Stage. The Bank's liquidity policy in unforeseen events describes the engagement rules for each of the two stages. There are specific rules for activation of and response in each stage and each stage has a dedicated task force. Whenever a stage is activated, the relevant responsibility lines convene, assess the situation and make a decision on further actions. The Liaison Officer (LO) appointed by CRO (Chief Risk Officer – Director of the Risk Management Division) and CFO (Chief Finance Officer - Director of the Strategy and Finance Division) is responsible for scheduling the meeting, its agenda and minutes, and the further distribution of the minutes. LO enables transparency of the process and allows the organization to analyze the effectiveness of the liquidity policy in unforeseen events after the end of the crisis. CFO is responsible for liquidity transaction performance and coordination of all relevant operations, taking care of full harmonization of internal and external communications. CRO has an independent supervisory role.

	2016	2015
Liquidity ratio (I grade)		
- as at 31 December	1,29	1,59
- average for the period – December	1,37	1,55
- maximum for the period – December	1,49	1,61
- minimum for the period – December	1,27	1,45

	2016	2015
Rigid/cash liquidity ratio:		
- as of December 31	0,96	1,29
- average for the period – December	1,11	1,20
- maximum for the period – December	1,29	1,31
- minimum for the period – December	0,96	1,12

Early warning signals or indicators have been defined and the Bank monitors them on a daily basis. Early warning signals are aimed at assisting those in charge of liquidity maintenance to estimate the market.

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4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as of December 31, 2016:

	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 cash funds held with the central bank	28.085.266	-	-	-	-	**28.085.266**
Financial assets at fair value through profit and loss, held for trading	-	127.323	60.901	2.002.449	124.644	**2.315.317**
Financial assets available for sale	5.468.533	1.681.629	16.693.745	47.035.284	5.441.473	**76.320.664**
Financial assets held to maturity	17.906	25.051	-	-	-	**42.957**
Loans and receivables due from banks and other financial institutions	16.782.091	1.852.085	1.640.546	7.440	-	**20.282.162**
Loans and receivables due from customers	7.658.771	4.479.068	31.612.398	93.311.562	64.259.313	**201.321.112**
Receivables per financial derivatives designated as risk hedging instruments	375	-	-	-	-	**375**
Other assets	867.668	-	-	-	-	**867.668**
Total assets	**58.880.610**	**8.165.156**	**50.007.590**	**142.356.735**	**69.825.430**	**329.235.521**
Liabilities						
Financial liabilities at fair value through profit and loss, held for trading	93.814	-	33.733	83.127	23.558	**234.232**
Liabilities per financial derivatives designated as risk hedging instruments	-	-	-	18.275	521.822	**540.097**
Deposits and other liabilities due to banks other financial institutions and the central bank	36.219.508	764.911	4.740.571	32.610.386	7.755.048	**82.090.424**
Deposits and other liabilities due to customers	131.936.662	8.754.518	19.522.037	15.263.268	2.755.885	**178.232.370**
Subordinated liabilities	772	-	-	3.081.353	-	**3.082.125**
Current tax liabilities	29.200	-	-	-	-	**29.200**
Other liabilities	2.865.999	-	-	-	-	**2.865.999**
Total liabilities	**171.145.955**	**9.519.429**	**24.296.341**	**51.056.409**	**11.056.313**	**267.074.447**
Net liquidity gap as at December 31, 2016	**(112.265.345)**	**(1.354.273)**	**25.711.249**	**91.300.326**	**58.769.117**	**62.161.074**

The structure of asset and liability maturities as at December 31, 2016 is indicative of maturity mismatch between the outstanding maturities of assets and those of liabilities in the time 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 and short-term 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. However, based on historical data and experience, a significant portion of demand deposits may be considered a long-term source of financing given the turnovers and withdrawals realized; in addition, a large number of term deposits are commonly renewed and placed for another term immediately upon maturity. At the same time, the Bank is in possession of liquid instruments, securities that can be pledged with the National Bank of Serbia at any time, as well as agreed and not yet withdrawn lines of credit approved by the international financial institutions and the Parent Bank.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as of December 31, 2015:

	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 cash funds held with the central bank	43.747.168	-	-	-	-	**43.747.168**
Financial assets at fair value through profit and loss, held for trading	-	-	1.474.974	1.073.428	15.264	**2.563.666**
Financial assets available for sale	2.208.528	5.590.491	17.658.102	41.021.934	3.204.896	**69.683.951**
Financial assets held to maturity	189.656	31.706	-	-	-	**221.362**
Loans and receivables due from banks and other financial institutions	7.380.874	-	765.890	320.792	-	**8.467.556**
Loans and receivables due from customers	8.340.556	2.147.623	30.735.553	95.530.081	43.621.324	**180.375.137**
Other assets	793.994	-	-	-	-	**793.994**
Total assets	**62.660.776**	**7.769.820**	**50.634.519**	**137.946.235**	**46.841.484**	**305.852.834**
Liabilities						
Financial liabilities at fair value through profit and loss, held for trading	9.817	-	-	116.542	15.264	**141.623**
Liabilities per financial derivatives designated as risk hedging instruments	-	-	-	-	492.401	**492.401**
Deposits and other liabilities due to banks other financial institutions and the central bank	10.871.936	1.128.043	17.945.025	44.270.248	8.602.956	**82.818.208**
Deposits and other liabilities due to customers	106.189.287	12.124.223	18.987.983	15.377.869	2.328.987	**155.008.349**
Subordinated liabilities	378	-	-	3.018.992	-	**3.019.370**
Current tax liabilities	99.256	-	-	-	-	**99.256**
Other liabilities	4.453.140	-	-	-	-	**4.453.140**
Total liabilities	**121.623.814**	**13.252.266**	**36.933.008**	**62.783.651**	**11.439.608**	**246.032.347**
Net liquidity gap as at December 31, 2015	**(58.963.038)**	**(5.482.446)**	**13.701.511**	**75.162.584**	**35.401.876**	**59.820.487**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks

The Bank is exposed to market risks. Market risk arise from open positions in interest rate, currency and securities, all of which are exposed to general and specific market movements. The Bank applies a “value at risk” (“VaR”) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Supervisory Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

(i) Interest Rate Risk

The Bank is exposed to various risks that due to market interest rate fluctuations affect its financial position and cash flows. Interest rate margins can increase as the result of these fluctuations, but at the same time they can be reduced or cause losses in the event of unexpected fluctuations. Review of risk of fluctuation in interest rates is made using reports of acceptable interest rates based on which monetary assets and liabilities can be revaluated very quickly, with all risk of interest rate fluctuation becoming materially insignificant. The Supervisory Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The Bank is focused on interest rate spreads. The Bank is aware that volatility of Interest Rate Risk (IRR) spread is potential interest rate risk indicator. This spread is managed by loan pricing, deposit pricing, and investing.

The methodology used to assess the Investment book interest rate risk is based on the gap/duration analysis. The difference between the interest bearing assets and liabilities within the separate time “buckets” shows how two balance sheet sides react differently to interest rate changes:

- in case of positive GAP the bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency fall,
- in case of negative GAP, bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency rise.

The number and the “buckets” schedule are defined on the ALCO and level of UniCredit Group. Gap limits are defined according to the currency (limits per currency).

Resulting short and long positions are weighted by factors designed to reflect the sensitivity of the positions in the different time buckets to an assumed change in interest rates, based on an assumed parallel shift of 200 basis points throughout the time spectrum, and on proxies of modified duration.

	December 31, 2016		December 31, 2015	
	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp
RSD	-	(1.464.387)	-	(1.381.936)
EUR	-	(610.839)	-	(189.123)
USD	-	25.684	-	40.725
GBP	-	-	-	-
CHF	-	(76.695)	-	(114.133)
JPY	-	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
DKK	-	-	-	-
NOK	-	-	-	-
SEK	-	-	-	-
Total effect	-	(2.126.237)	-	(1.644.467)

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(i) Interest Rate Risk (Continued)

The Bank prepares reports for measuring interest rate risk for all positions of assets, liability and off-balance items, as well as for all other compensations or expenditures that are exposed to interest rate risk. These reports are used to measure risk to Net Interest Income ("NII") arising from the re-pricing of assets and liabilities over time. The risk is measured upon the size and duration of potential movements in interest rates.

In addition to the GAP analyses, interest rate risk management also entails monitoring the sensitivity of the Bank's assets and liabilities to different standard and non-standard scenarios of changes in interest rates. The standard scenarios prepared on a daily basis entail parallel changes (increases and decreases) in the yield curve by 200 basis points (b.p.) in Serbia.

One of the objective targets of ALM is managing of the interest rate risk of the Bank through acting on financial market (through interbank trading) in collaboration with the Markets Department in order to hedge the interest rate risk in accordance with the risk profile desired by the Bank. At the same time, ALM manages the Bank's investment portfolio, which, along with the approved instruments, allows for achievement of such strategic position that would enable improved profitability of the banking book. ALM uses hedging transactions as well for protection against the interest rate risk.

The Bank's sensitivity analysis, i.e. impact on the Bank's financial performance of the increase/decrease in the interest rates, both in the banking and trading books, assuming symmetrical movement in yield curves and constant financial position is presented in the table below:

	Parallel increases by 200 b.p.	Parallel decreases by 200 b.p.
2016		
As at December 31	2.297.558	(2.297.558)
Average for the year	2.115.397	(2.115.397)
Maximum for the year	2.947.069	(2.947.069)
Minimum for the year	810.105	(810.105)
2015		
As at December 31	1.837.718	(1.837.718)
Average for the year	2.050.426	(2.050.426)
Maximum for the year	2.360.799	(2.360.799)
Minimum for the year	1.828.786	(1.828.786)

Breakdown of VaR position of the Bank's trading portfolio:

	As at December 31	Average	Maximum	Minimum
2016				
Currency risk	10.804	6.981	18.673	416
Interest rate risk	5.126	9.087	19.019	1.349
Credit spread risk	6.103	4.846	9.087	580
Other price risks	-	-	-	-
Covariance	(10.642)	-	-	-
Overall	11.391	12.708	29.968	4.047
2015				
Currency risk	2.954	4.735	12.971	118
Interest rate risk	9.077	5.627	9.902	609
Credit spread risk	4.554	3.821	6.970	896
Other price risks	-	-	-	-
Covariance	(7.114)	-	-	-
Overall	9.471	8.902	20.259	1.310

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(i) Interest Rate Risk (Continued)

Exposure to interest rate movements as at December 31, 2016:

	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 cash funds held with the central bank	28.085.266	8.734.297	-	-	-	-	19.350.969
Financial assets at fair value through profit and loss, held for trading	2.315.317	2.039.136	-	129.508	-	-	146.673
Financial assets available for sale	76.320.664	2.901.036	-	73.419.628	-	-	-
Financial assets held to maturity	42.957	17.283	25.051		-	-	623
Loans and receivables due from banks and other financial institutions	20.282.162	16.779.413	1.853.212	1.643.686	3.173	-	2.678
Loans and receivables due from customers	201.321.112	6.632.590	6.409.799	166.150.763	17.197.472	3.922.849	1.007.639
Receivables per financial derivatives designated as risk hedging instruments	375						375
Other assets	867.668	-	-	-	-	-	867.668
Total assets	**329.235.521**	**37.103.755**	**8.288.062**	**241.343.585**	**17.200.645**	**3.922.849**	**21.376.625**
Financial liabilities at fair value through profit and loss, held for trading	234.232	-	-	-	-	-	234.232
Liabilities per financial derivatives designated as risk hedging instruments	540.097	-	-	-	-	-	540.097
Deposits and other liabilities due to banks other financial institutions and the central bank	82.090.424	34.769.039	21.769.483	6.051.894	16.969.727	-	2.530.281
Deposits and other liabilities due to customers	178.232.370	41.891.707	62.257.932	27.702.886	13.677.022	-	32.702.823
Subordinated liabilities	3.082.125	-	3.082.125	-	-	-	-
Current tax liabilities	29.200	-	-	-	-	-	29.200
Other liabilities	2.865.999	-	-	-	-	-	2.865.999
Total liabilities	**267.074.447**	**76.660.746**	**87.109.540**	**33.754.780**	**30.646.749**	**-**	**38.902.632**
Net interest rate risk sensitivity exposure at December 31, 2016	**62.161.074**	**(39.556.991)**	**(78.821.478)**	**207.588.805**	**(13.446.104)**	**3.922.849**	**(17.526.007)**

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4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(i) Interest Rate Risk (Continued)

Exposure to interest rate movements as at December 31, 2015:

	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 cash funds held with the central bank	43.747.168	13.111.755	-	-	-	-	30.635.413
Financial assets at fair value through profit and loss, held for trading	2.563.666	1.808.941	-	618.292	-	-	136.433
Financial assets available for sale	69.683.951	-	-	69.683.951	-	-	-
Financial assets held to maturity	221.362	50.051	165.816	5.495	-	-	-
Loans and receivables due from banks and other financial institutions	8.467.556	7.376.713	1.975	1.042.748	-	43.839	2.281
Loans and receivables due from customers	180.375.137	5.262.666	2.443.663	145.288.164	16.319.833	9.689.413	1.371.398
Other assets	793.994	-	-	-	-	-	793.994
Total assets	**305.852.834**	**27.610.126**	**2.611.454**	**216.638.650**	**16.319.833**	**9.733.252**	**32.939.519**
Financial liabilities at fair value through profit and loss, held for trading	141.623	-	-	-	-	-	141.623
Liabilities per financial derivatives designated as risk hedging instruments	492.401	-	-	-	-	-	492.401
Deposits and other liabilities due to banks other financial institutions and the central bank	82.818.208	8.988.610	52.689.410	1.229.831	13.320.326	6.081.303	508.728
Deposits and other liabilities due to customers	155.008.349	47.671.851	49.915.663	25.700.041	22.649.215	-	9.071.579
Subordinated liabilities	3.019.370	-	3.019.370	-	-	-	-
Current tax liabilities	99.256	-	-	-	-	-	99.256
Other liabilities	4.453.140	-	-	-	-	-	4.453.140
Total liabilities	**246.032.347**	**56.660.461**	**105.624.443**	**26.929.872**	**35.969.541**	**6.081.303**	**14.766.727**
Net interest rate risk sensitivity exposure at December 31, 2015	**59.820.487**	**(29.050.335)**	**(103.012.989)**	**189.708.778**	**(19.649.708)**	**3.651.949**	**18.172.792**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(ii) Currency Risk

Foreign currency risk is the risk of potential negative effects on the Bank's financial result and equity due to fluctuations in the foreign currency exchange rates.

The foreign currency risk ratio is the total open foreign currency position relative to the Bank's capital, calculated in accordance with NBS Decision on Capital. The Bank is under obligation to maintain the ratio between assets and liabilities in such a way that its 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 daily liquidity for NBS on daily and monthly bases.

The Bank is exposed to the effects of exchange rate fluctuations of the most important foreign currencies on its financial position and cash flows. Bank management sets limits for risk of exposure to particular foreign currencies and constantly monitors whether balances of various foreign currencies are within prescribed limits. Limits are effective for all relevant foreign currency products within the MarketsDepartment. They comprise trade balances as well as selected strategic foreign currency ALM balances. These limits are defined in the General Section of the MIB Manual. All sensitivities that result from foreign currency balances are limited by the general VaR limit set for UniCredit Bank Serbia, both for the Bank in the aggregate and for the Markets and ALM departments individually.

For the purpose of protecting itself against the risk of fluctuations in the foreign currency exchange rate the Bank executes derivative contracts and loan and investment contracts indexed to a foreign currency.

Foreign currency risk management at the operating level of a bank that is a member of UniCredit Group is the responsibility of the Markets Department.

	2016	2015
Foreign exchange risk ratio:		
- as at December 31	3,82	6,36
- maximum for the period – December	6,95	6,36
- minimum for the period – December	0,23	0,15

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4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(ii) Currency Risk (Continued)

The Bank's net currency position as at December 31, 2016:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and cash funds held with the central bank	123.601	17.633.937	130.023	90.867	10.106.838	28.085.266
Financial assets at fair value through profit and loss, held for trading	-	276.180	-	-	2.039.137	2.315.317
Financial assets available for sale	-	21.098.398	-	-	55.222.266	76.320.664
Financial assets held to maturity	-	-	-	-	42.957	42.957
Loans and receivables due from banks and other financial institutions	560.823	19.442.510	5.315	268.855	4.659	20.282.162
Loans and receivables due from customers	6.990.487	129.703.596	6.118.849	-	58.508.180	201.321.112
Gains on the fair value adjustments of risk hedged items	-	-	222.845	-	-	222.845
Receivables per financial derivatives designated as risk hedging instruments	-	375	-	-	-	375
Investments in subsidiaries	-	-	-	-	112.644	112.644
Intangible assets	-	-	-	-	917.810	917.810
Property, plant and equipment	-	-	-	-	1.577.325	1.577.325
Investment property	-	-	-	-	1.397	1.397
Deferred tax assets	-	-	-	-	164.592	164.592
Other assets	2.393	60.396	846	71	803.962	867.668
Total assets	**7.677.304**	**188.215.392**	**6.477.878**	**359.793**	**129.501.767**	**332.232.134**
Financial liabilities carried at fair value through profit and loss, held for trading	-	140.418	-	-	93.814	234.232
Liabilities per financial derivatives designated as risk hedging instruments	-	231.786	308.311	-	-	540.097
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.645.035	71.959.374	1.869.093	4.742	4.612.180	82.090.424
Deposits and other liabilities due to customers	15.475.851	99.810.869	1.331.747	1.358.839	60.255.064	178.232.370
Losses on the fair value adjustments of risk hedged items	-	103	-	-	-	103
Subordinated liabilities	-	-	3.082.125	-	-	3.082.125
Provisions	-	-	-	-	953.369	953.369
Current tax liabilities	-	-	-	-	29.200	29.200
Other liabilities	68.372	1.502.094	3.067	10.361	1.282.105	2.865.999
Equity	-	-	-	-	64.204.215	64.204.215
Total liabilities and equity	**19.189.258**	**173.644.644**	**6.594.343**	**1.373.942**	**131.429.947**	**332.232.134**
Off-balance sheet financial instruments	11.512.917	(12.497.872)	91.878	980.597	(217.911)	(130.391)
Net currency position as of December 31, 2016	**963**	**2.072.876**	**(24.587)**	**(33.552)**	**(2.146.091)**	**(130.391)**

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

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016
All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(ii) Currency Risk (Continued)

The Bank's net currency position as at December 31, 2015:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and cash funds held with the central bank	96.616	24.738.817	80.789	88.743	18.742.203	43.747.168
Financial assets at fair value through profit and loss, held for trading	-	754.724	-	-	1.808.942	2.563.666
Financial assets available for sale	-	18.241.127	-	-	51.442.824	69.683.951
Financial assets held to maturity	-	-	-	-	221.362	221.362
Loans and receivables due from banks and other financial institutions	2.554.924	5.596.001	16.040	300.579	12	8.467.556
Loans and receivables due from customers	8.020.254	120.572.709	6.742.842	-	45.039.332	180.375.137
Fair value adjustments of risk hedged items	-	-	171.733	-	-	171.733
Intangible assets	-	-	-	-	934.118	934.118
Property, plant and equipment	-	-	-	-	1.181.740	1.181.740
Investment property	-	-	-	-	1.430	1.430
Deferred tax assets	-	-	-	-	141.956	141.956
Other assets	1.045	94.386	1.205	4	697.354	793.994
Total assets	**10.672.839**	**169.997.764**	**7.012.609**	**389.326**	**120.211.273**	**308.283.811**
Financial liabilities carried at fair value through profit and loss, held for trading	-	131.806	-	-	9.817	141.623
Liabilities per financial derivatives designated as risk hedging instruments	-	237.125	255.276	-	-	492.401
Deposits and other liabilities due to banks, other financial institutions and the central bank	5.616.348	67.639.119	2.667.596	2.894	6.892.251	82.818.208
Deposits and other liabilities due to customers	6.869.620	93.126.826	1.051.652	476.579	53.483.672	155.008.349
Subordinated liabilities	-	-	3.019.370	-	-	3.019.370
Provisions	-	-	-	-	837.182	837.182
Current tax liabilities	-	-	-	-	99.256	99.256
Other liabilities	97.244	758.399	1.642	35.383	3.560.472	4.453.140
Equity	-	-	-	-	61.414.282	61.414.282
Total liabilities and equity	**12.583.212**	**161.983.275**	**6.995.536**	**514.856**	**126.296.932**	**308.283.811**
Off-balance sheet financial instruments	2.062.260	(10.218.645)	(11.252)	22.272	8.159.346	13.981
Net currency position as of December 31, 2015	**151.887**	**(2.114.156)**	**5.821**	**(103.258)**	**2.073.687**	**13.981**

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

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4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Concentration Risk

Concentration risk directly or indirectly arises from the Bank's exposure to the same or similar risk origination source or the same or similar risk type. Concentration risk relates to:

- large exposures;
- exposure groups with the identical or similar risk factors, such as industry, product type and the like;
- collaterals, including maturity and currency mismatching between large exposures and collaterals securitizing large exposures.

Concentration risk mitigation and control is achieved through active management of the loan portfolio and definition of appropriate exposure limits enabling portfolio diversification. The process of deciding on approval of the Bank's large exposures involves the Supervisory Board, Credit Committee and relevant organizational units within the Group, which ensures another aspect of concentration risk control. In its separate internal bylaws the Bank prescribes limit types used for managing this risk (regulatory and internal limits) as well as the manner of their monitoring and rules of procedure in instances of limit override or possible override. Appropriate exposure limits are set under relevant decisions of the Management Board in accordance with the Group guidelines, for the Bank's exposure to a single entity or a group of related entities and exposure to certain industries. Compliance with the set limits is monitored at least quarterly within regular CRO Report to the Supervisory Board and within regular quarterly report on the loan portfolio (Credit Portfolio Overview) intended for the Credit Committee. Concentration per collateral is regularly monitored by the Strategic Risk Management and Control Department and reported to the management Board within the regular report on the collaterals within the Bank's portfolio.

Concentrations of loans and receivables due from customers are disclosed in Notes 24.3 and 24.5.

(f) Exposure Risk

The Bank's exposure risks encompass either risks of exposure to a single entity or a group of related entities or risk of exposure to an entity related to the Bank. In accordance with the NBS regulations, the Bank's total exposure to a single entity or a group of related entities cannot exceed 25% of the Bank's total capital, net of prescribed deductible items. The aggregate amount of all Bank's exposures in excess of 10% of the Bank's capital cannot exceed 400% of the Bank's capital. The total exposure to a single customer or a group of related customers in excess of 10% of the Bank's capital must be approved by the Supervisory Board. The manner of large exposure calculation is defined under the Bank's Decision on the Risk Management.

(g) Investment Risk

The Bank's investment risk relates to the risk of investing in other entities and capital expenditures. The Bank's investments in a non-financial sector entity cannot exceed 10% of the Bank's capital, whereby such investments entail investments through which the Bank acquires equity interest or shares in a non-financial sector entity. The total Bank's investment in non-financial sector entities and Bank's own fixed assets cannot exceed 60% of the Bank's capital, but this restriction does not apply to the acquisition of shares for further trading and sales thereof within six months from the acquisition date.

(h) Country Risk

Country risk is the risk of occurrence of negative effects on the Bank's financial result and equity, arising from the Bank's inability to collect receivables from borrowers from other countries, for reasons that are associated with political, economic or social conditions in the borrower's country of origin. Country risk comprises:

- political-economic risk which consists of the probability that losses will be incurred due to the impossibility of collecting the Bank's receivables due to limitations stipulated by state and other institutions of the borrower's country of origin, as well as general and systemic conditions in that country;
- transfer risk which comprises the probability that losses will be incurred due to the impossibility of collecting receivables denominated in a currency that is not the official currency of the borrower's country of origin, due to limitations on payments of liabilities to creditors from other countries in specific currencies, as prescribed by regulations issued by state and other institutions of the borrower's country of origin;

4. FINANCIAL RISK MANAGEMENT (Continued)

(h) Country Risk

The Bank's exposure to this risk is significantly limited due to the Bank's business focus on the customers domiciled and operating in the territory of the Republic of Serbia with exception of operations with the financial institutions domiciled outside of the Republic of Serbia. For this purpose, with the support of the Group, the Bank sets adequate limits to the counterparty, including a component of the country risk, i.e., the risk of the country of origin of the financial institution.

(i) Compliance Risks

Compliance risk represents possibility of adverse effect on the Bank's financial performance and capital due to the failure of the Bank to align its operations with the effective laws and regulations, professional standards, procedures for prevention of money laundering and terrorist financing and other procedures and other bylaws aimed at improving banking operations. It particularly relates to the risk of regulatory sanctions, risk of financial loss and reputation risks. The Bank has organized a special organizational unit whose competence covers compliance review.

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

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

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

(j) Strategic Risks

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

(k) Risk Money Laundering and Terrorist Financing

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

Risk of money laundering and terrorist financing arises particularly as a result of the failure of banks to align their business operations with the effective legislation, regulations and internal bylaws governing prevention of money laundering and terrorist financing, or as a result of mutual nonalignment of the Bank's internal bylaws governing this matter.

The Bank has in place adequate policies and procedures for identification, measurement, assessment and management of this risk.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Risk Money Laundering and Terrorist Financing (Continued)

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, IT and other resources for work as well as with ongoing professional education and trainings.

(l) Operational Risks

Operational risk is the risk of loss resulting from error, breach, interruption, damage caused by internal processes, employees or systems or external events. Operational risk is defined as an event occurring as the 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 operation and system errors, process management. Strategic risks, business risks and reputation risks differ from operational risks, while legal risks and compliance risk are included in the definition of operational risk.

The Financial and Operational Risk Department is responsible for recording, monitoring and managing the Bank's operational risks and directly answers 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 Department in Milan, with the purpose of securing information for the efficient monitoring of operational risk at all levels. On a daily basis the Department monitors changes in specially defined accounts and on a weekly basis it reports to members of the Management Board regarding all changes in operational risks. For the purpose of efficient monitoring of significant changes in connection with operational risks within the Bank, Operational Risk Managers and Deputy Managers have been appointed from various organizational units that are responsible for the accuracy and timeliness of recording data on all harmful events in their organizational unit into a database. The Bank uses ARGO application for the operational risk records. All events that have occurred are recorded in the Group's ARGO application.

The Operational Risk Committee meets quarterly for more efficient internal control and process improvement to minimize risks arising from operational risk. The bank's Management Board is responsible for decision making on operational risk. It us under remit of the Department to calculate the capital requirements for operational risks, which is computed using the standardized approach and to prepare reports for local management and the Group.

(m) Capital Management

The Bank's regulator, the National Bank of Serbia ("NBS"), sets and monitors capital requirements for the Bank. The capital requirements of the regulator are based on the Basel II framework. The Bank monitors on the monthly basis its capital adequacy in compliance with the standardized approach.

The capital adequacy ratio is equal to the ratio between capital and risk assets. In accordance with the NBS Decision on Capital Adequacy ("Decision") the Bank is required to maintain its capital adequacy ratio at a level that cannot be lower than 12%. If the capital adequacy ratio specified in Decision, due to profit distribution, is greater by less than 2.5%, profit distribution can only be carried out from the core capital components.

The Bank is required to maintain its core capital in RSD equivalent amount of EUR 10,000,000, using the official exchange rate. The Bank is required to maintain at all times its capital at a level required to cover all risks to which it is exposed or could be exposed in its operations, but no less than the aggregate amount of the following capital requirements:

- Capital requirements for credit risk and for counterparty risk for all of the Bank's banking activities and capital requirements for settlement/supply risk for its trading activities;
- Capital requirements for price risk for trading activities;
- Capital requirements for foreign currency risk and commodity risk for all banking activities;
- Capital requirements for operational risks for all banking activities.

4. FINANCIAL RISK MANAGEMENT (Continued)

(m) Capital Management (Continued)

The Bank's regulatory capital is comprised of:

- Core capital (Tier 1 capital) and
- Supplementary capital (Tier 2 capital).

Tier 1 capital consists of:

- Paid in share capital, except for cumulative preference shares;
- Reserves from profit – all types of reserves of the Bank formed from profits after taxes, based on a decision by the Bank's Shareholder Assembly;
- Retained earnings from prior years as well as for the current year

When calculating Tier 1 capital, the Bank is obliged to reduce sum of Tier 1 capital elements for the following categories:

- Previous years' losses;
- Current year loss;
- Intangible assets;
- Purchased common and preference shares, except for cumulative preference shares, in the amount of the book value (nominal value increased for share issue premium);
- Common and preference shares, except for cumulative preference shares, that the Bank received as collateral in the lower amount of receivables secured with pledged shares and nominal value of shares received as collateral increased for related share issue premium;
- Regulatory adjustments in value in compliance with International Financial Reporting Standards and International Accounting Standards (IFRS/IAS), which comprise:
  - Unrealized losses on available-for-sale securities;
  - Other revaluation reserves in the negative net amount which relate to deductible items of basic equity or elements which are included in additional equity;
  - Profit based on the Bank's liabilities measured at fair value which are reduced because of change in the Bank's credit rating;
  - Amount of required reserve for estimated losses on balance sheet assets and off-balance sheet items of the Bank.

Tier 2 capital consists of:

- Paid in share capital for cumulative preference shares – the nominal value of paid in cumulative preference shares and associated share issue premium;
- Part of positive revaluation reserves – the Bank includes the part of positive revaluation reserves (85%) occurred from effects of changes in the fair value of fixed assets, securities and other assets that, in accordance with IFRS/IAS, are reported under these reserves, and that are reduced for tax liabilities;
- Hybrid capital instruments;
- Subordinated liabilities (with the following characteristics: fully paid in; with date of maturity of at least 5 years from date of payment; repayment to or purchase from creditors is not possible before contractual date of maturity, except in the case of conversion of these liabilities into the Banks' shares which are not cumulative preference shares; in the event of bankruptcy or liquidation of the Bank, they can be settled only after settlement of all other liabilities which are not subordinated, and before the Bank's shareholders and owners of hybrid instruments issued by the bank; they are not the subject of collateral issued by the Bank or any of its related parties; the Bank's creditor is not at the same time its debtor in respect of subordinated receivables). The amount of subordinated liabilities of the Bank included in additional equity, in the last 5 years before the date of maturity of such liabilities, is reduced by 20% per annum, so that in the last year before the date of maturity of such subordinated liability they are not included in additional equity;
- Surplus provisions, reserves and required reserves in respect of expected losses – if the Bank receives NBS approval for use of IRB approach.

4. FINANCIAL RISK MANAGEMENT (Continued)

(m) Capital Management (Continued)

When calculating Tier 2 capital, the Bank is obliged to reduce sum of Tier 2 capital elements for the following categories:

- Purchased cumulative preference shares for the amount of their book value;
- The Bank's cumulative preference shares that the Bank accepted as collateral in the lower amount of the receivable secured with a pledge over such shares and of the nominal value of shares accepted as collateral, increased for related share issue premium;
- Receivables for balance sheet assets and off-balance sheet items of the Bank which are secured with hybrid instruments or subordinated liabilities, up to the amount for which such instruments/liabilities are included in supplementary capital.

The capital of the Bank shall be the sum total of its Tier 1 and Tier 2 minus following deductions:

- Direct and indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entities;
- Investment in hybrid instruments and subordinated obligation of other banks and entities in financial sector in which Bank has direct and indirect investment that exceed 10% of the capital of such banks and/or other financial sector entities;
- Total of direct and indirect investment in banks and other financial sector entities up to exceed 10% of the capital of such banks and /or other financial sector entities and investment in hybrid instruments and subordinated obligation that exceed 10% of tier 1 and tier 2 capital of such banks;
- Amount that exceed qualified investment in entities in other sectors;
- Amount of exposure to free delivery if other party has not fulfilled its obligation within four working days;
- All claims and contingent liabilities of entities related to the Bank or employees of the Bank that were contracted on more favorable terms and conditions than those contracted with the non-related entities or non-employees.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(m) Capital Management (Continued)

The table below provides the balances of capital and total risk-weighted assets as of December 31, 2016:

	2016	2015
Core capital – Tier 1		
Share capital	23.607.620	23.607.620
Share premium	562.156	562.156
Retained earnings	32.020.480	28.254.097
Less:		
Intangible assets	(917.810)	(934.118)
Unrealized losses on securities available for sale	-	(174.224)
Required reserve from profit for estimated losses	(18.800.670)	(15.342.697)
Other net revaluation reserves	(11.823)	(9.670)
Total qualifying tier 1 capital	36.459.953	35.963.164
Supplementary capital – Tier 2		
Qualifying subordinated loans	616.271	1.207.597
Revaluation reserves	1.529.305	2.386.732
Total qualifying Tier 2 capital	2.145.576	3.594.329
Deductible items		
Receivables and liabilities to related parties with better conditions comparing to conditions for non-related parties	(112.644)	-
Total deductible items	(112.644)	-
Reduction in Tier 1 capital	(56.322)	-
Reduction in Tier 2 capital	(56.322)	-
Total Tier 1 capital	36.403.631	35.963.164
Total Tier 2 capital	2.089.254	3.594.329
Total regulatory capital	38.492.885	39.557.493

In both 2016 and 2015 the Bank achieved capital adequacy ratio and performance indicators within limits defined by NBS Decision on Capital Adequacy and Decision on Risk Management.

5. USE OF ESTIMATES AND JUDGMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Revision 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).

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

(a) Key Sources of Estimation Uncertainty

i) Provisions for Credit Losses

Assets accounted at amortized cost are assessed for impairment on a basis described in accounting policy 3(j)(vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its quality and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowances, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective (group-level) allowances.

ii) Fair Value Estimates

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

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

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

i) Measurement of Financial Instruments

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

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

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

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

i) Measurement of Financial Instruments

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable price exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, bond and prices, foreign exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the future markets.

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

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

iii) Impairment of Non-Financial Assets

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

iv) Deferred Tax Assets

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

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5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

v) Provisions for Litigations

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

vi) Provisions for Employee Benefits

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

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

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

	Note	Level 1	Level 2	Level 3	Total
2016					
Financial assets at fair value through profit and loss, held for trading	20	-	105.553	2.209.764	2.315.317
Financial assets available for sale	21	-	76.669	76.243.995	76.320.664
Gains on the fair value adjustments of risk hedged items	25	-	24.067	198.778	222.845
Receivables per derivatives designated as risk hedging instruments	26	-	375	-	375
		-	**206.664**	**78.652.537**	**78.859.201**
Financial liabilities at fair value through profit and loss, held for trading	33	-	87.814	146.418	234.232
Liabilities per financial derivatives designated as risk hedging instruments	34	-	540.097	-	540.097
Losses on the fair value adjustments of risk hedged items	37	-	11	92	103
		-	**627.922**	**146.510**	**774.432**

	Note	Level 1	Level 2	Level 3	Total
2015					
Financial assets at fair value through profit and loss, held for trading	20	-	105.332	2.458.334	2.563.666
Financial assets available for sale	21	-	75.522	69.608.429	69.683.951
Gains on the fair value adjustments of risk hedged items	25	-	71.527	100.206	171.733
		-	**252.381**	**72.166.969**	**72.419.350**
Financial liabilities at fair value through profit and loss, held for trading	33	-	129.213	12.410	141.623
Liabilities per financial derivatives designated as risk hedging instruments	34	-	492.401	-	492.401
		-	**621.614**	**12.410**	**634.024**

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

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

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

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

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2016						
Cash and cash funds held with the central bank	19	-	-	28.085.266	28.085.266	28.085.266
Financial assets held to maturity	22	-	-	44.819	44.819	42.957
Loans and receivables due from banks and other financial institutions	23	-	14.618.710	5.663.452	20.282.162	20.282.162
Loans and receivables due from customers	24	-	73.870.874	141.211.732	215.082.606	201.321.112
Other assets	32	-	867.668	-	867.668	867.668
		-	**89.357.252**	**175.005.269**	**264.362.521**	**250.599.165**
Deposits and other liabilities due to banks, other financial institutions and the central bank	35	-	20.872.714	62.785.370	83.658.084	82.090.424
Deposits and other liabilities due to customers	36	-	54.497.172	124.053.207	178.550.379	178.232.370
Subordinated liabilities	38	-	3.082.125	-	3.082.125	3.082.125
Current tax liabilities	18.4	-	29.200	-	29.200	29.200
Other liabilities	40	-	2.865.999	-	2.865.999	2.865.999
		-	**81.347.210**	**186.838.577**	**268.185.787**	**266.300.118**

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2015						
Cash and cash funds held with the central bank	19	-	-	43.747.168	43.747.168	43.747.168
Financial assets held to maturity	22	-	-	235.325	235.325	221.362
Loans and receivables due from banks and other financial institutions	23	-	8.093.310	373.836	8.467.146	8.467.556
Loans and receivables due from customers	24	-	68.706.771	128.891.893	197.598.664	180.375.137
Other assets	32	-	793.994	-	793.994	793.994
		-	**77.594.075**	**173.248.222**	**250.842.297**	**233.605.217**
Deposits and other liabilities due to banks, other financial institutions and the central bank	35	-	27.032.639	58.409.843	85.442.482	82.818.208
Deposits and other liabilities due to customers	36	-	57.641.839	97.725.651	155.367.490	155.008.349
Subordinated liabilities	38	-	3.019.370	-	3.019.370	3.019.370
Current tax liabilities	18.4	-	99.256	-	99.256	99.256
Other liabilities	40	-	4.453.140	-	4.453.140	4.453.140
		-	**92.246.244**	**156.135.494**	**248.381.738**	**245.398.323**

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

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

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

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

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

(iii) Financial Instruments with Fixed Interest Rates

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

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

7. NET INTEREST INCOME

Net interest income includes:

	2016	2015
Interest income		
Cash and cash funds held with the central bank	274.123	475.845
Financial assets at fair value through profit and loss, held for trading	206.992	282.577
Financial assets available for sale	4.163.368	4.720.755
Financial assets held to maturity	3.793	9.389
Loans and receivables due from banks and other financial institutions	121.448	249.523
Loans and receivables due from customers	10.328.287	11.611.463
Financial derivatives and assets held for risk hedging purposes	275.021	185.285
Total interest income	15.373.032	17.534.837
Interest expenses		
Financial liabilities carried at fair value through profit and loss, held for trading	84.553	182.786
Liabilities per financial derivatives designated as risk hedging instruments	79.480	72.918
Deposits and other liabilities due to banks, other financial institutions and the central bank	1.517.731	2.045.507
Deposits and other liabilities due to customers	1.465.011	2.788.959
Subordinated liabilities	138.959	140.486
Total interest expenses	3.285.734	5.230.656
Net interest income	12.087.298	12.304.181

In accordance with the Bank's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 465. thousand in 2016 (2015: RSD 379.823 thousand).

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

8. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	2016	2015
Fee and commission income		
Payment transfer activities	977.971	1.116.069
Fees on issued guarantees and other contingent liabilities	637.731	680.806
Brokerage fees	20.154	63.989
Custody fees	390.544	444.606
Fees arising from card operations	924.048	665.617
Fees and commissions for other banking services	857.047	617.708
Total fee and commission income	3.807.495	3.588.795
Fee and commission expenses		
Payment transfer activities	152.320	124.506
Fees arising on guarantees and letters of credit	22.958	46.535
Fees arising from card operations	843.815	564.766
Fees and commissions for other banking services	128.595	125.611
Total fee and commission expenses	1.147.688	861.418
Net fee and commission income	2.659.807	2.727.377

9. NET GAINS/(LOSSES) ON THE FINANCIAL ASSETS HELD FOR TRADING

Net gains/(losses) on the financial assets held for trading include:

	2016	2015
Net gains on the sales of securities held for trading	88.376	119.385
Net losses on the changes in the fair value securities held for trading	(8.545)	(459)
Net losses on the fair value changes of derivatives held for trading	(48.842)	(134.059)
Net gains/(losses) on the financial assets held for trading	30.989	(15.133)

10. NET (LOSSES)/GAINS ON THE HEDGES AGAINST RISKS

Net (losses)/gains on the hedges against risks include:

	2016	2015
Net gains on the fair value changes of loans, receivables and securities	36.715	8.796
Net (losses)/gains on the fair value changes of derivatives held for risk hedging purposes	(40.459)	2.705
Net (losses)/gains on the hedges against risks	(3.744)	11.501

11. NET GAINS ON THE FINANCIAL ASSETS AVAILABLE FOR SALE

Net gains on the financial assets available for sale include:

	2016	2015
Gains on the sale of securities available for sale	210.242	141.422
Losses on the sale of securities available for sale	(43.986)	(3.813)
Net gains on the financial assets available for sale	166.256	137.609

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

12. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

Net foreign exchange gains and positive currency clause effects:

	2016	2015
Foreign exchange gains and positive currency clause effects	92.982.139	97.572.015
Foreign exchange losses and negative currency clause effects	(91.549.499)	(96.043.176)
Net foreign exchange gains and positive currency clause effects	1.432.640	1.528.839

13. OTHER OPERATING INCOME

Other operating income includes:

	2016	2015
Reversal of unreleased provisions for litigations	29.388	4.000
Reversal of unreleased provisions for other liabilities	10.977	-
Dividend income	342	449
Gains on the sale of other loans and receivables	58.609	248.439
Other operating income	54.930	86.088
Total other operating income	154.246	338.976

14. NET LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ASSETS

Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets include:

	2016	2015
Loans and receivables due from customers		
Individual impairment allowance charge, net	2.641.535	3.541.168
Collective impairment allowance charge, net	267.367	198.035
	2.908.902	3.739.203
Contingent liabilities		
Individual impairment allowance charge /(reversal), net (Note 39)	19.970	(109.136)
Collective impairment allowance charge, net (Note 39)	65.164	26.132
	85.134	(83.004)
Write-off	9.102	110.230
Collection of receivables previously written off	(2.529)	-
Total	3.000.609	3.766.429

15. STAFF COSTS

Staff costs comprise:

	2016	2015
Net salaries	1.556.999	1.413.246
Payroll taxes and contributions	601.233	531.870
Net provisioning for retirement benefits and unused annual leaves (vacations)	20.496	8.546
Other staff costs	456.949	402.318
Total	2.635.677	2.355.980

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

16. DEPRECIATION AND AMORTIZATION CHARGE

Depreciation and amortization charge includes:

	2016	2015
Amortization of intangible assets (Note 28.2)	372.610	324.819
Depreciation of investment property (Note 30)	33	33
Depreciation of property and equipment (Notes 29.2, 29.3)	225.028	206.727
Total	597.671	531.579

17. OTHER EXPENSES

Other expenses include:

	2016	2015
Business premises costs	93.428	90.944
Office supplies	48.624	48.356
Rental costs	664.542	629.939
IS maintenance	446.196	377.186
Property and equipment maintenance	51.626	53.226
Marketing, advertising and entertainment	321.343	284.774
Lawyer fees and other consultant services	157.200	143.600
Telecommunications and postage services	132.476	114.802
Insurance premiums	683.204	609.834
Insurance of property and security services	89.699	89.349
Professional training	16.282	8.319
Servicing	99.792	64.528
Transportation services	20.344	19.306
Employee commuting allowance	36.515	34.900
Accommodation and meal allowance – business travel costs	25.517	30.858
Other taxes and contributions	435.553	408.525
Provisions for litigations and other provisions	68.719	465.303
Losses on disposal of property, equipment and intangible assets	8.263	6.137
Other costs	369.614	313.237
Total	3.768.937	3.793.123

18. INCOME TAXES

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

	2016	2015
Current income tax expense	(320.254)	(317.514)
Increase in deferred tax assets and decrease in deferred tax liabilities	22.256	97.658
Total	(297.998)	(219.856)

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

18. INCOME TAXES (Continued)

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

	2016	2015
Profit before taxes	6.524.598	6.586.239
Income tax at the legally prescribed tax rate of 15%	978.690	987.936
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	5.977	5.081
Tax effects of income adjustment	(689.769)	(768.718)
Tax effects of temporary differences:		
Difference between depreciation/amortization calculated for tax and financial reporting purposes	11.700	18.034
Tax effects of expenses recognized in the forthcoming period	13.656	75.181
Current income tax expense	320.254	317.514
Effective tax rate	4,91%	4,82%

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

	2016			2015		
	Before taxes	**Tax expense**	**After taxes**	**Before taxes**	**Tax expense**	**After taxes**
Actuarial losses	(12.203)	380	(11.823)	(11.056)	1.386	(9.670)
Balance at December 31	(12.203)	380	(11.823)	(11.056)	1.386	(9.670)

18.4. The calculated current income tax payable for the year 2016 amounted to RSD 320.254 thousand, of which RSD 291.054 thousand was settled through several tax advance payments. The outstanding current tax liabilities as of December 31, 2016 hence amounted to RSD 29.200 thousand.

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

19.1 Cash and cash funds held with the central bank include:

	2016	2015
RSD cash on hand	1.363.614	1.140.882
Gyro account balance	8.734.298	17.592.398
Foreign currency cash on hand	1.024.061	1.022.061
Other foreign currency cash funds	43.692	36.431
Obligatory foreign currency reserve held with NBS	16.920.376	23.955.794
	28.086.041	43.747.566
Impairment allowance	(775)	(398)
Balance at December 31	28.085.266	43.747.168

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans, securities and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. The reserve is thereafter held on the Bank’s gyro account. In 2016 NBS paid interest on the balance of the Bank’s obligatory RSD reserve at the annual interest rate of 1,75%.

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

19. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK (Continued)

The obligatory foreign currency reserve with the National Bank of Serbia represent the minimum foreign currency reserve amount allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month. The obligatory foreign currency reserve rates remained unaltered during 2016 and equaled 20% for foreign currency deposits with maturities of up to 2 years and 13% for foreign currency deposits with maturities of over 2 years. The rate applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index was100%.

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

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

	Individual level		Group level	
	2016	2015	2016	2015
Balance at January 1	-	-	(398)	(449)
(Charge for the year) / reversal	-	-	(363)	318
Foreign exchange effects	-	-	(14)	(267)
Balance at December 31	-	-	(775)	(398)

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING

Financial assets at fair value through profit and loss, held for trading include:

	2016	2015
Securities held for trading:		
- RS Ministry of Finance Treasury bills	2.168.644	1.808.942
- RS foreign currency bonds	-	618.292
	2.168.644	2.427.234
Receivables per derivative held for trading:		
- interest rate swaps	146.673	136.432
	146.673	136.432
Balance at December 31	2.315.317	2.563.666

As of December 31, 2016 investments in securities held for trading totaling RSD 2.168.644 thousand represent investments in the Treasury bills of the Republic of Serbia Ministry of Finance with maturities up to 2022.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

	2016	2015
Securities available for sale		
- RS Ministry of finance Treasury bills	70.275.281	66.554.257
- local self-governance bonds and RS Ministry of Finance bonds – hedged items	6.045.383	3.129.694
Balance at December 31	76.320.664	69.683.951

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21. FINANCIAL ASSETS AVAILABLE FOR SALE (Continued)

As of December 31, 2016 investments in available-for-sale securities totaling RSD 6.045.383 thousand represent investments in bonds issued by local self-governance and the Republic of Serbia Ministry of Finance bonds as hedged items with maturities up to 2029, while the amount of RSD 70.275.281 thousand relates to investments in the Treasury bills of the Republic of Serbia Ministry of Finance with maturities up to 2023.

For hedging local self-governance and RS bonds against the interest rate risk, the Bank implemented micro fair value hedging, i.e., designated as hedge items investments in bonds issued by local self-governance and the Republic of Serbia with the aggregate face value of EUR 45,28 million, while interest rate swaps with the aggregate nominal value of EUR 45,28 million were designated as hedging instruments. As of December 31, 2016, an effectiveness test was performed, which showed that the hedging was highly effective.

22. FINANCIAL ASSETS HELD TO MATURITY

22.1. Financial assets held to maturity comprise:

	2016	2015
Securities held to maturity:		
- receivables per discounted bills of exchange	44.149	246.727
Impairment allowance	(1.192)	(25.365)
Balance at December 31	42.957	221.362

As of December 31, 2016 receivables per discounted bills of exchange of RSD 44.149 thousand represent investments with maturities of up to a year and at a discount rate equal to 1-month BELIBOR plus 2% to 6% per annum.

22.2. Movements on the account of impairment allowance of financial assets held to maturity during the year are provided in the table below:

	Individual level		Group level	
	2016	2015	2016	2015
Balance at January 1	(16.252)	(16.252)	(9.113)	(3.654)
Impairment loss:				
(Charge for the year) / reversal	-	-	8.544	(5.459)
Write-offs	15.629	-	-	-
Total impairment allowance	15.629	-	8.544	(5.459)
Balance at December 31	(623)	(16.252)	(569)	(9.113)

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

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

	2016	2015
Foreign currency accounts held with:		
- other banks within UniCredit Group	4.953.054	253.835
- other foreign banks	698.387	362.004
Total foreign currency accounts	5.651.441	615.839
Overnight deposits:		
- in foreign currencies	11.112.514	2.486.439
Total overnight deposits	11.112.514	2.486.439
Guarantee foreign currency deposit placed for purchase and sale of securities	4.939	4.865
Short-term foreign currency deposits	-	4.256.914
Foreign currency earmarked deposits	13.602	12.919
Short-term loans:		
- in RSD	3.438.720	731.847
Total short-term loans	3.438.720	731.847
Long-term loans:		
- in RSD	90.070	324.679
- in foreign currencies	-	37
Total long-term loans	90.070	324.716
Secured letters of credit and other foreign currency sureties	-	43.839
Other foreign currency loans	2.256	2.142
Foreign currency factoring receivables	-	3.784
Impairment allowance	(31.380)	(15.748)
Balance at December 31	20.282.162	8.467.556

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

	Individual level		Group level	
	2016	2015	2016	2015
Balance at January 1	(1)	-	(15.747)	(32.498)
Impairment loss				
(Charge for the year) / reversal	(2)	(1)	(15.243)	16.803
Foreign exchange effects	-	-	(387)	(52)
Write-off	-	-	-	-
Total impairment allowance	(2)	(1)	(15.630)	16.751
Balance at December 31	(3)	(1)	(31.377)	(15.747)

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24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers include:

	2016	2015
Short-term loans:		
- in RSD	25.565.936	29.437.370
- in foreign currencies	1.766.592	4.678.724
Total short-term loans	27.332.528	34.116.094
Long-term loans:		
- in RSD	169.111.255	152.887.291
- in foreign currencies	16.342.875	8.321.245
Total long-term loans	185.454.130	161.208.536
Receivables in respect of acceptances, sureties and payments made per guarantees:		
- in RSD	182.225	302.830
- in foreign currencies	3.834.365	4.754.922
Total	4.016.590	5.057.752
RSD factoring receivables	508.122	897.526
Impairment allowance	(15.990.258)	(20.904.771)
Balance at December 31	201.321.112	180.375.137

Loans with a currency clause index (EUR, CHF, USD) are presented within RSD loans.

24.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

	Individual level		Group level	
	2016	2015	2016	2015
Balance at January 1	(19.899.044)	(17.661.214)	(1.005.727)	(805.507)
Impairment loss				
(Charge for the year) / reversal	(2.571.828)	(3.508.868)	(270.698)	(201.053)
Foreign exchange effects	(268.102)	(278.886)	(9.436)	833
Interest income adjustment	(240.968)	(132.062)	-	-
Portfolio sale effects	366.717	1.521.730	-	-
Write-offs	7.908.828	160.256	-	-
Total impairment allowance	5.194.647	(2.237.830)	(280.134)	(200.220)
Balance at December 31	(14.704.397)	(19.899.044)	(1.285.861)	(1.005.727)

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24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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

	2016			2015		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	6.049.787	(113.559)	5.936.228	6.398.133	(30.082)	6.368.051
Corporate customers	140.681.618	(12.047.693)	128.633.925	141.945.937	(17.824.578)	124.121.359
Retail customers	70.579.965	(3.829.006)	66.750.959	52.935.838	(3.050.111)	49.885.727
Balance at December 31	217.311.370	(15.990.258)	201.321.112	201.279.908	(20.904.771)	180.375.137

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

24.4. Corporate loans were mostly approved for maintaining daily liquidity (current account overdrafts), financing working capital, imports and investments. They were used for funding business activities in trade and services, manufacturing industry, construction industry, agriculture and food industry and other purposes. Short-term loans were approved for periods ranging from 30 days to a year. Interest rates on short-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 2,87% annually on the average, while RSD short-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 0,93% annually on the average.

Long-term loans were approved for periods from 2 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 3,29% annually on the average, while RSD long-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased 1,2% annually on the average, according to other costs and the Bank's interest rate policy.

Retail housing loans were approved for periods of 5 to 30 years, at the nominal interest rates ranging from 6-month EURIBOR plus 2,8% to 4,5% annually. In mid-September 2016 the Bank launched a campaign where up to the end of October 2016, the clients were allowed to apply for housing loans with a promotional period of 15 months during which a fixed interest of 2,3 % per annum shall be applied.

Long-term RSD cash loans were approved to retail customers for periods of up to 7 years and up to 10 years for loans with insurance for which in 2016 the bank increased the maximum loan amount to RSD 2 million.

Further, the Bank continued sales of cash loans approved to pensioners with life insurance at either a fixed interest rate of 17.9% or a rate equal to 3-month BELIBOR plus 6,5% annually.

In 2016, interest rates applied to investment funding of small entities and entrepreneurs equaled 6/12-month EURIBOR plus 5% to 8,5% annually, while interest rates applied to 36-month loans ranged from 12-month EURIBOR plus 4,2% to 8% annually or, in instances of fixed-interest rate loans, from 8% to 16%. Interest rates applied to RSD loans equaled 1/3-month BELIBOR plus 3% to 8,5% annually.

All impaired loans provided for were adjusted to their recoverable amounts with impairment allowance apportioned as a reduction of loans and receivables due from customers.

As a hedge against credit risk, the Bank implemented micro fair value hedging, i.e. it designated as a hedged item a customer loan with the present value of EUR 2.074.488 as at December 31, 2016, while an interest swap of the same amount was designated as a hedging instrument. As of December 31, 2016 an effectiveness test was performed, which showed that the hedging was highly effective.

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

24. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

24.5 The concentration of total loans and receivables due from customers per industry was as follows:

	2016	2015
Corporate customers		
- Energy	1.534.998	7.780.271
- Agriculture	5.690.148	5.601.966
- Construction industry	8.553.620	6.882.338
- Mining and industry	51.856.638	51.000.124
- Trade	30.228.331	21.695.425
- Services	19.511.184	16.312.781
- Transportation and logistics	18.787.162	22.983.309
- Other	4.519.537	9.689.723
	140.681.618	141.945.937
Public sector	6.049.787	6.398.133
Retail customers		
- private individuals	67.951.542	51.059.106
- entrepreneurs	2.628.423	1.876.732
	70.579.965	52.935.838
Total	217.311.370	201.279.908
Impairment allowance	(15.990.258)	(20.904.771)
Balance at December 31	201.321.112	180.375.137

The Bank' management structures the levels of credit risk it assumes by placing 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 capital repayment obligations, and by changing the limits set for a single borrower, as appropriate. Exposure to credit risk is also managed in part by obtaining collateral.

25. FAIR VALUE ADJUSTMENTS OF RISK HEDGED ITEMS

Fair value adjustments of risk hedged items include:

	2016	2015
Fair value adjustments of risk hedged items	222.845	171.733
Balance at December 31	222.845	171.733

As a hedge against the interest rate risk inherent in loans approved in CHF at fixed interest rates, the Bank implemented macro fair value hedging (Note 34). As of December 31, 2016 an effectiveness test was performed, which showed that the hedging was highly effective.

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26. RECEIVABLES PER FINANCIAL DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Receivables per financial derivatives designated as risk hedging instruments comprise:

	2016	2015
Fair value adjustments of derivatives designated as risk hedging instruments	375	-
Balance at December 31	375	-

The Bank uses and interest rate swap to protect itself from the exposure to changes in the fair value of EUR-denominated loans at fixed interest rate (Note 37).

27. INVESTMENTS IN SUBSIDIARIES

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

	2016	2015
UniCredit Leasing Srbija d.o.o.	-	-
UniCredit Partner d.o.o.	112.644	-
	112.644	-
Impairment allowance	-	-
Balance at December 31	112.644	-

28. INTANGIBLE ASSETS

28.1 Intangible assets, net:

	2016	2015
Intangible assets	721.941	783.720
Investments in progress	195.869	150.398
Balance at December 31	917.810	934.118

28.2 Movements on the account of intangible assets in 2016 are presented in the table below:

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2016	2.665.406	150.398	2.815.804
Additions	310.831	48.149	358.980
Disposal and retirement	-	-	-
Other	-	(2.678)	(2.678)
Balance at December 31, 2016	2.976.237	195.869	3.172.106
Accumulated amortization and impairment losses			
Balance at January 1, 2016	1.881.686	-	1.881.686
Amortization charge for the year	372.610	-	372.610
Disposal and retirement	-	-	-
Other	-	-	-
Balance at December 31, 2016	2.254.296	-	2.254.296
Net book value at December 31, 2016	721.941	195.869	917.810
Net book value at January 1, 2016	783.720	150.398	934.118

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28. INTANGIBLE ASSETS (Continued)

Movements on the account of intangible assets in 2015 are presented in the table below:

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2015	2.401.184	165.978	2.567.162
Additions	358.192	(14.121)	344.071
Disposal and retirement	-	-	-
Other	(93.970)	(1.459)	(95.429)
Balance at December 31, 2015	2.665.406	150.398	2.815.804
Accumulated amortization and impairment losses			
Balance at January 1, 2015	1.647.567	-	1.647.567
Amortization charge for the year	324.819	-	324.819
Disposal and retirement	-	-	-
Other	(90.700)	-	(90.700)
Balance at December 31, 2015	1.881.686	-	1.881.686
Net book value at December 31, 2015	783.720	150.398	934.118
Net book value at January 1, 2015	753.617	165.978	919.595

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Property, plant and equipment comprise:

	2016	2015
Buildings	580.714	594.026
Equipment and other assets	727.677	456.995
Leasehold improvements	222.018	105.176
Investments in progress	46.916	25.543
Balance at December 31	1.577.325	1.181.740

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

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.2 Movements on the account of property and equipment in 2016 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance at January 1, 2016	671.034	1.387.988	388.889	25.543	2.473.454
Additions	-	-	-	627.178	627.178
Transfer from investments in progress	6.122	442.678	157.005	(605.805)	-
Disposal and retirement	(6.122)	(13.399)	(65.707)	-	(85.228)
Other	-	(3.310)	-	-	(3.310)
Balance at December 31, 2016	671.034	1.813.957	480.187	46.916	3.012.094
Accumulated depreciation and impairment losses					
Balance at January 1, 2016	77.008	930.993	283.713	-	1.291.714
Depreciation charge for the year	14.006	171.162	39.860	-	225.028
Impairment losses	-	-	-	-	-
Disposal and retirement	(694)	(12.851)	(65.404)	-	(78.949)
Other	-	(3.024)	-	-	(3.024)
Balance at December 31, 2016	90.320	1.086.280	258.169	-	1.434.769
Net book value at December 31, 2016	580.714	727.677	222.018	46.916	1.577.325
Net book value at January 1, 2016	594.026	456.995	105.176	25.543	1.181.740

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

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.3 Movements on the account of property and equipment in 2015 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance at January 1, 2015	671.034	1.328.166	377.178	14.969	2.391.347
Additions	-	-	-	206.368	206.368
Transfer from investments in progress	1.258	166.737	27.548	(195.543)	-
Disposal and retirement	(1.258)	(97.913)	(15.837)	-	(115.008)
Other	-	(9.002)	-	(251)	(9.253)
Balance at December 31, 2015	671.034	1.387.988	388.889	25.543	2.473.454
Accumulated depreciation and impairment losses					
Balance at January 1, 2015	63.644	885.122	256.152	-	1.204.918
Depreciation charge for the year	13.485	152.036	41.206	-	206.727
Impairment losses	-	-	-	-	-
Disposal and retirement	(121)	(97.475)	(13.645)	-	(111.241)
Other	-	(8.690)	-	-	(8.690)
Balance at December 31, 2015	77.008	930.993	283.713	-	1.291.714
Net book value at December 31, 2015	594.026	456.995	105.176	25.543	1.181.740
Net book value at January 1, 2015	607.390	443.044	121.026	14.969	1.186.429

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30. INVESTMENT PROPERTY

Movements on the account of investment property in 2016 are presented below:

	Investment property	Investments in progress	Total
Cost			
Balance at January 1, 2016	1.642	-	1.642
Balance at December 31, 2016	1.642	-	1.642
Accumulated depreciation and impairment losses			
Balance at January 1, 2016	212	-	212
Depreciation charge for the year	33	-	33
Balance at December 31, 2016	245	-	245
Net book value at December 31, 2016	1.397	-	1.397
Net book value at January 1, 2016	1.430	-	1.430

31. DEFERRED TAX ASSETS AND LIABILITIES

31.1 Deferred tax assets and liabilities relate to:

	2016			2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	47.935	-	47.935	39.036	-	39.036
Deferred tax assets in respect of unrecognized current year expenses	114.570	-	114.570	101.214	-	101.214
Deferred tax assets in respect of actuarial losses based on defined benefit plans	2.087	-	2.087	1.706	-	1.706
Total	164.592	-	164.592	141.956	-	141.956

31.2 Movements on temporary differences during 2016 are presented as follows:

	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	39.036	8.900	-	47.936
Deferred tax assets in respect of unrecognized expenses	101.214	13.356	-	114.570
Deferred tax assets in respect of actuarial losses based on defined benefit plans	1.706	-	380	2.086
Total	141.956	22.256	380	164.592

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32. OTHER ASSETS

32.1. Other assets relate to:

	2016	2015
Other assets in RSD:		
Fee and commission receivables calculated per other assets	194.455	192.794
Advances paid, deposits and retainers	8.963	32.810
Receivables per actual costs incurred	369.249	295.210
Receivables from the RS Health Insurance Fund	57.429	52.171
Other receivables from operations	448.976	354.396
Assets acquired in lieu of debt collection	4.927	4.927
Receivables from employees in RSD	3.209	3.214
Other investments	4.992	4.992
Accrued other income receivables	10.408	7.919
Deferred other expenses	41.484	79.769
Total	1.144.092	1.028.202
Other assets in foreign currencies:		
Fee and commission receivables calculated per other assets	3.850	2.651
Advances paid, deposits and retainers	109	1.572
Foreign currency receivables from employees	3.667	4.356
Other receivables from operations	14.516	44.036
Accrued other income receivables	17.560	16.554
Deferred other expenses	-	2.169
Total	39.702	71.338
Impairment allowance	(316.126)	(305.546)
Balance at December 31	867.668	793.994

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

	Individual level		Group level	
	2016	2015	2016	2015
Balance at January 1	(294.594)	(262.507)	(10.952)	(2.308)
Impairment loss				
(Charge for the year)/reversal	(69.705)	(32.299)	10.393	(8.644)
Foreign exchange effects	(148)	(83)	-	-
Portfolio sales effects	472	-	-	-
Write-off	48.408	295	-	-
Total impairment allowance	(20.973)	(32.087)	10.393	(8.644)
Balance at December 31	(315.567)	(294.594)	(559)	(10.952)

32.3. Other investments in associates comprise equity investments of up to 10% in the following companies

	2016	2015
FAP Priboj a.d.	4.737	4.737
Fund for Supplementary Education of Young Farmers	147	147
Tržište novca a.d. [Money Market, shareholding company]	108	108
	4.992	4.992
Impairment allowance	(4.992)	(4.992)
Balance at December 31	-	-

Investments in associates totaling RSD 4,992 thousand were impaired in full.

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

33. FINANCIAL LIABILITIES CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING

Financial liabilities carried at fair value through profit and loss, held for trading include:

	2016	2015
Instrument types:		
- currency swaps and forwards	93.814	9.817
- interest rate swaps	140.418	131.806
Balance at December 31	234.232	141.623

34. LIABILITIES PER FINANCIAL DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Liabilities per financial derivatives designated as risk hedging instruments include:

	2016	2015
Instrument types:		
- interest rate swaps	540.097	492.401
Balance at December 31	540.097	492.401

The Bank uses interest rate swaps to protect itself from the exposure to the changes in the fair value of EUR bonds with fixed return rates (Note 21) and loans extended in CHF at fixed interest rates (Note 25).

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

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

	2016	2015
Demand deposits:		
- in RSD	1.671.612	2.332.737
- in foreign currencies	1.329.664	1.119.051
Total demand deposits	3.001.276	3.451.788
Overnight deposits:		
- in RSD	539.588	1.084.707
- in foreign currencies	21.682.567	4.189.590
Total overnight deposits	22.222.155	5.274.297
Short-term deposits:		
- in RSD	2.054.563	3.240.389
- in foreign currencies	13.576.227	577.981
Total short-term deposits	15.630.790	3.818.370
Long-term deposits:		
- in RSD	547.233	446.988
- in foreign currencies	18.151.034	18.644.667
Total long-term deposits	18.698.267	19.091.655
Long-term borrowings:		
- in foreign currencies	22.473.975	51.148.449
Other financial liabilities:		
- in foreign currencies	63.961	33.649
Balance at December 31	82.090.424	82.818.208

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

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

Short-term RSD deposits were placed by other banks for periods of up to a year at annual interest rates from 2% to 3,05%, while short-term foreign currency deposits of other banks maturing within a year accrued interest at the rates ranging from 0,6% to 3,33% annually, depending on the currency.

35.2. Breakdown of foreign borrowings from banks is provided below:

	2016	2015
European Bank for Reconstruction and Development (EBRD)	5.641.486	9.989.650
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	1.882.732	6.212.805
European Investment Bank, Luxembourg	931.675	1.208.247
International Financial Corporation, Washington	1.805.921	3.269.322
European Fund for Southeast Europe SA, Luxembourg	1.520.280	-
MIDF B.V, Netherlands	1.173.869	91.298
Green for Growth Fund, Southeast Europe, Luxembourg	1.210.486	-
UniCredit Bank Austria AG	1.964.546	24.271.787
EFSE Netherlands B.V.	6.342.980	6.105.340
Balance at December 31	22.473.975	51.148.449

The above listed long-term borrowings were approved to the Bank for periods from 3 to 15 years at nominal interest rates ranging up to 3,16% per annum.

36. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

36.1. Deposits and other liabilities due to customers comprise:

	2016	2015
Demand deposits:		
- in RSD	42.078.829	34.016.080
- in foreign currencies	69.595.210	50.199.629
Total demand deposits	111.674.039	84.215.709
Overnight deposits:		
- in RSD	5.278.666	4.465.494
- in foreign currencies	343.800	72.702
Total overnight deposits	5.622.466	4.538.196
Short-term deposits:		
- in RSD	11.072.515	14.405.852
- in foreign currencies	23.448.515	25.248.675
Total short-term deposits	34.521.030	39.654.527
Long-term deposits:		
- in RSD	1.618.759	577.005
- in foreign currencies	12.835.532	15.719.320
Total long-term deposits	14.454.291	16.296.325
Long-term borrowings		
- in foreign currencies	10.478.736	9.980.556
Total long-term borrowings	10.478.736	9.980.556
Other financial liabilities		
- in RSD	208.014	19.241
- in foreign currencies	1.273.794	303.795
Total other financial liabilities	1.481.808	323.036
Balance at December 31	178.232.370	155.008.349

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

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

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

	2016	2015
Public sector	4.273.234	567.249
Corporate customers	108.674.462	92.735.447
Retail customers	54.805.938	51.725.097
Long-term borrowings (Note 36.3)	10.478.736	9.980.556
Balance at December 31	178.232.370	155.008.349

RSD demand deposits of corporate customers accrued interest at the annual rate of 1,05%, on the average, while EUR-denominated demand deposits accrued interest at the annual rate of 0,5% on the average.

Corporate RSD term deposits accrued interest at the rates of as much as up to 3,27% annually on the average, while EUR-denominated corporate deposits were placed at an interest rate of 1% annually.

Retail customers' RSD demand deposits accrued interest at annual rates of up to 1%. Foreign currency retail demand deposits accrued interest at the rates from 0,1% to 0,9% annually, while funds held on current accounts accrued interest at the annual rate of 0,1% annually.

Short-term foreign currency deposits of retail customers were placed at interest rates ranging from 0,1% to 1% annually, depending on the period of placement, including favorable terms offered during the "Savings Week", when it was possible to agree on a more favorable interest rate in instances of clients recommending the Bank to new clients or increasing their existing deposits with the Bank by certain amounts. The annual interest rates applied to medium-term deposits (18 to 36 months) were in the range between 0.6% and 2.2%. Short-term RSD deposits of retail customers accrued interest at the rates ranging from 1,5% to 1,9% annually, depending on the period of placement, including favorable terms offered during the "Savings Week."

RSD deposits placed by small entities and entrepreneurs were deposited at annual interest rates between 0,8% and 3,5%, while foreign currency deposits of these customers accrued interest at the rates ranging from 0,1% to 1,1% annually.

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

	2016	2015
NBS - European Investment Bank, Luxembourg	8.567.215	9.883.859
NBS Revolving Credit Fund	390.517	19.030
Government of the Republic of Italy	1.521.004	77.667
Balance at December 31	10.478.736	9.980.556

Long-term borrowings obtained from customers were approved to the Bank for periods from 6 to 13 years at nominal interest rates of up to 2,15% per annum.

37. FAIR VALUE ADJUSTMENTS OF RISK HEDGED ITEMS

Fair value adjustments of risk hedged items include:

	2016	2015
Fair value adjustments of risk hedged items	103	-
Balance at December 31	103	-

As a hedge against the interest rate risk inherent in loans approved in EUR at fixed interest rates, the Bank implemented macro fair value hedging (Note 26). As of December 31, 2016 an effectiveness test was performed, which showed that the hedging was highly effective.

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

38. SUBORDINATED LIABILITIES

Subordinated liabilities relate to:

	2016	2015
UniCredit Bank Austria AG, Vienna	3.082.125	3.019.370
Balance at December 31	3.082.125	3.019.370

As at December 31, 2016 subordinated liabilities in foreign currencies in the amount of RSD 3.082.125 thousand pertain to the subordinated long-term borrowing received from UniCredit Bank Austria AG in the amount of CHF 26.830.000. This loan was approved to the Bank for a period of 12 years at the interest rate equal to 3-month CHF LIBOR increased by 2,93%, but the interest rate was subsequently set at the fixed rate of 4,51%. The loan is not securitized with collateral and all the liabilities arising from this loan agreement are considered subordinated, i.e. in the event of the Bank's liquidation or bankruptcy, such liabilities will be settled only after settlement of liabilities to all other creditors.

39. PROVISIONS

Provisions relate to:

	2016	2015
Individual provisions for off-balance sheet items	99.508	79.538
Group provisions for off-balance sheet items	197.727	132.563
Provisions for other long-term employee benefits	67.019	48.354
Provisions for potential litigation losses	240.230	216.865
Provisions for other liabilities	348.885	359.862
Balance at December 31	953.369	837.182

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

	Individual Provisions for Off- Balance Sheet Items	Group Provisions for Off- Balance Sheet Items	Provisions for Long-Term Employee Benefits	Provisions for Potential Litigation Losses	Provisions for Other Liabilities	Total
Balance, January 1	79.538	132.563	48.354	216.865	359.862	837.182
Charge for the year						
- in the income statement	94.887	171.443	17.069	68.718	-	352.117
- in the statement of other comprehensive income	-	-	2.533	-	-	2.533
	94.887	171.443	19.602	68.718	-	354.650
Release of provisions	-	-	(937)	(15.965)	-	(16.902)
Reversal of provisions	(74.917)	(106.279)	-	(29.388)	(10.977)	(221.561)
Balance, at December 31	99.508	197.727	67.019	240.230	348.885	953.369

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

40. OTHER LIABILITIES

Other liabilities include:

	2016	2015
Advances received, deposits and retainers:		
- in RSD	11.632	61.570
- in foreign currencies	3.139	52.361
Trade payables:		
- in RSD	176.855	176.389
- in foreign currencies	498.105	182.566
Other liabilities:		
- in RSD	516.604	334.293
- in foreign currencies	863.897	422.890
Fees and commissions payable per other liabilities:		
- in RSD	5.762	7.762
- in foreign currencies	14.230	12.958
Deferred other income:		
- in RSD	149.113	125.640
- in foreign currencies	82.037	99.429
Accrued other expenses:		
- in RSD	313.543	288.158
- in foreign currencies	43.350	6.080
Liabilities per managed funds	51.069	45.280
Dividend payment liabilities	-	2.500.000
Taxes and contributions payable	136.663	137.764
Balance at December 31	2.865.999	4.453.140

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

In accordance with the Law on Accounting, the Bank reconciled its balances of payables and receivables with its debtors and creditors. The balance reconciliations were made as of September 30, 2016. Out of the total amount of receivables for which the Bank delivered outstanding item statement forms for balance reconciliation, unreconciled balances totaled RSD 580.260 thousand, gross (of which RSD 36.507 thousand relates to receivables claimed in lawsuits), while balance confirmation requests for receivables not responded to amounted to RSD 16.472.166 thousand. Out of the total amount of liabilities for which the Bank requested balance confirmation, unreconciled balances totaled RSD 291.389 thousand, while balance confirmation requests for liabilities not responded to amounted to RSD 26.759.003 thousand. As for off-balance sheet items, the unreconciled balances amounted to RSD 5.698.184 thousand and confirmation requests totaling RSD 95.059.155 thousand were not responded to.

42. EQUITY

42.1. Equity is comprised of:

	2016	2015
Issued capital – share capital	23.607.620	23.607.620
Share premium	562.156	562.156
Retained earnings	6.226.600	6.366.383
Reserves	33.807.839	30.878.123
Balance at December 31	64.204.215	61.414.282

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

42. EQUITY (Continued)

As of December 31, 2016 the Bank's share capital totaled RSD 23.607.620 thousand and comprised 2.360.762 common stock (ordinary) shares with the individual par value of RSD 10.000. All shares issued by the Bank are ordinary shares.

Ordinary share holders 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 available for sale.

42.2. Earnings per Share

The basic earnings per share totaled RSD 2.638 in 2016 (2015: RSD 2.697).

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

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

	2016	2015
Actuarial losses per defined employee benefits	(2.153)	(7.860)
Net fair value adjustments of financial assets available for sale	(834.514)	2.297.522
Other comprehensive income, net of taxes	(836.667)	2.289.662

43. CASH AND CASH EQUIVALENTS

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

	2016	2015
In RSD:		
Gyro account (Note 19)	8.734.298	17.592.398
Cash on hand (Note 19)	1.363.614	1.140.882
	10.097.912	18.733.280
In foreign currencies:		
Foreign currency accounts (Note 23)	5.651.441	615.840
Cash on hand (Note 19)	1.024.061	1.022.061
Other cash funds (Note 19)	43.692	36.431
	6.719.194	1.674.332
Balance at December 31	16.817.106	20.407.612

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

44. CONTINGENT LIABILITIES AND COMMITMENTS

44.1. Litigation

As of December 31, 2016 there were 175 legal suits filed against the Bank (including 4 labor lawsuits) with claims totaling RSD 665.692 thousand, which amount does not include the labor lawsuits. In 6 of these proceedings plaintiffs are legal entities, in 165 proceedings private individuals appear as plaintiffs.

The Bank made provisions of RSD 240,230 thousand in respect of the legal suits filed against it (Note 39). The aforesaid amount of provisions includes those for the labor lawsuits filed.

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

The Bank is involved in a number of lawsuits filed against third parties, primarily for collection of outstanding receivables.

44.2. The Bank's commitments for operating lease liabilities for business premises are provided below:

	2016	2015
Commitments due		
- within a year	407.811	389.435
- from 1 to 5 years	1.582.026	1.423.954
- after 5 years	1.343.996	1.619.910
Total	3.333.833	3.433.299

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

	2016	2015
Contingent liabilities		
Payment guarantees		
- in RSD	11.063.135	10.412.279
- in foreign currencies	9.699.275	9.621.742
Performance bonds		
- in RSD	28.487.153	28.076.270
- in foreign currencies	6.028.667	3.414.485
Letters of credit		
- in RSD	27.718	1.045.813
- in foreign currencies	4.208.584	2.249.601
Irrevocable commitments for undrawn loans	19.623.936	17.949.091
Other irrevocable commitments	11.331.633	14.901.332
Balance at December 31	90.470.101	87.670.613

44.4. Breakdown of irrevocable commitments is provided below:

	2016	2015
Commitments		
Current account overdrafts approved	1.322.601	1.332.942
Unused portion of approved credit card loan facilities	986.087	946.248
Unused framework loans	15.324.092	14.876.675
Letters of intent	1.991.156	793.226
Other irrevocable commitments	11.331.633	14.901.332
Balance at December 31	30.955.569	32.850.423

44.5 Undrawn foreign loan facility funds as of December 31, 2016 amounted to RSD 9.151.273 thousand (2015: RSD 7.084.720 thousand).

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

45. RELATED PARTY DISCLOSURES

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

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

		2016	2015
Statement of financial position			
Loans and receivables due from banks and other financial institutions			
1.	UniCredit Bank Austria AG, Vienna	381.052	2.140.728
2.	UniCredit Bank AG, Munich	20.229	1.858.535
3.	UniCredit Bulbank, Sofia	23	556.257
4.	UniCredit S.P.A. Milano	14.407.879	20.363
5.	UniCredit Banka Slovenia, Ljubljana	331	280
6.	Zagrebacka banka d.d.	4.220	430
7.	UniCredit Bank Hungary Z.r.t., Hungary	7.469	13.068
8.	UniCredit Bank ZAO Moscow	6.943	18.819
9.	Bank Polska Kasa Opieki SA	2.692	-
10.	UniCredit Leasing Srbija d.o.o., Beograd	1.852.085	-
		16.682.923	4.608.480
Loans and receivables due from customers			
1.	Bank's Management Board	10.862	11.120
2.	UCTAM d.o.o., Beograd	104.719	108.552
		115.581	119.672
Other assets			
1.	UniCredit S.P.A. Milano	12.165	12.173
2.	UniCredit Bank Austria AG, Vienna	211.616	139.290
3.	UniCredit Bank AG, Munich	3.174	230
4.	Zagrebacka banka d.d.	282	316
5.	UniCredit Bank BIH	6	6
6.	UniCredit Business Partner S.C.P.A., Milano	-	1.359
7.	UniCredit Banka Slovenia, Ljubljana	4	4
8.	UniCredit Bank ZAO Moscow	6	6
9.	UniCredit Bank Hungary Z.r.t., Hungary	2.696	-
10.	UniCredit Rent d.o.o., Beograd	101	1.399
11.	UniCredit Partner d.o.o., Beograd	87	-
12.	UniCredit Leasing Srbija d.o.o., Beograd	835	2.318
13.	UCTAM d.o.o., Beograd	1	-
14.	UNICREDIT S.p.A. Zweigniederlassung Wien	30	-
		231.003	157.101

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

45. RELATED PARTY DISCLOSURES (Continued)

		2016	2015
Deposits and other liabilities due to banks, other financial institutions and the central bank			
1.	UniCredit Bank Austria AG, Vienna	18.656.802	40.600.467
2.	UniCredit Leasing Srbija d.o.o., Beograd	700.293	1.158.197
3.	UniCredit Partner d.o.o., Beograd	192.378	174.902
4.	UniCredit Bank a.d., Banja Luka	252.008	2.535
5.	Zagrebacka banka d.d.	39.985	30.445
6.	UniCredit Bank AG, London	12	-
7.	UniCredit Banka Slovenia, Ljubljana	6.933	20.579
8.	UniCredit Bank AG, Munich	2.928	3.419
9.	UniCredit Bank Hungary Z.r.t., Hungary	1.500	380
10.	UniCredit Bulbank, Sofia	2	2
11.	UniCredit S.P.A. Milano	29.267.389	2.592
12.	UniCredit Bank Czech Republic	2.420	210
13.	UniCredit Bank ZAO Moscow	193	-
14.	Bank Polska Kasa Opieki SA	111	-
		49.122.954	41.993.728
Deposits and other liabilities due to customers			
1.	Bank's Management Board	20.633	25.864
2.	UniCredit Rent d.o.o., Beograd	13.528	264.982
3.	UniCredit CAIB AG, Vienna	-	65
4.	BA CA Leasing Deutschland GmbH, Germany	4.621	1.075
5.	Ambassador Parc Dedinje d.o.o., Beograd	414.801	1.768
6.	UniCredit CAIB AG, Vienna	65	-
7.	UCTAM d.o.o., Beograd	43.613	30.296
		497.261	324.050
Subordinated liabilities			
1.	UniCredit Bank Austria AG, Vienna	3.082.125	3.019.370
		3.082.125	3.019.370
Other liabilities			
1.	UniCredit Bank AG, Munich	3.387	3.336
2.	UniCredit Bank Hungary Z.r.t., Hungary	190	35
3.	UniCredit S.P.A. Milano	179.669	170.817
4.	UniCredit Rent d.o.o., Beograd	201	431
5.	UBIS G.m.b.H, Vienna	291.324	100
6.	UniCredit Business Integrated Solutions S.C.P.A, Czech Republic	2.682	2.389
		477.453	177.108
Liabilities, net as of December 31		36.150.286	40.629.003

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016
All amounts expressed in thousands of RSD, unless otherwise stated.

45. RELATED PARTY DISCLOSURES (Continued)

The following table summarizes income and expenses from related party transactions:

	2016	2015
Income statement		
Interest income	13.631	5.903
Interest expenses	(1.002.563)	(1.278.062)
Fee and commission income and other income	152.778	185.187
Fee and commission expenses and other expenses	(467.876)	(431.590)
Expenses, net as of December 31	(1.304.030)	(1.518.562)

Total gross salaries and other remunerations of the Bank's Management Board members amounted to RSD 20.762 thousand in 2016 (2015: RSD 32.738 thousand).

46. EVENTS AFTER THE REPORTING PERIOD

There were no events from the reporting date up to these financial statements issue date that would require any adjustments to (adjusting events) or additional disclosures in the accompanying financial statements.

Belgrade, February 24, 2017

Signed by the management of UniCredit Bank Serbia JSC Belgrade by:

Csilla Ihász	Sandra Vojnović
Management Board CEO	*Director of the Strategy and Finance Division*
Alen Dobrić	Mirjana Kovačević
Management Board Member	*Head of Accounting Department*