One Bank One UniCredit

2016

Consolidated Reports and Accounts

Welcome to UniCredit

VISION:

Our vision is to be "One bank, one UniCredit": pan-European commercial bank with a simple business model, which is fully plugged in Corporate & Investment Banking, delivering our unique Western, Central and Eastern European network to our extensive client franchise.

Everything we do to implement our vision is based on our Five Fundamentals.

Our top priority, every minute of the day, is to serve our customers the very best we can (Customers First). To do this, we rely on the quality and commitment of our people (People Development), and on our ability to cooperate and generate synergies as "One Bank, One UniCredit" (Cooperation & Synergies). We take the right kind of risk (Risk Management) whilst being very disciplined in executing our strategy (Execution & Discipline).

Life is full of ups and downs.
We're there for both.

Welcome to
UniCredit

One Bank, One UniCredit.

A shared vision based on Five Fundamentals.

As a strong pan-European Group with leading banks in 14 core markets, and operations in another 18 countries, we perfectly embody our vision to be "One Bank, One UniCredit". A simple pan-European commercial bank enriched by multiple cultures where everybody shares the same vision and are guided by our Five Fundamentals: Customers First, People Development, Execution & Discipline, Cooperation & Synergies and Risk Management.

Contents

Simple Pan-European Commercial Bank

UniCredit is a strong Pan-European Group with a simple commercial banking model and a fully plugged in Corporate & Investment Bank, delivering its unique Western, Central and Eastern European network to its extensive 25 million strong client franchise.UniCredit offers local expertise as well as international reach and accompanies and supports its clients globally, providing clients with unparalleled access to leading banks in its 14 core markets as well as an another 18 countries worldwide. UniCredit European banking network includes of Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

Customers First

Our top priority, every minute of the day, is to serve our customers the very best we can. We provide solutions for a wide variety of different personal finance and enterprise business needs. Our products and services are based on our customer’s real needs and aimed at creating value for both individuals and businesses.

ADDRESSING OF CEO

It was a year of 2016 when we were marking 15 years from the moment when we have started our successful operations in Serbia. Thanks to improved processes, and placement of additional products as well as services, each designed according to needs of our clients, we managed to further strengthen our position as one of the market leaders in terms of profitability, efficiency and productivity, also improving the market share in all relevant aspects.

The Bank's net profit reached RSD 6.273 billion on consolidated basis. In line with our Group's strategy which is focused on developing strong roots in local markets, UniCredit continued to demonstrate strong commitment to Serbia, as evidenced by the increase of balance sheet by 7% year on year to over RSD 337 billion.

Relentless customer focus, unique service model and tailor-made products aligned with the particular needs of specific client segments, additionally contributed to over 16% increase in UniCredit Bank Serbia's customer base. Consequently, client deposits grew by 15% in comparison to the previous year, exceeding the amount of RSD 178 billion. Even though the local market was showing narrowed credit worthy demand, our bank managed to attract new clients, and continued to show its commitment to support future development of the country. The volume of approved net loans in 2016 reached RSD 208 billion, marking an increase of almost 11%.

We succeeded to over perform the average market development when looking into numerous important parameters, such as cost/income ratio, return on equity, or level of non-performing loans. And even though Serbia is facing the major issue of having one of the highest levels of Non-Performing Loans (NPL) in the region, we are pleased to point out that our portfolio quality is significantly better, and consequently the level of NPLs is far below the industry average.

Equally important to note that we increased the number of employees by 5% reaching to 1,241 by year end.

As in previous years, we made significant efforts and work in strengthening the image of UniCredit Bank as a socially responsible company and a valuable member of the Serbian society. We have continued to support local communities involved in organization of different initiatives and manifestation, trying to contributing to their further growth. Moreover, 2016 was declared as a Year of volunteering and we have engaged large number of our employees in mentoring programs, charity initiatives and arranging environment.

In 2016 UniCredit Bank Serbia received several acknowledgments for its business excellence: Bank of the Year by The Banker Magazine, Best Trade Finance Provider by Euromoney, Best Sub-Custodian Bank by Global Finance, and National Champion for Environmental and Corporate Sustainability by the European Business Award Program.

In 2017 we plan to continue our commitment and determination to support expected development of the country, and meet customers' financial needs by expanding our product offer bringing new, innovative high-value-added services to all our customers. Our Bank will continue to build a long-term partnership with its customers based trustworthiness. Customer Satisfaction remains a crucial indicator of a successful partnership with our best corporate clients in the years to come. Concerning Retail Customers, we will continue to offer innovative products at favorable conditions. In line with increased focus of the entire UniCredit Group and leveraging technological developments, we will continue with the process of digitalization of our core product and services putting the new technologies in the hands of our clients. Within our Corporate and investment banking Division, we expect to place special focus on SME's development, and educating/advising the customers about the best solutions fitting their financial needs. Also, we continue our participation in all major public sector initiatives such as infrastructure development, municipalities financing, development of government bonds secondary market, etc.

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

Csilla Ihász
Chairperson

MACROECONOMIC OVERVIEW

Serbia's GDP grew 2.3% YoY (estimation for 2016) on the back of stronger exports and investments, coupled with improved macroeconomic fundamentals at home and positive economic outlook abroad. The economy continues to strengthen after a sharp decline in GDP in 2014 (-1.8% YoY) when devastating floods adversely affected the economy, followed by a modest recovery in 2015 (0.8% YoY). The economic growth in 2016 is led by construction, agriculture and industry while services' performance remained solid. The economic growth is well-diversified, the level of public investment is increasing and effects of improved business climate have started filtering through the system. Overall increase in net exports, industrial production and investment was helped by the strengthened confidence on country's economic outlook.

In 2016 the external and internal balance continued to improve, which led to further decrease of country risk premium and improvement of credit rating by credit agencies. The IMF program is broadly on track: while Serbia over performed in fiscal domain, structural reforms have experienced delays. Restructuring of public utility companies and improving efficiency of the public sector proved challenging in the election year. Despite setbacks, plans for transformation of large energy and transport enterprises have been completed while future of 11 out of 17 strategic companies whose bankruptcy protection was removed in May 2016 will be fully resolved in 2017. Fiscal risks from unresolved strategic companies and public enterprises remain high and pose risk to debt sustainability.

Serbia has made partial progress in accession negotiations with the EU this year: four additional chapters were opened (rule of law, justice, security, science and public procurement) and Telecommunication deal with Kosovo was reached. EU is concerned about the lack of progress in justice and rule of law and general pace of reform. Serbia also moved up nine places on the World Bank Doing Business list, mainly due to improvement of procedure in granting the construction permits and simplifying the tax procedure, although it has seen reversal of positive trends in some areas, such as contract enforcement.

Fiscal consolidation measures introduced at the end of 2014 and supported by the three year precautionary agreement with the IMF have produced better than expected results so far. The central state deficit fell by as much as 81% YoY during first 10 months of 2016, thus leading to 2.5% fiscal deficit for 2016. This result was helped by reduced current expenditures as well as significant improvement in revenue collection. While the austerity measures have produced good result so far, good performance is required to continue in 2017 and beyond in order to put a persistently high public debt on a downward path. The figures for public debt are estimated to be slightly reduced for the first time since 2008, due to excellent fiscal result this year.

Current account deficit has been reduced in 2016 by 9% to estimated 4.3%, mainly due to foreign trade deficit narrowing and remittances growth. Decrease of external balance has led to RSD stabilization throughout 2016. A narrowing current account deficit, combined with strong inflows of foreign investment has reduced the external financing vulnerability, with the deficit fully funded by FDI in 2016. In 2016 FDI flows have remained constant and amounted to EUR 1.8 billion. Foreign currency reserves represent 6 months of current external payments, providing a relatively good buffer against any external shocks.

Decreasing trend of Serbia's foreign trade deficit continued in 2016. In August 2016 deficit was recorded at 11.4% of GDP vs. 13.3% as of December 2015. Export-import ratio increased to around 77.8%, for the first 10 months of 2016. Total value of exports amounted to EUR 11 billion, or a 10.1% increase YoY, while overall imports for the same period of 2016 increased by 5.1% YoY, totaling EUR 14 bln. The major foreign trade partners in exports for Jan-Sept 2016 were: Italy (EUR 17 billion), Germany (EUR 16 billion), Bosnia and Herzegovina (EUR 0.9 billion), Romania (EUR 0.6 billion) and the Russian Federation (EUR 0.6 billion).

The National Bank of Serbia has announced it will lower the inflation target from 4±1.5% to 3±1.5% from January 2017 due to improvement of Serbia's macroeconomic fundamentals and prospects, but also due to undershooting the inflation target for the most of 2016. Inflation is expected to return within targeted tolerance range by H2 due to increase in oil and electricity prices and recovery of aggregate demand and inflation abroad.

Although there have been some improvements in the job market, mainly due to the increase in inspection oversight, the unemployment remains high at 19.2%. Average monthly net salary in 2016 was EUR 378.5, recording nominal YoY increase of 3.7%, and real increase of 2.5%.

Implementation of reform laws adopted in 2015 has started producing some positive results and introduced new electronic services for citizens and business. The authorities are also working on introducing e-building permits system nationwide, creating integrated inspection information system, introducing measures for curbing the grey economy, strengthening public investment management system and implementing e-government strategy. Public administration rightsizing target was met by strictly enforcing an employment attrition rule, pay and grading legislation was adopted, while reorganization has been pushed back to 2017.

The banking sector profitability is improving, while liquidity and capital adequacy remain stable. Credit activity recovery (4.3% YoY at the end of Q3) is led by new investment loans, which saw 14% increase YoY, but also by working capital financing and debt restructuring needs. Implementation of NPL resolution strategy is yielding results: aggregate stock of NPLs is falling both in nominal terms and as a share in total loans (down by 2.1% YoY to 19.5%). Improved legislative framework has enabled banks to sell and write off bad loans, although better collection, restructuring and increase in new loans assisted the NPL reduction.

People Development

Our success depends on the quality and commitment of our people. That's why we have such a strong commitment to developing and empowering our teams. We must make sure we can attract and retain the very best talent and we must create and nurture an environment and culture in which our staff can grow, thrive and reach their full potential.

SERBIAN FINANCIAL SECTOR

BANKING SECTOR

The banking system experienced a strong and continuous growth since the dawn of contemporary banking in Serbia at the beginning of the previous decade, but the inevitable spillover of the effects from the world economic crisis significantly slowed down the banking industry and the domestic economy in the period from 2008 to date. Nevertheless, the banking system showed significant resilience to the financial crisis and despite all difficulties which plagued the business environment, the banking sector in Serbia has proven itself to be well capitalized and liquid with solid future prospects.

The banking sector finished the third quarter of 2016 with 30 commercial banks and total net assets of RSD 3,172 billion, posting a nominal growth rate of 5.5% compared to the same period last year. Net loans and receivables, the most dominant asset category, recorded a year-on-year expansion of 5.5%, driven by dynamic growth in the retail and corporate sector, mostly due to the expansionary monetary policy of the NBS and an overall trend of interest rate decline on dinar denominated loans. The amount of newly disbursed loans to corporate clients was 14% higher than in the first three months of 2015, while the demand of companies was mostly focused on working capital financing and debt restructuring. More than half of newly approved loans to companies (52%) was down to working capital loans, while investment loans continued to keep a high share of 25%. Faster credit growth to households was driven by cash loans and refinance loans. Bank deposits continued to grow in 2016, posting a nominal expansion of 7.8% and ending the third quarter at a level of RSD 2,423 billion.

At the end of the first three months of 2016 the banking sector employed 24,021 people, which presents a reduction of 236 employees compared to the level at the end of 2015. The branch network consisted of 1,717 different organizational units, down by 13 units in comparison to the beginning of the year.

The domestic banking industry was still characterized by strong liquidity and adequate capitalization. Thanks to the high compulsory loan loss reserves imposed by the NBS, the sector Capital Adequacy Ratio amounted to 21.2% at the end of the third quarter, showing a 0.3 percentage point drop compared to year-end 2015.

Furthermore, a decline in the level of “eurisation” and Non-Performing Loans (NPL’s) has been present. The share of dinar denominated loans approved to private individuals had a constant growth trend and in this year 75% of total loans disbursed to these clients has been in local currency. The banks have also offered housing loans in local currency for the first time, with an interest rate below 5% and maturity up to 30 years, which signals there is a trust that a stable macroeconomic environment will be sustained in the long-run. Additionally, there is a visible trend of dinar denominated deposits growth.

At the end of September 2016, NPL’s posted a decline on banking sector level in all observed segments, ending with a share of 19.5% in the total gross loans of the sector. The drop in the NPL levels was mainly attributable to collection, and in a lesser extent to their sale. Given that sector is oriented towards the international standards and sound risk management principles, the banks continued to add to provisioning levels in order to provide insulation against credit losses, covering the NPL’s with more than 65.4% with IFRS provisions and almost 115% with NBS provisions.

The Serbian banking sector is still characterized with low concentration and a satisfactory level of competition – HH index of 812 while Top 10 banks hold 77.5% of total sector assets as of Q3 2016.

The profitability indicators of the Serbian banking sector continued to improve as of Q3 2016. The aggregated profit of all thirty banks amounted to 32.8 billion RSD and recorded a 23% YoY increase, mostly attributable to a decline in net credit losses due to lower expenses on account of indirect write-offs of on-balance sheet positions in comparison to Q3 2015. At the same time the banking sector recorded lower net interest income, while net income from fees and commissions remained unchanged. The Return on assets (RoA) indicator reached 1.4% at the end of the third quarter of 2016 (Q3 2015 1.2%), while in the same period the Return on equity (RoE) indicator amounted to 6.9% (Q3 2015 5.6%).

The monetary policy easing up to date, lower interest rates in the Eurozone driven by the relaxed monetary policy of the ECB and the interest rate decline on savings, combined with increased competition among the banks resulted in a further decline of interest rates on new loans throughout 2016, mainly for corporate clients. Due to the mentioned effects and the improvement of the macroeconomic environment, a further increase of credit activity can be expected in the period to come.

Also, it seems realistic to expect that the banking sector will improve its profitability, thanks to portfolio “cleansing” facilitated by further improvements of NPL sales regulation and the continued trend of the sector consolidation process in terms of new players and ownership changes.

SERBIAN FINANCIAL SECTOR (CONTINUED)

LEASING SECTOR

The positive trend in financial leasing activity was recorded throughout 2016 due to increase in demand for leasing financing which was driven by the recovery in the economic activity and improved outlook of the economy.

At the end of 2016, according to the NBS statistics, 16 financial leasing companies were operating in the Serbian financial leasing sector with total gross assets reaching RSD 63.2 billion. The receivables from finance lease make the largest share of total balance sheet assets (89.5%) at the end of Q3 2016. These claims in absolute terms amounted to RSD 56.6 billion at the end of Q3 2016, and compared to the end of 2015 (RSD 52.7 billion) increased by 7.4%.

The leasing sector recorded a profit before tax of RSD 887.8 million at the end of Q3 2016, which is significantly higher than in 2015 (RSD 163 million), due to higher revenues and profits primarily from impairment of assets and income from foreign exchange differences. Fourteen financial leasing companies were profitable while only two recorded a negative result. ROA increased to 2.10% at the end of Q3 2016, up from 0.64% at the end of 2015. Also, the rate of return on total equity (ROE) at the end of Q3 2016 amounted to 15.59%, a significant increase compared to the end of 2015, when this indicator stood at 5.39%. Number of employees in the financial leasing sector at the end of the quarter totaled 383, which is 11% lower than at the end of 2015.

The total capital of finance leasing institutions amounted to RSD 8.8 billion at the end of Q3 2016, an increase of 12.4% compared to the end of 2015, and is mainly driven by an increase in revenues and income payments made by founders from increase in capital. The capital share in total assets of financial leasing sector stands at 13.9%.

Financial leasing institutions are financing mainly commercial vehicles, minibuses and buses (39.9%) and passenger vehicles (30.3%), while financing is mainly concentrated in the following sectors: transport, storage, information and communications (36.9%). Significant participation at the end of Q3 2016 had trade sector (15.0%) and manufacturing industry, mining and water supply (13.7%).

Gross overdue receivables amounted to RSD 6.3 billion at the end Q3 2016, which is 9.7% of gross receivables on the basis of financial leasing. Compared to the end 2015, when receivables amounted to RSD 7.4 billion and reached 11.9% share in gross claims, receivables decreased by 14.9%. In relation to the amount of financial leasing sector capital at the end of Q3 2016, the net overdue receivables are relatively low (11.8%).

Net interest margin has remained approximately the same as at the end of 2015 (3.98%) and amounted to 3.78% at the end Q3 2016. Average lending rates fell slightly at the end of the third quarter of 2016 and amounted to 5.57% (6.17% at the end of 2015), as well as the refinancing interest (expense) rate at the end of the third quarter of 2016 amounted to 1.90% (2.22% at end-2015).

In 2017, further growth in financial leasing market is expected, as the economy continues to recover and the accommodative monetary stance is maintained. Even more clients are expected to access finance through leasing in 2017, as they become aware of the advantages of financial leasing not only for vehicles, but also equipment, machinery, etc.

FINANCIAL PERFORMANCE OF UNICREDIT SERBIA GROUP IN 2016

UniCredit Serbia Group			
In thousands RSD	**2016**	**2015***	**Change**
Income statement			
Net interest income	12.325.461	12.516.432	-1,5%
Net fees & commission income	2.731.200	2.269.677	-1,4%
Net gain from financial assets available for sale	166.256	137.609	20,8%
Net impairment loss on financial assets	-3.011.705	-3.767.404	-20,1%
Profit before tax	6.593.765	6.648.804	-0,8%
Profit after tax	6.272.778	6.409.899	-2,1%
Balance sheet			
Loans and receivables to banks	18.490.432	8.467.556	118,4%
Loans and receivables to customers	208.339.473	188.135.179	10,7%
Deposits and other liabilities from banks	86.460.699	90.997.937	-5,0%
Deposits and other liabilities from customers	178.232.370	155.112.427	14,9%
Equity	64.859.905	62.134.422	4,4%
Total balance sheet assets	337.402.324	316.108.827	6,7%
Capital adequacy**			
Total risk weighted assets	229.733.969	202.289.822	11,8%
Regulatory capital	39.507.991	39.557.493	-2,7%
Capital adequacy ratio	17,2%	19,6%	-13,0%
Key performance indicators			
Cost/income ratio	42,9%	39,7%	8,0%
ROA (Return on assets after tax)	1,9%	2,2%	-10,9%
ROE (Return on equity after tax)	9,9%	10,9%	-9,3%
Loans to Deposits ratio	117%	121%	-3,6%
Revenues/Number of employees	13.882	14.927	-7,0%
Cost of risk	1,5%	2,1%	-27,5%
Resources			
Number of employees	1.241	1.182	59
Number of branches	71	71	-

*** 2015 data unaudited, presented for purpose of performance comparison**
**** Data for 2015 for UniCredit Bank Srbija a.d. standalone**

According to Q3 2016 data, UniCredit Bank Serbia is positioned in Serbian banking sector as bank number three in total assets, amounting to RSD 316.6 billion with market share of 10%. Bank achieved 11.6% YoY increase in loans to customers, entrenching its second position in the sector, with 11.5% market share. At the same time Bank confirmed its earning capability, recording the second highest profit before tax on the market, in amount of 7 billion RSD. It was mainly driven by the best operational efficiency in the banking sector, measured by the lowest cost/income ratio, also supported by low cost of risk, below sector average.

Excellent results achieved by the Bank in 2016 were confirmed by prestigious award „The bank of the year" in Serbia by the leading financial magazine „The Banker".

In January 2016 in order to optimize its operations UniCredit Group has launched project of reorganization of the leasing business line. In line with this and local regulatory framework, UniCredit Bank Serbia acquired UniCredit Leasing and Partner. As a result UniCredit Bank Serbia performs a sub holding function towards the a.m. companies and jointly they will be treated as a banking group.

UniCredit Leasing, with total assets in amount of RSD 7.9 billion as of Q3 2016, holds third place on the local market, basing its business mainly on financing of large and medium enterprises with constant effort on increasing its market share in small business segment. Successful performance of UniCredit Leasing in 2016 is confirmed by recorded 7% year on year growth of operating income compared to the end of 2015. UniCredit Partner managed to maintain relatively stable revenues generation from agency in insurance during 2016, despite very strong competition on the local insurance market.

Despite very challenging business environment, UniCredit Serbia Group completed 2016 with excellent results, achieving return on equity of almost 10%. Yearly growth of net loans to customers in amount of 11% was dominantly driven by outstanding RSD lending activity to private individuals. As a result, mass market segment recorded remarkable growth of total loans of 33% compared to the end of 2015. Growth of loan portfolio was backed by 15% year-on-year growth of customers' deposits, which confirmed stable funding by further lowering of loan to deposits ratio.

Last year was also successful in terms of new clients' acquisition,

FINANCIAL PERFORMANCE OF UNICREDIT SERBIA GROUP IN 2016 (CONTINUED)

along with already established long term partnership and confirmed good relationship with clients, leading to the annual increase of total client base by 16% compared to the end of 2015.

During 2016 implementation of several strategic initiatives was launched, with the aim to accelerate digital transformation process and to increase quality and promptness of service and client satisfaction. Driven by initiation of digitalization process, number of clients using on line banking increased by 36% YoY, while the number of mobile banking users was doubled.

In spite of negative trend in sector, UniCredit Serbia Group has been continuously increasing number of employees, confirming its commitment towards constant growth and providing high quality services to all its clients.

STRATEGY FOR PERIOD 2017-2019

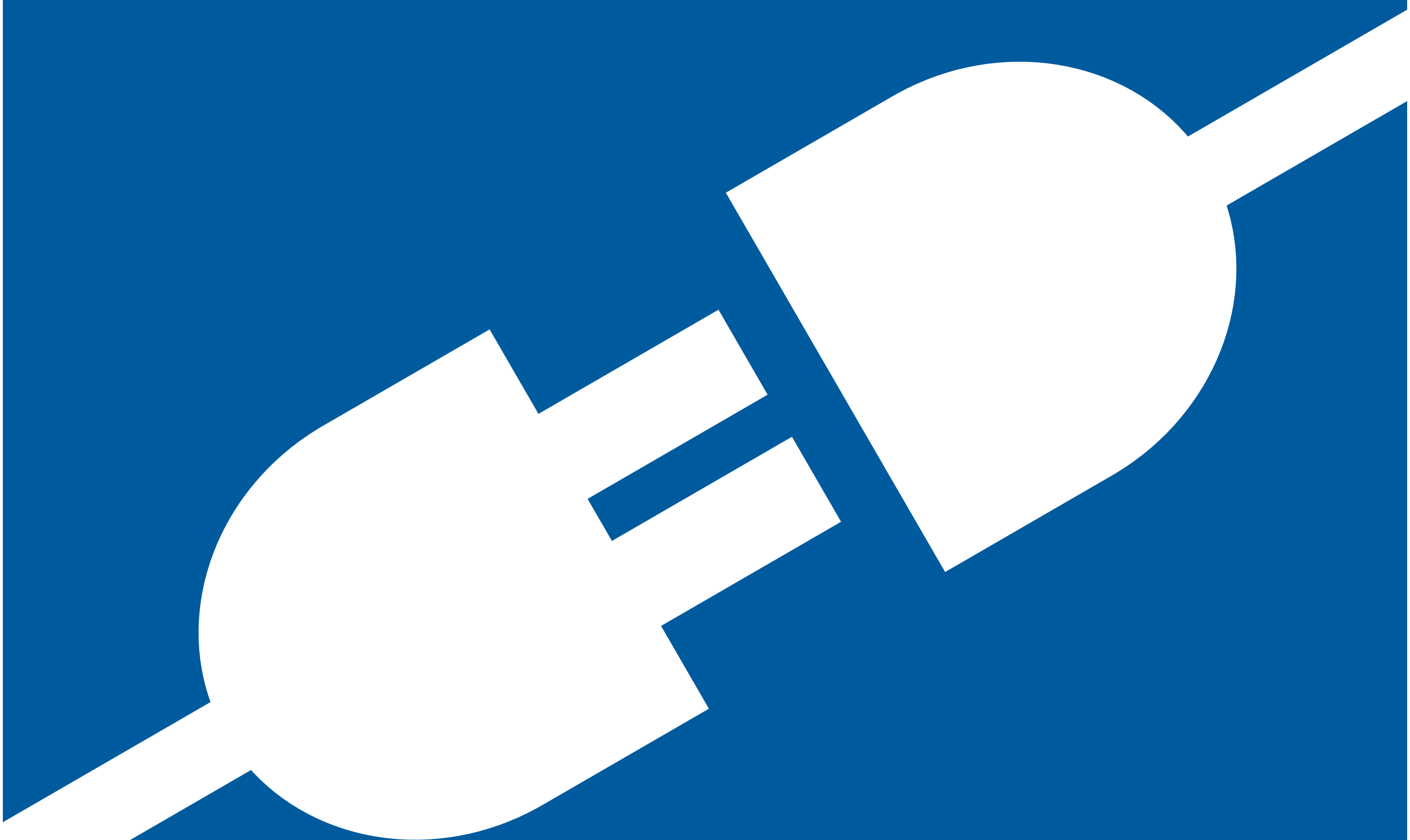
Main strategic aim of the Bank for the next three years is further improvement of top market player position in terms of profitability, efficiency, asset quality and reputation based on following key elements:

1. **Customers** – focus on existing clients and acquisition of the new ones offering high quality products and services;
2. **Products** – further improvement of products and services, but also focusing on selected products and development of new and innovative ones based on the segment-specific needs of clients;
3. **Channels** – further development of alternative sales channels, acceleration of digital transformation process together with synergy of Corporate, Retail segments and Leasing;
4. **Operating model** – major processes and system improvements leveraging on changing local market environment;
5. **Risk Management** – maintain and improve portfolio quality along with strengthening of common risk culture among all Bank's employees.

UniCredit Bank Serbia participates in the Group CEE2020 Plus project which assumes implementation of several strategic initiatives with the aim to accelerate digital transformation process and to increase quality and promptness of service and client satisfaction. These initiatives assume finalization of migration processes to alternative channels as well as increase of the sale of regular banking products through the digital channels.

Multi-Year plan of the Bank assumes full application and alignment with all regulatory requests and set limits followed by balanced growth as an universal type of bank, keeping strong track record of out-performance in terms of business growth and operating efficiency, with focus on process and system improvements along with aim to improve portfolio quality and enable base for sustainable growth. Client and acquisition focus and retaining leading position in good quality products and services will lead to keeping and improving high degree of client satisfaction.

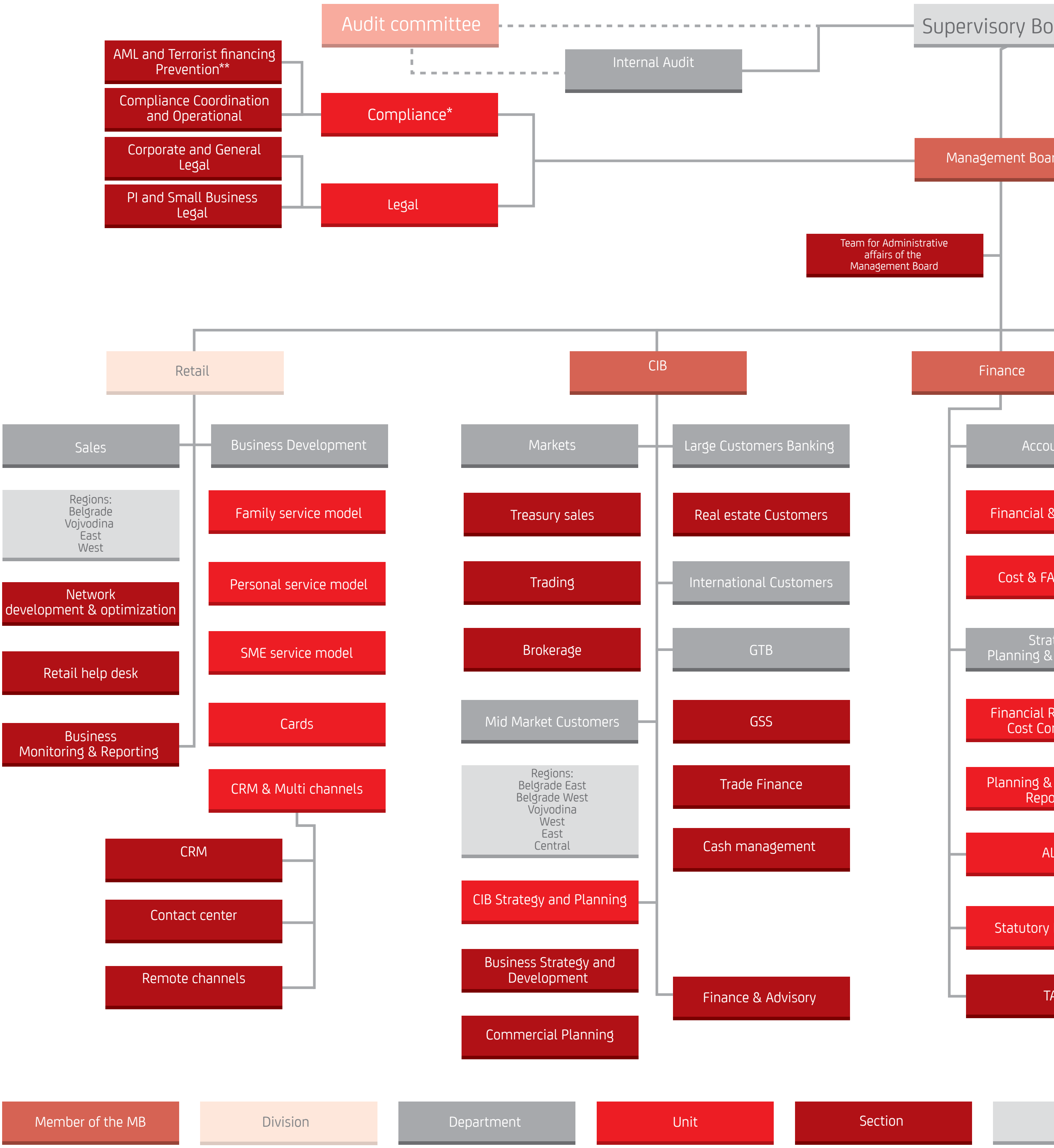
Cooperation & Synergies



Our ability to cooperate and generate synergies across departments and geographies is what makes us unique and allows us to be “One Bank, One UniCredit”. We are a true pan-European bank and we work seamlessly across the Group.

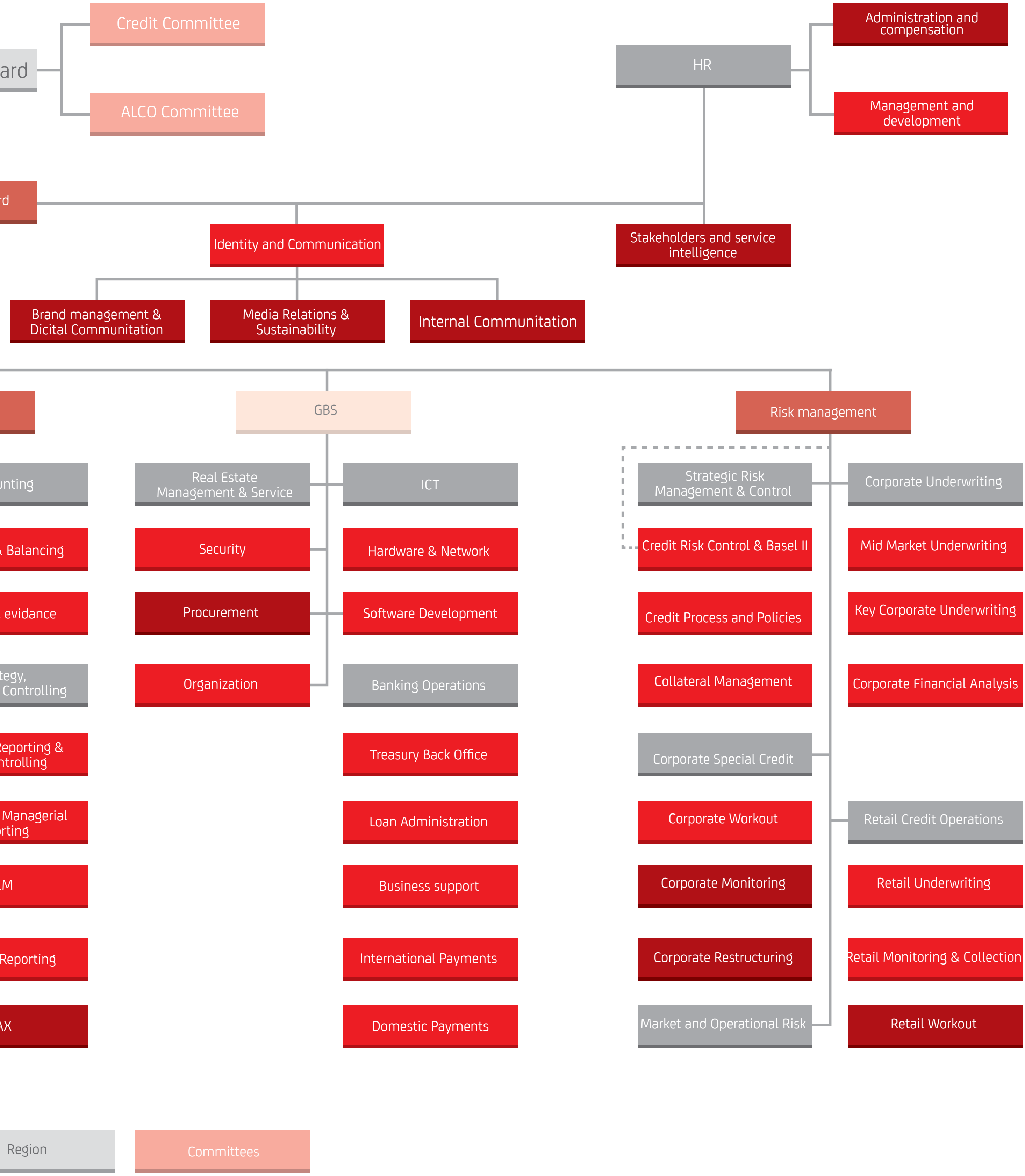
ORGANISATIONAL STRUCTURE OF UNICREDIT SERBIA GROUP

ORGANIZATIONAL STRUCTURE OF THE BANK



*Compliance section- Reporting to the Audit committee and Management Board and Supervisory Board if needed

**AML section- Reporting to the CEO



Credit Committee
ALCO Committee
HR
Administration and compensation
Management and development
Identity and Communication
Stakeholders and service intelligence
Brand management & Dicital Communitation
Media Relations & Sustainability
Internal Communitation
GBS
Risk management
Real Estate Management & Service
ICT
Security
Hardware & Network
Procurement
Software Development
Organization
Banking Operations
Treasury Back Office
Loan Administration
Business support
International Payments
Domestic Payments
Strategic Risk Management & Control
Credit Risk Control & Basel II
Credit Process and Policies
Collateral Management
Corporate Special Credit
Corporate Workout
Corporate Monitoring
Corporate Restructuring
Market and Operational Risk
Corporate Underwriting
Mid Market Underwriting
Key Corporate Underwriting
Corporate Financial Analysis
Retail Credit Operations
Retail Underwriting
Retail Monitoring & Collection
Retail Workout
Balancing
evidance
Controlling
Managerial
Reporting
Region
Committees

ORGANISATIONAL STRUCTURE OF UNICREDIT SERBIA GROUP (CONTINUED)

ORGANIZATIONAL STRUCTURE OF THE BANK

At the end of year 2016, members of UniCredit Group Serbia besides UniCredit Bank are UniCredit Leasing and UniCredit Partner. Following UniCredit Group entities were performing business also in Serbia in 2016: UniCredit Rent and UCTAM, which are representing parties related to the Bank.

UNICREDIT BANK SERBIA JSC BELGRADE

SUPERVISORY BOARD
Erich Hampel, Chairman
Marco Lotteri, Deputy Chairman
Martin Klauzer, Member
Silvano Silvestri, Member
Boris Begović, Member
Svetlana Kisić Zajčenko, Member

EXECUTIVE BOARD
Csilla Ihász, Chairperson
Alen Dobrić, Member
Enrico Verdoscia, Member

UNICREDIT LEASING DOO

SUPERVISORY BOARD
Csilla Ihász, Chairperson
Alberto Onesti, Member
Enrico Verdoscia, Member
Boris Begović, Member
Svetlana Kisić Zajčenko, Member

MANAGEMENT BOARD
Mr. Željko Lazarac, Chairman
Mr. Ratko Petrović, Member

UNICREDIT PARTNER DOO

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

CORPORATE INVESTMENT BANKING (CIB)

Year 2016 brought numerous challenges for the Serbian corporate banking sector, as economy continued to recover following 2014 recession and modest rise in economic activity in 2015 and 2016. Further easing of monetary policy by the NBS has supported a modest increase of credit growth in Q2 and Q3, following a slowdown of activity in Q1 as demand for loans improved somewhat and banks eased their credit conditions, aided by better prospects in the domestic market and more favorable access to domestic sources of funding. However, the activity slowed down again in Q4, bringing the result for 2016 to -0.6% YoY.

The non-performing loan (NPL) rate for corporate sector was reduced to 19.7% YoY (23.6% in 2015) as banks off-loaded a portion of bad loans through sale, restructuring, write-off and recovery. Proportion of NPLs is still high and NPL resolution strategy is yet to be implemented fully. The new credit demand was mainly driven by the need to finance working capital and restructure debt, however positive trend in investment loans market indicates better overall conditions on the credit market and the economy. Nevertheless, operating in the environment of low interest rates and compressed spreads presented the Serbian corporate banking sector with a unique set of challenges.

Despite these challenges, CIB was focused on opportunities and remained committed to the strategy of portfolio consolidation with emphasis on de-concentration of credit risk and selective approach with focus on mid-market clients. As a result, the loan portfolio amounted to around 135 billion RSD with a 3% YoY decrease and around 4,195 client base. Total credit portfolio reached 195 billion RSD.

CIB continued to strengthen deposit position of the Bank through various commercial activities and recorded a significant increase of volumes in transaction banking. This resulted in a 17% YoY growth in deposits, reaching the amount of RSD 112 billion and significant growth in the number of transaction recorded.

Markets Department solidified its long-established leading position in the local market. National Bank of Serbia's official data for 2016 indicate that UniCredit Bank's Markets Department is the first in providing F/X services to residents and non-residents with 16% and 44% market share, respectively. Furthermore, UniCredit Bank ranked first in transaction volumes in interbank exchange in euros with a 16% market share. Overall revenues posted a year-on-year growth, continuing the positive trend established in previous years.

During the 2015 the Bank continued its effort to promote hedging products, as a way to shield businesses from interest rate and FX fluctuations by offering interactive workshop for both large enterprises and medium-sized companies. The Bank continues to be ahead of the competition with its innovative approach, and affirmed its leadership in the designing and marketing of these products. UniCredit Bank remained market leader in trading with financial instruments on both primary and secondary markets with a market share of 17% and 26%, respectively.

In 2016 we supported small and medium sized business with special SME credit lines, and in doing so contributing to Government-led initiative for strengthening SME sector. The focus on SMEs will continue in 2017, as we implement InnovFin Program funded by EU and EIB and Women in Business Program in cooperation with EBRD. We will also support Energy Efficiency projects through the joint initiative with Green for Growth Fund (GGF). With the aim to encourage local Government initiatives, the Bank has also cooperated with the Municipal Infrastructure Development Facility (MIDF) providing credit enhancement, additional liquidity and establishing a sustainable lending market for municipalities. In addition, the Bank played an active role in public tenders for financing and continued introduction of innovative solutions, such as financing Wind to Energy projects.

In 2017, CIB will continue with the strategy of selective portfolio growth and creation of economic value for Bank by increasing the return on risk-weighted assets through increased cross selling. Division will seek to increase market share in segments with lower penetration rate and foster long-term partnership with existing customers based on reciprocity and trustworthiness. Furthermore, CIB remains committed to continuous improvement of internal efficiencies through the process of evaluation and optimization. The Bank's business activities will be focused on stimulating the development and supporting the recovery of local economy by expanding our innovative value-added products proposition and advisory services to clients. Furthermore, the Bank will also continue close cooperation with regulators including Central Bank and Ministry of Finance, thus actively supporting the improvement of domestic business environment, as well as all development initiatives.

Client centricity will continue to drive our focus and ambition of bringing economic value to our clients in aim to produce higher economic activity in our country. We will further support private and public sector including local communities, by fully exploiting our deep knowledge of the Serbian market, our Group global reach and expertise in financial products and solutions.

Based on ALSC report on new business, financial leasing market increased 14% YoY in 2016, with financed volume EUR 277 million (EUR 242 million in 2015). UniCredit Leasing realized EUR 26 million and ended a year with 9% market share (16% market share and EUR 38.4 million volume in 2015) despite volatility in the market and announced exit strategy of a number of leasing institution.

Vehicles remained the most financed asset with 78% share including operating lease (up 3% vs 2015).This is the result of subsidies for financing by car importers as well as increase in demand for heavy vehicles category (truck and trailers) due to fierce price competition.

CORPORATE INVESTMENT BANKING (CIB) (CONTINUED)

Year 2016 saw increase of 11% in the number of new vehicles financed through leasing. Total number of new vehicles sold on the market was 27.194 (24% increase YoY). UniCredit Leasing holds 10% of market share in new vehicle purchase through leasing and 3% of total new car purchase.

During 2016 we focused on portfolio diversification and further strengthening of SME segment, which led to increase in consolidated revenue of 5% compared to 2015. Looking forward, we remain committed to financing vehicles in all categories, but also strengthening financing of agriculture equipment and mechanics, construction equipment and IT equipment and infrastructure.

Having in mind the overall economic environment and further development perspectives of the leasing market in Serbia, UniCredit Leasing will strive to increase new business, maintain a quality portfolio, improve cross-sales with UniCredit Bank in all segments, improve existing products and innovate new ones, as well as strengthen cooperation with clients and partners, by applying highly professional business standards.

RETAIL BANKING

Despite the relatively unfavorable macroeconomic conditions that caused a lower growth rate of the market, Retail Division managed to maintain a growth trend during 2016, recording a double digit increase in revenues compared to the previous year. The volumes of both, loans and deposits grew significantly, which is also reflected in the improvement of market share in lending activities.

The Bank has been very active in the segment of Individual and Small Business clients, with the aim of strengthening and expanding cooperation with existing customers and the acquisition of new clients. The acquisition of new customers which has been the focus in 2016, resulted in an increase in the number of clients by 16%. Significant customer acquisition activity in 2016 is the result of good synergies with Corporate Companies, different Referral programs and initiatives, but also as an effect of increased brand awareness.

During 2016, development process of Agro segment was completed thus enabling implementation of upgraded process for financing of registered agricultural households.

All in all, clients showed that they trust in UniCredit Bank product range, service quality and reliability. Led by interest of clients, transparency remains the main pillar of Bank's daily business.

Special attention in 2016 was on the following lending products:
- Cash loan, with the insurance coverage in case of unemployment and the maximum amount and the duration created a tangible benefit to the applicants.
- Housing loan, was in focus in spite of low demand, and International Financial Institutions (EBRD, EFSE) have helped UniCredit to offer affordable interest rate to the Serbian citizens in order to cope with one of the main challenges, to provide a home.

In 2016 UniCredit exploited completely the CRM (Customer relationship management) features as on-boarding programs, tailor-made offers according to the customer's profile and behavior and improved retention process thanks to the usage of Big-Data concept.

UniCredit is paying a lot of attention on saving products despite the today's concept of the low interest rate applied. UniCredit is recognized as one the most stable and reliable Banks on the local market, which continues to grow when the collection of new deposit is concerned.

The Private Individual segment implemented the new service model (all the services in one place) in almost all the branches in which, in addition, UniCredit offers a different concept, i.e. clients can decide which products and services meet their needs in the best way. In the new service model the Bank continues to provide traditional services in branches via well skilled Personal Advisors.

Thanks to the above-mentioned components, Customer experience was more than positive and confirmed by the high value of the Customer Satisfaction index reached in 2016.

UniCredit continues to invest in the alternative channels as ATMs. The Bank has started to install the last version of the device - "all in one" ATM, which offers services as: Exchange Office, Cash-in and Bill Payment. Different initiatives were aimed to mobilize customer to use ATM for bill payments, which is free of charge for the Bank's clients. The Bank had the opportunity to grow 20% in the number of transactions performed through this channel.

UniCredit reviewed the delivery process of renewed debit cards. From October 2016, the re-issued cards are delivered directly at client's address. A secure high-level procedure of activation is in place. Over 2016 the Bank promoted the new Flexia Credit Card, among the numerous features the card provides three repayment models and contactless functions.

UniCredit also had the opportunity to be the first partner with Booking.com in Serbia, which allows to all clients who book and pay accommodation with the Bank's card, the benefit to enjoy a cashback of 4% of the paid amount.

In 2017, Retail Division will strive to enable further growth of market share. Main focus will be to increase the loan portfolio through client acquisition based on competitive package account as well as attractive campaigns for specific target groups. Cooperation with Corporate Division and UniCredit Leasing will continue in order to fully exploit the potential of this business segment. UniCredit Bank plan to introduce new digital technologies in order to enhance customers' experience and also preserve their trust.

We can conclude by saying that the Retail activities were very dynamic, especially in the Digital Area, as well as that the Bank is focused on new offers and exploiting synergies within UniCredit Group already implemented in different CEE markets.

RISK MANAGEMENT

Within its organizational structure, the Bank has a separate Risk Division with comprehensive and very important function of maintaining and developing a stable and profitable loan and other placements portfolio. This Division covers the management of credit, market, operational and liquidity risk through the work of five departments: Strategic Risk Management and Control Department, Corporate Underwriting Department, Retail Credit Operations Department, Corporate Special Credit Department, Financial and Operational Risk Department. They all report to the Member of Management Board in charge of Risk Management, which provides increased control over all loan process phases, as well as a global overview and assessment of the risks to which the bank is exposed.

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

During 2016 further improvement of risk management system was focused on internal organization enhancement, business processes and risk management policies in accordance with the best practices of UniCredit Group and requirements arising from the implementation of Basel standards and regulator requests.

Identification, measurement, control and risk management on the portfolio level is based on reporting system which provides information about the condition, quality and evolution of the loan portfolio. During 2016 there is a continuity of reporting process improvement through increased automation of calculation and report generation.

In the area of Basel standards the focus of activities was placed on the confirmation of predictive power of internally developed rating models and appropriate setting of credit risk parameters for the business segments: corporates, private individuals, entrepreneur and small business. During 2016 internal validations of all internally developed rating models and credit risk parameters, such as: PD (probability of default), LGD (loss given default) and EAD (exposure at default), was carried out, thus confirming their predictive power and calibration in relation to the level of risk identified in the current business. In accordance to the recommendations of the validation, calibration of PD models for the corporate segment was done, as well as particular components of LGD models.

Improvement of Forbearance methodological concept is carried out in order to implement the regulations of the National Bank of Serbia on this issue and to improve the regulatory monitoring and records of rescheduled/restructured loans and placements for which there are financial difficulties in repayment. During 2017 the Bank plans a full implementation of Basel III standards for reporting to the National Bank of Serbia, while reporting in accordance to the Basel III was implemented in UniCredit Group since 2014.

During 2016, Corporate Special Credit has continued with active approach in decreasing of NPL stock. Besides continuing with using the sale of receivables as a valid NPL strategy, the Bank has also introduced the new write-off policy, so called accounting write-off (write-off without debt release), which had additional influence on significant decrease of corporate NPL stock.

In the Retail segment, for private individuals and small business clients and entrepreneurs, the focus in 2016 was on increasing the efficiency of all of the processes, improvement of the process of monitoring and collection with the aim to increase the efficiency of the process as well as to improve collection.

During 2016 Collateral Statistical Monitoring was successfully completed as well as further improvement of cooperation with external valuation companies and court appointed experts. Aside from that, general improvements of collateral management processes and practice was also implemented through more agile acquisition of valuations, insurance policies, more detailed tracking of mortgage inscriptions, etc. The Bank was successfully delivering to NBS regular monthly reports regarding real estate valuations which are used for loan processing purposes.

Relevant market, interest rate and liquidity risk taxonomies are defined for identifying and reporting risk exposures. Accurate and reliable risk data are generated to meet normal and stress/crisis reporting accuracy requirements. Data are aggregated on a largely automated basis, to minimize the probability of errors. Liquidity early warning indicators are defined for monitoring financial markets development and assessing its impact on the banks liquidity position. The goal is to keep overall liquidity management at an efficient level of liquidity to allow the Bank to honor its payment obligations. Further improvement relating to accuracy, integrity, completeness and adaptability of reporting processes will continue during 2017.

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

RISK MANAGEMENT (CONTINUED)

identified risk.

Based on the foregoing, it can be concluded that during 2016 the Bank further enhanced risk management system, along with its capital adequacy and profitability levels, guarantees adequate management and coverage of the risks to which the Bank is exposed.

In 2015, integration of risk management functions has been successfully implemented where UniCredit Leasing DOO. Beograd entrusted the tasks of identifying, measuring, assessing and managing risks to the risk management function of the Bank, in accordance with the Law on financial leasing. In January 2016, Bank took over the ownership of UniCredit Leasing Ltd and UniCredit Partner. With realization of this transaction banking group UniCredit Serbia is established with Bank as parent company. In 2016 risk management function for Leasing was dedicated to improvement of organization and economies of scale in credit business, support in commercial actions and credit process optimization, better portfolio management due to centralized client assessment and single view on customer and further enhancement and alignment of the risk management methodologies and internal regulation, as well as in managing the risk profile and monitoring exposures on consolidated level for interest rate, liquidity and operational risk exposures. During 2016 risk management function had a comprehensive and important role in maintaining and developing a stable and profitable leasing portfolio.

CRO Division will continue with the efforts and actions aimed improving the system of management of all risks to which the Bank is exposed in its operations. Special focus is planned towards further enhancement of the credit process in order to improve efficiency, as well as on creating a competitive advantage in the market through process optimization on one hand, and through improvement of the tools for identifying and mitigation of credit risk, on the other hand. In that way adequate support to all organizational parts will be secured. And in 2017 one of the main goals is to maintain and improve portfolio quality and enabling base for sustainable growth with focus on further portfolio diversification, but always using proactive approach in risk management enabling new client acquisition.

GLOBAL BANKING SERVICES (GBS)

Main focus of Global Banking Service Division in 2016, beside relocation of business premises of the bank, was in improvements of ICT infrastructure (new Data center and raising of security level) and support for all structures within the bank through operational and project activities.

Moving of bank's Data center, as one of the most complex activities made in 2016 was performed successfully without any delay in bank's operation and with maximum engagement of internal resources, services for the customers were not jeopardized at any moment. Also, in the field of raising of security of ICT infrastructure, bank implemented new generation of solutions in the field of Firewall, Secure Web Gateway, and Secure Mail Gateway, which is supported by new Anti-Malware solution. During 2016, ICT department has also focused its activities towards further process improvements and internal control system improvements, additionally harmonizing with industrial standards (ITIL).

Through various analysis of efficiency of business processes, there were initiated adequate changes of organizational structure of the bank from which we expect achievement of additional effects in the field of increase of efficiency and decrease of costs, in order to keep improvement in customer satisfaction field.

Internal control system has been continuously improved and monitored through quarterly meetings and as part of the annual evaluation of internal control system on the bank level. Indicator of good functioning of internal control system is the highest conformity level provided within the annual report referring to the implementation and management of the internal control system of the bank.

Banking operations department has continued with the further process optimization, automation and centralization of back office activities with the aim to provide full support to the business needs. Thanks to the efficiency, flexibility and expertize, banking operations department has contributed significantly to the success of the bank in 2016.

With adequate cost control and level of performed investments with constant monitoring of costs of depreciation and achievements of planned revenues, cost-income ratio did not significantly change and was kept on very ambitious level referring to other banks on domestic market. In that respect, we can certainly say that this is one of the most efficient banks on the local market.

In 2017, strategic goals of Global Banking Services Division will be directed to successful realization of the bank's strategic projects, process optimization which will lead to better business efficiency as well as further improvement of cost management activities.

HUMAN RESOURCES

In 2016 Human Resources Department continued to provide the strategic support to the realization of planned business activities of the Bank. In this regard, HR Department had several key initiatives aiming, on one hand, to create challenging and stimulating working environment in order to position in this way UniCredit Bank and UniCredit Leasing as the most desirable employer on the market, and, on the other hand, to develop its employees and to enhance their professional development, commitment and engagement.

The implementation of "Smart working" concept during 2016 is one of the most important improvements in the way we work. This means that after the implementation of flexible working organization in branches network, during the last year we also worked on implementing the contemporary concepts in functioning and design of working environment with aim to enable employees to be able to choose among flexible types of working environment in accordance with their daily work needs. Also, trying to follow the general tendency to adapt the working conditions to contemporary needs of our employees, we implemented the flexible working hours concept and opened the possibilities for working from home. In this way the bank is trying to support and promote the need of our employees to achieve the life-work balance in the most adequate way.

During past year, the special emphasis was given to increased investment in employees' professional development, on one hand through increased number of training courses, and on the other hand through participation of our employees in ''on the job" learning programs abroad which have been organized in cooperation with our colleagues from UniCredit Group. In this way our employees have been given the opportunity to acquire international experience and also to have benefit on working in a big banking group such as UniCredit Group.

As one of its main priorities in 2016, Human Resources Department has continued with promoting the values of UniCredit Group in all aspects of mutual cooperation, cultivating in this way the diversity and equal opportunities for all through a Diversity Support Program.

In 2017, the Human Resources Department will continue to fully support the business in achieving business results through improving internal processes and the quality of human resources management. This will be achieved through development of potential managers for key positions, motivating and retaining employees who are top performers and who possess relevant technical skills, behaviors and values by monitoring and implementation of their individual development plans and continuous support in their daily work, as well as by increasing the number of internal and cross-divisional movements in closing the open positions.

In order to position UniCredit Bank and UniCredit Leasing as the most desirable employer in the market, we will continue cooperation with universities through internship programs, study visits and scholarships for the best students.

During 2017, the Human Resources Department will continue to promote the opportunities for employee development and career planning with emphasis on development and growth of new talents through leadership programs. Furthermore, it will support the development in critical areas of expertise, as well as enhance the programs to support the new hired employees. Special attention will also be given to programs of benefits for employees, as well as to health care of our employees.

IDENTITY AND COMMUNICATION

During 2016, the Identity and communication Unit's team continuously worked on promotion of our unique concept ''Real-life banking". Communication platform "Life is full of ups and downs. We are here for both" aims at providing clients with concrete answers to real life problems, the creation of innovative products and services, but also the alignment of overall working environment with the most modern technological achievements, has been set up as essential component in order to maintain competitiveness in the domestic market and keep one of the leading positions.

In 2016 several commercial campaigns were conducted successfully, but certainly most important are ones for Dinar Cash Loan and Mortgage Loan. Not only that these commercials attracted the attention with theirs originality, but they also significantly contributed to the fact that the bank further increased market share when these two products are concerned. About the creativity of the campaign witness two awards which the Association for Market Communications (UEPS) delivered us. In the category for Integrated Campaign within the financial sector and services, our advertisements for Cash Loan won the Gold Award and the TV spot, which was an integral part of the campaign, won a Silver Award in the category for best TV spot in 2016.

A large number of projects of this Unit was related to the sponsorship of the UEFA Champions League, which has a strong impact on the image, promotion and positioning of brand, UniCredit has exclusive right to present the most prestigious trophy of European football competition. After 2011 and 2014 we brought the trophy back to Serbia. In period from September 22nd until October 2nd more than 14,000 fans visited the UEFA Champions League Trophy Tour. Thanks to this spectacular event, football admirers in Niš, Subotica, Novi Sad and Belgrade had the opportunity to experience the unique atmosphere of the club's football competition and to take pictures not only with the famous trophy, but also with football legends - Marcos Evangelista de Morais – Kafu, Vladimir Jugović and Stevan Dika Stojanović. The bank has also supported sports clubs in different ways where this spectacle was organized in order to show, once again, commitment to the sport which has extraordinary influence on younger population and which has made our nation happy many times. For the adequate announcement of the event of this scale it was created integrated marketing campaign that invited fans not to miss these magical moments of football fever.

UniCredit Bank has, through various activities at the national and local level also in 2016 sought to increase its presence in the media and thus further contribute to the recognition of the bank on the local market. Regardless of overall decrease of presence of the banks in the media, thanks to the quality communication, we managed to take over the position number one when total number of supplements is concerned. One reason is certainly the fact that we continue to contribute to already good relations with the media, but we also tried to build new ones. The fact that we recorded a big improvement when the total number of reports in the media is concerned, confirms that our strategy has been successful. Namely, in addition to the media that cover economic topics, in 2016 we put a special focus on sports media, in order to promote visit of UEFA Champions League to Serbia in the best possible way.

Internal communication had a very important role during 2016, considering the fact that Head Office had been moved to new building, in which so called Smart Working concept was implemented. The former offices have been replaced with open space decorated according to state of the art standards. New working environment is digital, mobile and easier for communication since all Head Office employees are now in one building. Besides all the advantages that this concept offers, but having in mind that this was a huge change, the task of Internal communication was not only to prepare employees for relocation, but also make them fully accept it. Such concept was for the first time implemented in one of the financial institutions in Serbia.

Identity and communication Unit will also in 2017 stay focused on supporting further development of bank's business and increase of client base via carefully designed integrated campaigns. We will continue to build the image of a competent speaker in the media that we have acquired in previous years.

CORPORATE SOCIAL RESPONSABILITY

With aim to contribute to economic and social development of local communities in which operates and to support young people, vulnerable categories of people and the youngest in sports, UniCredit Bank supported numerous CSR activities during 2016 by investing over RSD 8 million in this type of activities in our country.

With the aim to provide society with an added value that can be used in the long run – knowledge and expertise of its employees, UniCredit Bank declared 2016 Year of Volunteering. Bank joined the activities implemented by the organization called Junior Achievements in Serbia. Namely, within national competition “Business Challenge” six colleagues from UniCredit Bank played a role of mentors for 5 groups of high school students, and members of Jury, and helped them to develop their business ideas through creation of business plans, while one employee was a member of Grand Jury. Bank was very proud with the fact that the mentor of winning team, out of 20 teams, was just one of its employees. Within Regional competition for 2016 30 experts of UniCredit Bank in four cities supported colleagues to make excellent business out of innovative ideas. Besides that, UniCredit Bank joined Responsible Business Forum which gathers leaders in Serbia when corporate social responsibility is concerned. One of the initiatives in which UniCredit Bank participated was corporate volunteering day “Our Belgrade”, where 40 employees participated in refurbishing and arranging the park of Gerontological Centre Voždovac that provides accommodation and home care for older citizens.

As in previous years, bank continued to support traditional manifestation with cultural character and significant importance for local communities, such as Days of Bora Stankovic, Days of Zoran Radmilovic and Days of Mokranjac.

During 2016 Bank also continued to participate in sport activities with humanitarian character. Therefore bank’s basketball team participated in UNICEF Fair Play tournament, while bowling team participated in BELhospice humanitarian tournament this year.

UniCredit Bank’s commitment towards projects of social importance was recognized by different local and international organizations. Prestigious EBA Program, named the Bank as National Champion for Environmental and Corporate Sustainability, while the European Commission, after research and evaluation of different projects and models on the topic of migrant entrepreneurship, included Project of Rural and Agricultural Integration in Supportive Environment (RAISE) among the best 20 projects in Europe in the field of promoting and supporting migrant entrepreneurship and integration of refugees and internally displaced persons. Besides that, thanks to engagement in this area UniCredit Bank was included in the list of socially responsible companies in Serbia – CSR Index. This is actually the first online platform for the evaluation of social responsibility and Serbia is the first country in the Western Balkans which conducted such study. Besides us, only 19 companies operating in our country managed to meet the high standards in the implementation of social responsibility within their business.

The bank will continue to implement different activities in 2017 as well that can contribute to the improvement of living conditions in the local communities, while at the same time it will work on the additional engagement of the employees in the projects of broader social significance.

NEWLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2016

(Thousands of RSD)

	Note	December 31, 2016
Cash and cash funds held with the central bank	3.k, 19	28.085.266
Financial assets at fair value through profit and loss, held for trading	3.j, 3.o, 20	2.315.317
Financial assets available for sale	3.j, 3.p, 21	76.320.664
Financial assets held to maturity	3.j, 3.n, 22	42.957
Loans and receivables due from banks and other financial institutions	3.j, 3.m, 23	18.490.432
Loans and receivables due from customers	3.j, 3.m, 24	208.339.473
Fair value adjustments of risk hedged items	3.l, 25	222.845
Receivables per financial derivatives designated as risk hedging instruments	26	375
Intangible assets	3.r, 3.s, 27	921.336
Property, plant and equipment	3.q, 3.s, 28	1.581.197
Investment property	29	1.397
Deferred tax assets	3.i, 30	165.498
Other assets	31	915.567
Total assets		**337.402.324**
Financial liabilities carried at fair value through profit and loss, held for trading	3.j, 32	234.232
Liabilities per financial derivatives designated as risk hedging instruments	3.l, 33	540.097
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.j, 3.t, 34	86.460.699
Deposits and other liabilities due to customers	3.j, 3.t, 35	178.232.370
Fair value adjustments of risk hedged items	3.l, 36	103
Subordinated liabilities	3.j, 3.t, 37	3.082.125
Provisions	3.u, 3.x, 38	961.581
Current tax liabilities	3.i, 18.4	31.749
Other liabilities	39	2.999.463
Total liabilities		**272.542.419**
Issued (share) capital	41.1	24.169.776
Profit	41.1	6.882.290
Reserves	41.1	33.807.839
Total equity		**64.859.905**
Total liabilities and equity		**337.402.324**

NEWLY CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2016

(Thousands of RSD)

	Note	2016
Interest income	3.d, 7	15.739.371
Interest expenses	3.d, 7	(3.413.910)
Net interest income		**12.325.461**
Fee and commission income	3.e, 8	3.885.975
Fee and commission expenses	3.e, 8	(1.154.775)
Net fee and commission income		**2.731.200**
Net gains on the financial assets held for trading	3.f, 9	30.989
Net losses on the hedges against risks	3.g,10	(3.744)
Net gains on the financial assets available for sale	3.p, 11	166.256
Net foreign exchange gains and positive currency clause effects	3.c, 12	1.424.041
Other operating income	13	143.585
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	3.j, 14	(3.011.705)
Staff costs	15	(2.752.772)
Depreciation and amortization charge	3.q, 3.r, 16	(602.403)
Other expenses	17	(3.857.143)
Profit before taxes		**6.593.765**
Income tax	3.i, 18	(320.987)
Profit after taxes		**6.272.778**

NEWLY CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME Year Ended December 31, 2016

(Thousands of RSD)

	Note	2016
PROFIT FOR THE YEAR		6.272.778
Components of other comprehensive income that cannot be reclassified to profit or loss		
- Actuarial losses		(2.533)
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)
Gains from taxes on the other comprehensive income for the year	30.2	380
Total negative other comprehensive income for the year	41.2	(836.667)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**5.436.111**

NEWLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year Ended December 31, 2016

(Thousands of RSD)

	Note	2016
ISSUED CAPITAL		
Balance, beginning of year		-
Opening balance of the parent entity		23.607.620
Effects of acquisition through business combination		-
		23.607.620
Balance, end of year	41.1	23.607.620
SHARE PREMIUM		
Balance, beginning of year		-
Opening balance of the parent entity		562.156
Effects of acquisition through business combination		-
		562.156
Balance, end of year	41.1	562.156
OTHER RESERVES FROM PROFIT		
Balance, beginning of year		-
Opening balance of the parent entity		28.254.097
Effects of acquisition through business combination		-
		28.254.097
Prior year's retained earnings distribution		3.766.383
Balance, end of year	41.1	32.020.480
REVALUATION RESERVES		
Balance, beginning of year		-
Opening balance of the parent entity		2.807.920
Effects of acquisition through business combination		-
		2.807.920
Effect of the market value adjustment of securities available for sale		(1.008.738)
Balance, end of year	41.1	1.799.182
UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE		
Balance, beginning of year		-
Opening balance of the parent entity		(174.224)
Effects of acquisition through business combination		-
		(174.224)
Effect of the market value adjustment of securities available for sale		174.224
Balance, end of year	41.1	-
ACTUARIAL LOSSES PER DEFINED BENEFIT PLANS		
Balance, beginning of year		-
Opening balance of the parent entity		(9.670)
Effects of acquisition through business combination		-
		(9.670)
Movements during the year		(2.153)
Balance, end of year	41.1	(11.823)
RETAINED EARNINGS		
Balance, beginning of year		-
Opening balance of the parent entity		6.366.383
Effects of acquisition through business combination	43.1, 43.2	609.512
		6.975.895
Prior year's profit distribution – allocation to dividend		(2.600.000)
Prior year's profit distribution – allocation to reserves		(3.766.383)
Profit for the year		6.272.778
Balance, end of year	41.1	6.882.290
TOTAL EQUITY		**64.859.905**

NEWLY CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2016

(Thousands of RSD)

	Note	2016
Cash generated by operating activities		**21.716.323**
Interest receipts		11.770.459
Fee and commission receipts		3.876.176
Receipts of other operating income		6.069.346
Dividend receipts and profit sharing		342
Cash used in operating activities		**(15.178.479)**
Interest payments		(3.552.691)
Fee and commission payments		(1.147.232)
Payments to, and on behalf of employees		(2.646.646)
Taxes, contributions and other duties paid		(520.336)
Payments for other operating expenses		(7.311.574)
Net cash inflows from operating activities prior to changes in loans and deposits		**6.537.844**
Decrease in loans and increase in deposits received and other liabilities		**49.863.258**
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		49.315.333
Increase in loans and decrease in deposits received and other liabilities		**(18.728.920)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(18.728.920)
Net cash generated by operating activities before income taxes		**37.672.182**
Income taxes paid		(418.767)
Dividends paid		(5.100.000)
Net cash generated by operating activities		**32.153.415**
Cash used in investing activities		**(3.566.634)**
Outflows per investments in investment securities		(2.490.290)
Equity investments in subsidiaries, associates and joint ventures		(112.644)
Purchases of intangible assets, property, plant and equipment		(963.700)
Net cash used in investing activities		(3.566.634)
Cash used in financing activities		**(32.140.094)**
Net cash used for subordinated liabilities		
Net cash used in repayment of borrowings		(32.140.094)
Net cash used in financing activities		**(32.140.094)**

NEWLY CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2016 (CONTINUED)

(Thousands of RSD)

	Note	2016
Total cash inflows		71.579.581
Total cash outflows		(75.132.894)
Net cash decrease		(3.553.313)
Cash and cash equivalents, beginning of year		20.407.612
Foreign exchange losses		(37.193)
Cash and cash equivalents, end of year	3.k, 42	16.817.106

Risk Management

In order to be successful in what we do we must take risks, but we must rigorously manage our risks. We must be fully aware of the impacts of our decisions, we must take risks but we must take the right risks. And to do that, we must apply strong risk management to everything we do.

Notes to the Newly Consolidated Financial Statements

1) Establishment and activity of the banking group

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

(a) Establishment and Activity of the Bank

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

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

The Bank is registered in the Republic of Serbia to provide banking services associated with payment transfers, lending and depositary activities in the country and abroad.

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.

As of December 31, 2016, the Bank had 1.205 employees.

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

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

The Leasing Company is principally involved in finance lease activities.

As of December 31, 2016 Leasing had 32 employees.

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

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

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

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

As of December 31, 2016 Partner had 4 employees.

2) Basis of preparation and presentation of the newly consolidated financial statements and accounting convention

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

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred to as: the "Law", Official Gazette of the Republic of Serbia no. 63/2013). The Group 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, banking groups 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 newly consolidated financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS nos. 71/2014 and 135/2014).

These newly consolidated 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. 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 newly consolidated financial statements, the Group adhered to the accounting policies described in Note 3.

The Group's newly consolidated 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

Notes to the Newly Consolidated Financial Statements (CONTINUED)

2) Basis of preparation and presentation of the newly consolidated financial statements and accounting convention (CONTINUED)

amendment to IFRIC is to become effective as of July 1, 2009);

- Amendments to IAS 38 "Intangible Assets" 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);
- 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 (2010)" 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);
- 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);

2) Basis of preparation and presentation of the newly consolidated financial statements and accounting convention (CONTINUED)

- 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 newly consolidated 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);

- 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).

2) Basis of preparation and presentation of the newly consolidated financial statements and accounting convention (CONTINUED)

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

At the date of issuance of these newly consolidated financial statements the following standards, their amendments, revisions and interpretations were in issue but not yet effective:

- 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.

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 permit.

- 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

2) Basis of preparation and presentation of the newly consolidated financial statements and accounting convention (CONTINUED)

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

In January 2016 the Bank became the sole (100%) owner of entities UniCredit Leasing Srbija d.o.o. Beograd and UniCredit Partner d.o.o. Beograd. The Bank has for the first time prepared its newly consolidated financial statements as of December 31, 2016. No comparative data are presented in the newly consolidated financial statements given that in 2015 the Bank had no control over these entities.

(f) Use of Estimates

Preparation of the financial statements in accordance with IFRS requires the 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 Group’s newly consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS) issued by the International Accounting Standards Board (“IASB”).

Notes to the Newly Consolidated Financial Statements (CONTINUED)

3) Summary of significant accounting policies

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

(a) Consolidation

The Group's newly consolidated financial statements include the newly consolidated statement of financial position as of December 31, 2016 and the related newly consolidated income statement, statement of other comprehensive income, newly consolidated statement of changes in equity and newly consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Group's newly consolidated financial statements as of and for the year ended December 31, 2016 include the financial statements of the Parent Entity (the Bank) and the financial statements of the following entities:

	Equity Interest %	
Subsidiary:	**2016**	**2015**
UniCredit Leasing d.o.o, Beograd	100%	-
UniCredit Partner d.o.o, Beograd	100%	-

The bank is the sole owner of the above listed subsidiaries.

All the material transaction amounts and balances arising from the intragroup business relations were eliminated upon consolidation.

(b) Going Concern

These newly consolidated financial statements have been prepared under going concern assumption, which entails that the Group 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 Group'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 newly consolidated statement of financial position components into dinars for the following major currencies were as follows:

	December 31, 2016
USD	117,1353
EUR	123,4723
CHF	114,8473

(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 Group 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.

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 Group and are presented together with all other changes in the fair value of trading assets and liabilities within net gains on financial assets held for trading.

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 acquittance, where the Group has decided to cease further calculation and recording of interest within the off-balance

3) Summary of significant accounting policies (CONTINUED)

sheet items as from the moment of write-off of loans without debt acquittance.

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) Operating and Finance Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. Leases are classified as operating leases when the terms of the lease do not transfer substantially all the risks and rewards of ownership to the Group.

i. Operating Lease

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.

ii. Finance Lease – Group as the Lessee

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

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.

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

iii. Finance Lease – Group as the Lessor

The Group recognizes financial assets leased in its statement of financial position in the amount equal to the net investment in the lease. The Group transfers the risks associated with ownership to the lessees so that the lease receivables are regarded as repayment of principal repayment and portion of the related finance income. Recognition of the finance income is based on the pattern reflecting the constant periodic rate of interest on the finance lease net investment outstanding. Lease payments related to the current period, net of service fees, are charged to the gross investment in the lease as the reduction in the principal and finance income unearned.

(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.

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

3) Summary of significant accounting policies (CONTINUED)

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 Group 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 Group 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 Group classifies 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;
- financial assets available for sale.

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

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

iii. Derecognition

Financial Assets

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

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

Financial Liabilities

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

3) Summary of significant accounting policies (CONTINUED)

iv. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group 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 Group'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, less any impairment.

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

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received. However, in some cases, the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial recognition of the instrument. 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 Group 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.

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 Group on terms that the Group 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 Group 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

3) Summary of significant accounting policies (CONTINUED)

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 Group 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 acquittance is distinguished from write-off with debt acquittance. Loans are written off without debt acquittance in instances where the Group 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 Group would still be entitled even after the conducted write-off without debt acquittance, where the Group has decided to cease further calculation and recording of interest as from the moment of such write-off. In such cases, the Group 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 Group writes off loans and receivables with debt acquittance 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.

(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 gyro accounts, 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 Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and 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 Group 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

3) Summary of significant accounting policies (CONTINUED)

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 Group does not intend to sell immediately or in the near term. They arise when the Group 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".

(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 Group 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 Group 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 Group has collected substantially all of the asset's original principal, and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group'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 Group as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that the Group 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 Group 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

Notes to the Newly Consolidated Financial Statements (CONTINUED)

3) Summary of significant accounting policies (CONTINUED)

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 Group has the intention and ability to hold that financial assets for the foreseeable future or until maturity.

(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 Group.

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 Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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.

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) Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. 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.

3) Summary of significant accounting policies (CONTINUED)

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.

(t) Deposits, Borrowings and Subordinated Liabilities

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

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

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

(u) Provisions

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

(v) Financial Guarantees

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

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

(x) Employee Benefits

In accordance with regulatory requirements of the Republic of Serbia, the Group 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 Group 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 Group has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfillment of the prescribed 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 Group accrued expenses for unused annual leaves (vacations).

4) Financial risk management

(a) Introduction and Overview

In its operations the Group 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 Group caused by the borrower default on its obligations to the Group. Credit risk includes risks which represent the likelihood of occurrence of adverse effects on the Group'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 Group 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 Group caused by the Group'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 Group 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 Group 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 Group caused by human error, inadequate internal procedures and processes, inadequate management of the information system and other systems in the Group, 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, 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 and its subsidiaries are exposed to in their operations. In addition, the Supervisory Board is in charge of prior approval of large exposures to a single entity or a group of related entities exceeding 10% of the Bank's own equity as well as of increase of such exposures to above 20% of the Bank's own equity. The Bank's Audit Committee assists the Supervisory Board in performance of its function by considering the Bank's most important internal bylaws and enactments before these are adopted by the Supervisory Board. The Management Board of the Bank is in charge of implementation of the approved risk management strategies and policies, and 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.

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

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.

4) Financial risk management (CONTINUED)

(b) Credit Risk

Credit process in the Group 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.

For adequate and timely management of risks in the area of crediting, the Group applies its internal bylaws aligned with the Law on Banks, effective decisions of the National Bank of Serbia governing risk management and the regulations governing the business activities of the subsidiaries. The Group'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 Group 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 Group 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 Group also considers analysis of the money laundering and terrorist financing risk in making decision on the credit risk assumption.

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

RMIS has to fulfil the 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 Group.

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

The Group uses internal credit rating models. Rating models define specific rating for clients with similar credit risk levels. Each rating grade is related to certain PD parameter based on the Master Rating Scale. Leasing PD are determined based on the master scale applicable to leasing companies within UniCredit Group. The Bank also internally calculates and applies other credit risk parameters, while UniCredit Group defines parameters for Leasing.

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 Group's separate bylaw. In order to fulfil above mentioned functions, RMIS uses IT systems of UniCredit Group and internally generated databases with information about the portfolio at the individual loan facility level. The Group's systems provide rating and past-due days data as important client's credit risk parameters for the Bank's clients (past-due days for Leasing's clients are obtained from the internal database) as critical credit risk parameters of clients.

4) Financial risk management (CONTINUED)

Limits
The Group manages credit risk concentration of the portfolio by setting limits. Limits are defined by the Group's internal bylaws and/or NBS regulations and compliance with those is monitored and reported on an ongoing basis. Limits are explained in more detail in section on the exposure risks.

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 for the Bank / AQ Report for Leasing; 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.

AQ Report for Leasing 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 as well as to Leasing's Executive Board. 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:
- Data on the asset quality at the sub-segment level (exposure, NPL volume and ratio, amount of credit loss provisions, NPLs coverage with credit loss provisions);
- PD and LGD per segment;
- Credit loss provisioning costs per sub-segment (charge and release/reversal as compared to the beginning of year and previous month); and
- Cost of risk per sub-segment.

Credit Portfolio Overview is prepared on a quarterly basis and is presented to the Bank's 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

4) Financial risk management (CONTINUED)

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.

Credit Risk Exposure

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

(Thousands of RSD)

	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 fair value through profit or loss, held for trading (Note 20)	Available-for-sale financial assets (Note 21)	Other assets (Note 32)	Off-balance sheet items
	2016	2016	2016	2016	2016	2016	2016	2016
Individually impaired								
Corporate clients, rating 10	-	623	-	6.480.923	-	-	97.176	5.154
Corporate clients, rating 9	-	-	-	153.792	-	-	91	-
Corporate clients, restructured loans	-	-	6	14.566.424	-	-	195.576	369.075
Retail clients, > 90 days past due	-	-	-	4.064.755	-	-	92.780	1.209
Gross loans	-	623	6	25.265.894	-	-	385.623	375.438
Impairment allowance	-	623	3	15.120.903	-	-	343.254	99.508
Carrying value	-	-	3	10.144.991	-	-	42.369	275.930
Group-level impaired								
Corporate clients, rating 1 - 6	43.692	43.526	18.519.101	125.846.684	-	2.583.082	290.332	110.501.685
Corporate clients, rating 7	-	-	3.440	6.356.534	-	-	618	5.970.505
Corporate clients, rating 8	-	-	-	3.110.239	-	-	521	367.794
Retail clients, < 90 days past due	-	-	-	64.135.108	-	-	482	1.619.058
Gross loans	43.692	43.526	18.522.541	199.448.565	-	2.583.082	291.953	118.459.042
Impairment allowance	775	569	32.112	1.354.475	-	-	559	197.727
Carrying value	42.917	42.957	18.490.429	198.094.090	-	2.583.082	291.394	118.261.315
Carrying value of rated assets	42.917	42.957	18.490.432	208.239.081	-	2.583.082	333.763	118.537.245
Carrying value of non-rated assets	28.042.349	-	-	100.392	2.315.317	73.737.582	581.804	-
Total carrying value	**28.085.266**	**42.957**	**18.490.432**	**208.339.473**	**2.315.317**	**76.320.664**	**915.567**	**118.537.245**

* 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)

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 Group 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. For2017 the Group 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 Group'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 Group 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 standards criteria, with special credit loss provisioning calculation.

Impairment Allowance and Provisioning Methodology

The provisioning procedure is conducted in two steps in accordance with the relevant adopted bylaws for provision calculation in accordance with IAS/IFRS and Group's adopted rules:

- 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 Group 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 Group 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 Group 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

4) Financial risk management (CONTINUED)

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. Special provisions for leasing's portfolio are determined in the amount of individual receivables that are not likely to be collected, based on the present value of the future cash flows of the loan or estimated collection from the foreclosure of the asset leased and additional collateral.

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). In defining homogenous categories for its portfolio Leasing relies on the categorization of clients according to the default status and criteria for LGD categorization.

General Provisioning Rules and Principles

In determining provisions for exposures for which there are no objective evidence of impairment the Group 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 Group. 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 Group will not be performed.

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 Group. 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.

Notes to the Newly Consolidated Financial Statements (CONTINUED)

4) Financial risk management (CONTINUED)

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.

(Thousands of RSD)

	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 31)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2016										
Corporate clients, rating 10	623	-	-	-	6.480.923	896.724	97.176	952	5.154	88
Corporate clients, rating 9	-	-	-	-	153.792	83.130	91	-	-	-
Corporate clients, restructured loans	-	-	6	3	14.566.424	8.320.773	195.576	40.923	369.075	274.983
Retail clients, > 90 days past due	-	-	-	-	4.064.755	844.364	92.780	494	1.209	859
Total	**623**	**-**	**6**	**3**	**25.265.894**	**10.144.991**	**385.623**	**42.369**	**375.438**	**275.930**

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

(Thousands of RSD)

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
Loans and receivables due from customers					
Gross	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 Group 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 Group 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 Group uses relevant policies and procedures for collateral management. The most significant collaterals accepted and used by the Group for minimizing credit risk comprise:

- financial collaterals (cash deposits), allowed to be recognized in full amounts;
- payment guarantees issued by first-class banks and governments, allowed to be recognized at full amounts;
- mortgages on residential or commercial property, recognized up to 70% 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 relevant internal bylaws governing credit risk mitigation.

4) Financial risk management (CONTINUED)

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

(Thousands of RSD)

	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	2016	2016	2016	2016	2016
Corporate clients, rating 10	**-**	**838.933**	**-**	**-**	**-**	**826**
Real estate	-	831.353	-	-	-	-
Other	-	7.580	-	-	-	826
Corporate clients, rating 9	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-		-	-	-	
Other	-	-	-	-	-	-
Corporate clients, restructured loans	**-**	**6.131.575**	**-**	**-**	**-**	**76.252**
Real estate	-	4.440.111	-	-	-	58.780
Other	-	1.691.464	-	-	-	17.472
Retail clients, > 90 days past due	**-**	**437.005**	**-**	**-**	**-**	**-**
Real estate	-	436.616	-	-	-	-
Other	-	389	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**-**	**63.520.472**	**-**	**-**	**-**	**9.620.687**
Real estate	3.193	48.556.331	-	-	-	4.889.206
Other	-	14.964.141	-	-	-	4.731.481
Total	**3.193**	**70.927.985**	**-**	**-**	**-**	**9.697.765**

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 Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group 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 Group 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 Group. It is not unusual for Groups 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 Group and its exposure to changes in interest and exchange rates.

The Group'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 Group's liquidity is expressed through the liquidity ratio. The Group 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 Group's demand deposit liabilities and deposits without contractual maturity and deposits with contracted maturity, as follows:

4) Financial risk management (CONTINUED)

- 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 Group is obligated to maintain the liquidity levels so that the rigid/cash liquidity ratios are as follows:
- at least 0.7 – when calculated as an average of all working days in a month;
- not below 0.6 for over three consecutive days,
- at least 0.5 – when calculated for one working day.

The Parent 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 Group'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.

Depending on the crisis severity, the Group may declare the Warning Stage or the Alert Stage. The Group'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.

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

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

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

4) Financial risk management (CONTINUED)

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

(Thousands of RSD)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and 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	16.787.092	10.054	1.656.256	37.030	-	**18.490.432**
Loans and receivables due from customers	8.255.943	5.870.910	32.941.341	97.006.983	64.264.296	**208.339.473**
Receivables per financial derivatives designated as risk hedging instruments	375	-	-	-	-	**375**
Other assets	**915.567**	**-**	**-**	**-**	**-**	**915.567**
Total assets	**59.530.682**	**7.714.967**	**51.352.243**	**146.081.746**	**69.830.413**	**334.510.051**
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	36.192.130	905.967	4.919.137	36.688.417	7.755.048	**86.460.699**
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	31.749	-	-	-	-	**31.749**
Other liabilities	2.999.463	-	-	-	-	**2.999.463**
Total liabilities	**171.254.590**	**9.660.485**	**24.474.907**	**55.134.440**	**11.056.313**	**271.580.735**
Net liquidity gap as at December 31, 2016	**(111.723.908)**	**(1.945.518)**	**26.877.336**	**90.947.306**	**58.774.100**	**62.929.316**

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 Group 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 UniCredit Group.

4) Financial risk management (CONTINUED)

(d) Market Risks

The Group 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 Group 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 Group 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 Group is focused on interest rate spreads. The Group 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 Group is exposed to the risk of loss if interest rates of the certain maturity of the observed currency fall,
- in case of negative GAP, Group 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	
	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp
RSD	-	(1.464.600)
EUR	-	(714.901)
USD	-	25.684
GBP	-	-
CHF	-	(76.695)
JPY	-	-
CAD	-	-
AUD	-	-
DKK	-	-
NOK	-	-
SEK	-	-
Total effect	**-**	**(2.230.512)**

The Group 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 Group's assets and liabilities to different standard and non-standard scenarios of changes in interest rates. The standard scenarios prepared 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 Group 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 and the Group. At the same time, ALM manages the Group'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 Group'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:

4) Financial risk management (CONTINUED)

(Thousands of RSD)

	Parallel increases by 200 b.p.	Parallel decreases by 200 b.p.
2016		
As at December 31	2.405.429	(2.405.429)
Average for the year	2.165.075	(2.165.075)
Maximum for the year	3.029.115	(3.029.115)
Minimum for the year	866.117	(866.117)

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

(Thousands of RSD)

	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

Exposure to interest rate movements as at December 31, 2016

(Thousands of RSD)

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and 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	18.490.432	14.932.329	1.863.266	1.658.773	33.386	-	2.678
Loans and receivables due from customers	208.339.473	7.229.762	7.807.641	167.479.706	20.886.983	3.927.742	1.007.639
Receivables per financial derivatives designated as risk hedging instruments	375	-	-	-	-	-	375
Other assets	915.567	-	-	-	-	-	915.567
Total assets	**334.510.051**	**35.853.843**	**9.695.958**	**242.687.615**	**20.920.369**	**3.927.742**	**21.424.524**
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	86.460.699	34.668.687	21.983.512	6.230.461	21.047.758	-	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	31.749	-	-	-	-	-	31.749
Other liabilities	2.999.463	-	-	-	-	-	2.999.463
Total liabilities	**271.580.735**	**76.560.394**	**87.323.569**	**33.933.347**	**34.724.780**	**-**	**39.038.645**
Net interest rate risk sensitivity exposure at December 31, 2016	**62.929.316**	**(40.706.551)**	**(77.627.611)**	**208.754.268**	**(13.804.411)**	**3.927.742**	**(17.614.121)**

4) Financial risk management (CONTINUED)

ii. Currency Risk

Foreign currency risk is the risk of potential negative effects on the Group'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 Group's capital, calculated in accordance with NBS Decision on Capital. The Group 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 Group is exposed to the effects of exchange rate fluctuations of the most important foreign currencies on its financial position and cash flows. Group 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 Markets Department. 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 the Group in the aggregate and for the Markets and ALM Department individually.

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

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

(In RSD)

	2016
Capital requirement for currency risk at the consolidated level:	
as at December 31	192.148.636

4) Financial risk management (CONTINUED)

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

(Thousands of RSD)

	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	17.650.780	5.315	268.855	4.659	18.490.432
Loans and receivables due from customers	6.990.487	136.718.961	6.118.849	-	58.511.176	208.339.473
Fair value adjustments of risk hedged items	-	-	222.845	-	-	222.845
Receivables per financial derivatives designated as risk hedging instruments	-	375	-	-	-	375
Intangible assets	-	-	-	-	921.336	921.336
Property, plant and equipment	-	-	-	-	1.581.197	1.581.197
Investment property	-	-	-	-	1.397	1.397
Deferred tax assets	-	-	-	-	165.498	165.498
Other assets	2.393	60.396	846	71	851.861	915.567
Total assets	**7.677.304**	**193.439.027**	**6.477.878**	**359.793**	**129.448.322**	**337.402.324**
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	77.223.030	1.869.093	4.742	3.718.799	86.460.699
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
Fair value adjustments of risk hedged items	-	103	-	-	-	103
Subordinated liabilities	-	-	3.082.125	-	-	3.082.125
Provisions	-	-	-	-	961.581	961.581
Current tax liabilities	-	-	-	-	31.749	31.749
Other liabilities	68.372	1.529.768	3.067	10.361	1.387.895	2.999.463
Equity	-	-	-	-	64.859.905	64.859.905
Total liabilities and equity	**19.189.258**	**178.935.974**	**6.594.343**	**1.373.942**	**131.308.807**	**337.402.324**
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**	**2.005.181**	**(24.587)**	**(33.552)**	**(2.078.396)**	**(130.391)**

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

Notes to the Newly Consolidated Financial Statements (CONTINUED)

4) Financial risk management (CONTINUED)

(e) Concentration Risk

Concentration risk directly or indirectly arises from the Group'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 are performed by the Bank as the Parent Entity, 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 UniCredit 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 Group'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 Group. In accordance with the NBS regulations, the Group's total exposure to a single entity or a group of related entities cannot exceed 25% of the Group's total capital, net of prescribed deductible items. The aggregate amount of all Group's exposures in excess of 10% of the Group's capital cannot exceed 400% of the Group's capital. The total exposure to a single customer or a group of related customers in excess of 10% of the Group's capital must be approved by the Supervisory Board. The manner of large exposure calculation is defined under the Group's Decision on the Risk Management.

(g) Investment Risk

The Group's investment risk relates to the risk of investing in other entities and capital expenditures. The Group's investments in a non-financial sector entity cannot exceed 10% of the Group's capital, whereby such investments entail investments through which the Group acquires equity interest or shares in a non-financial sector entity. The total Group's investment in non-financial sector entities and Group's own fixed assets cannot exceed 60% of the Group'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 Group's financial result and equity, arising from the Group'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 Group'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;

The Group's exposure to this risk is significantly limited due to the Group'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 UniCredit Group, the Bank and the Group set 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 Group's financial performance and capital due to the failure of the Group to align its operations with the effective laws and regulations, professional standards, procedures for prevention of money laundering and terrorist financing and other procedures 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 Group has organized a special organizational unit whose

4) Financial risk management (CONTINUED)

competence covers compliance review.

The primary task of the compliance function is to identify and asses the Group's compliance risk and report thereon to the competent bodies in accordance with internal bylaws as well as propose plans on main compliance risks management. The Compliance Department of the Bank oversees the compliance function of the entire Group.

Moreover, the Bank's compliance function supports other organizational units of the Group in defining procedures, introducing new products or modifying the existing ones, in implementation of the laws and bylaws, rules, standards and the Group'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 Group's compliance function.

In addition, the Group's compliance function is in charge of the tasks of identification, measurement and monitoring and managing the risk of money laundering and terrorist financing commensurately to the to the volume, type and complexity of the Group's organizational structure, its risk profile and exposure to this risk.

(j) Strategic Risks

The Group's organizational structure is defined and adjusted in such a manner that there are resources dedicated to the preparation and application of crediting policies and strategies, development and implementation of the respective methodologies, rulebooks and other bylaws. The Group 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 Group's financial performance.

(k) Risk of Money Laundering and Terrorist Financing

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

Risk of money laundering and terrorist financing arises particularly as a result of the failure of banks and other entities 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 Group's internal bylaws governing this matter.

The Bank has in place adequate policies and procedures for identification, measurement, assessment and management of this risk. Within the Compliance Directorate a separate organizational unit has been formed – Unit for Prevention of Money Laundering – 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 Group'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 Group, 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. 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 UniCredit Group.

4) Financial risk management (CONTINUED)

(m) Capital Management

The Bank's regulator, the National Bank of Serbia ("NBS"), sets and monitors capital requirements for the Bank and the Banking Group. The capital requirements of the regulator are based on the Basel II framework.

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 Banking Group 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 Banking Group is required to maintain its core capital in RSD equivalent amount of EUR 10,000,000, using the official exchange rate. The Banking Group 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 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.

The Banking Group'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 Banking Group 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; and
- Positive consolidated reserves.

When calculating Tier 1 capital, the Banking Group is obligated 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: and
  - Negative consolidated reserves.

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.

When calculating Tier 2 capital, the Banking Group is obligated 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

4) Financial risk management (CONTINUED)

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 deductibles:

- 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.

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

(Thousands of RSD)

	2016
Core capital – Tier 1	
Share capital	23.607.620
Share premium	562.156
Retained earnings	32.020.480
Less:	
Intangible assets	(921.336)
Unrealized losses on securities available for sale	-
Required reserve from profit for estimated losses	(18.504.195)
Other net revaluation reserves	(11.823)
Other positive consolidated reserves	609.512
Total qualifying tier 1 capital	**37.362.414**
Supplementary capital – Tier 2	
Qualifying subordinated loans	616.271
Revaluation reserves	1.529.305
Total qualifying Tier 2 capital	**2.145.576**
Total Tier 1 capital	37.362.414
Total Tier 2 capital	2.145.576
Total regulatory capital	**39.507.990**

In 2016 the Banking Group 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).

(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 Group's Accounting Policies

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

i. Measurement of Financial Instruments

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

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on 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.

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

5) Use of estimates and judgments (CONTINUED)

inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, bond and equity 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 Group 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 Group's management reviews the carrying amounts of the its non-financial assets other than investment property and deferred tax assets in order to determine the indications of impairment losses. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. If the estimated recoverable amount of an asset is below its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense of the current period. Assessment of indicators and objective evidence of impairment requires the management to make significant estimates regarding the expected cash flows, discount rates and usage capacity of the assets subject to review.

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 Group's management needs to make prudent assessments of deferred tax assets which may be recognized, based on their period of inception and mounts, as well as on the amount of future taxable income and tax policy planning strategy.

v. Provisions for Litigations

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

Notes to the Newly Consolidated Financial Statements (CONTINUED)

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:

(Thousands of RSD)

	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	32	-	87.814	146.418	234.232
Liabilities per financial derivatives designated as risk hedging instruments	33	-	540.097	-	540.097
Losses on the fair value adjustments of risk hedged items	36	-	11	92	103
		-	**627.922**	**146.510**	**774.432**

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:

(Thousands of RSD)

	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	3.871.722	18.490.432	18.490.432
Loans and receivables due from customers	24	-	73.870.874	148.230.093	222.100.967	208.339.473
Other assets	31	-	915.567	-	915.567	915.567
		-	**89.405.151**	**180.231.900**	**269.637.051**	**255.873.695**
Deposits and other liabilities due to banks, other financial institutions and the central bank	34	-	20.872.714	67.155.645	88.028.359	86.460.699
Deposits and other liabilities due to customers	35	-	54.497.172	124.053.207	178.550.379	178.232.370
Subordinated liabilities	37	-	3.082.125	-	3.082.125	3.082.125
Current tax liabilities	18.4	-	31.749	-	31.749	31.749
Other liabilities	39	-	2.999.463	-	2.999.463	2.999.463
		-	**81.483.223**	**191.208.852**	**272.692.075**	**270.806.406**

Valuation techniques and models the Group 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.

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

6) Financial assets and liabilities - accounting classification and fair values (CONTINUED)

a portion of the loan portfolio at fixed interest rates, which causes differences between the carrying amounts and fair values of such instruments.

Notes to the Newly Consolidated Financial Statements (CONTINUED)

7) Net interest income

Net interest income includes:

(Thousands of RSD)

	2016
Interest income	
Cash and cash funds held with the central bank	274.123
Financial assets at fair value through profit and loss, held for trading	206.992
Financial assets available for sale	4.163.368
Financial assets held to maturity	3.793
Loans and receivables due from banks and other financial institutions	116.524
Loans and receivables due from customers	10.699.550
Financial derivatives and assets held for risk hedging purposes	275.021
Total interest income	15.739.371
Interest expenses	
Financial liabilities carried at fair value through profit and loss, held for trading	84.553
Liabilities per financial derivatives designated as risk hedging instruments	79.480
Deposits and other liabilities due to banks, other financial institutions and the central bank	1.645.868
Deposits and other liabilities due to customers	1.465.050
Subordinated liabilities	138.959
Total interest expenses	3.413.910
Net interest income:	**12.325.461**

In accordance with the accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 465.999 thousand.

8) Net fee and commission income

Net fee and commission income includes:

(Thousands of RSD)

	2016
Fee and commission income	
Payment transfer activities	977.855
Fees on issued guarantees and other contingent liabilities	637.726
Brokerage fees	20.154
Custody fees	390.544
Fees arising from card operations	924.032
Fees and commissions for other banking services	935.664
Total fee and commission income	**3.885.975**
Fee and commission expenses	
Payment transfer activities	152.340
Fees arising on guarantees and letters of credit	22.958
Fees arising from card operations	844.148
Fees and commissions for other banking services	135.329
Total fee and commission expenses	**1.154.775**
Net fee and commission income	**2.731.200**

9) Net gains on the financial assets held for trading

Net gains on the financial assets held for trading include:

(Thousands of RSD)

	2016
Net gains on the sales of securities held for trading	88.376
Net losses on the changes in the fair value securities held for trading	(8.545)
Net losses on the fair value changes of derivatives held for trading	(48.842)
Net gains on the financial assets held for trading	**30.989**

10) Net losses on the hedges against risks

Net losses on the hedges against risks include:

(Thousands of RSD)

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

Notes to the Newly Consolidated Financial Statements (CONTINUED)

11) Net gains on the financial assets available for sale

Net gains on the financial assets available for sale include:

(Thousands of RSD)

	2016
Gains on the sale of securities available for sale	210.242
Losses on the sale of securities available for sale	(43.986)
Net gains on the financial assets available for sale	**166.256**

12) Net foreign exchange gains and positive currency clause effects

Net foreign exchange gains and positive currency clause effects:

(Thousands of RSD)

	2016
Foreign exchange gains and positive currency clause effects	93.198.993
Foreign exchange losses and negative currency clause effects	(91.774.952)
Net foreign exchange gains and positive currency clause effects	**1.424.041**

Notes to the Newly Consolidated Financial Statements (CONTINUED)

13) Other operating income

Other operating income includes:

(Thousands of RSD)

	2016
Reversal of unreleased provisions for litigations	29.388
Reversal of unreleased provisions for other liabilities	10.977
Dividend income	342
Gains on the sale of other loans and receivables	58.609
Other operating income	44.269
Total other operating income	**143.585**

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:

(Thousands of RSD)

	2016
Loans and receivables due from customers	
Individual impairment allowance charge, net	3.029.650
Collective impairment allowance charge, net	(110.310)
	2.919.340
Contingent liabilities	
Individual impairment allowance charge /(reversal), net (Note 38)	19.970
Collective impairment allowance charge, net (Note 38)	65.164
	85.134
Write-off	10.334
Collection of receivables previously written off	(3.103)
Total	**3.011.705**

Notes to the Newly Consolidated Financial Statements (CONTINUED)

15) Staff costs

Staff costs comprise:

(Thousands of RSD)

	2016
Net salaries	1.630.862
Payroll taxes and contributions	601.795
Net provisioning for retirement benefits and unused annual leaves (vacations)	20.496
Other staff costs	499.619
Total	**2.752.772**

16) Depreciation and amortization charge

Depreciation and amortization charge includes:

(Thousands of RSD)

	2016
Amortization of intangible assets (Note 27.2)	375.931
Depreciation of investment property (Note 29)	33
Depreciation of property and equipment (Notes 28.2)	226.439
Total	**602.403**

Notes to the Newly Consolidated Financial Statements (CONTINUED)

17) Other expenses

Other expenses include:

(Thousands of RSD)

	2016
Business premises costs	95.026
Office supplies	48.944
Rental costs	674.463
IS maintenance	446.196
Property and equipment maintenance	51.677
Marketing, advertising and entertainment	324.738
Lawyer fees and other consultant services	162.028
Telecommunications and postage services	135.116
Insurance premiums	683.426
Insurance of property and security services	89.699
Professional training	16.298
Servicing	99.792
Transportation services	20.678
Employee commuting allowance	37.328
Accommodation and meal allowance – business travel costs	26.916
Other taxes and contributions	457.072
Provisions for litigations and other provisions	72.423
Losses on disposal of property, equipment and intangible assets	8.263
Other costs	407.060
Total	**3.857.143**

18) Income taxes

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

(Thousands of RSD)

	2016
Current income tax expense	(343.243)
Increase in deferred tax assets and decrease in deferred tax liabilities	22.256
Total	**(320.987)**

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

(Thousands of RSD)

	2016
Profit before taxes	6.593.765
Income tax at the legally prescribed tax rate of 15%	989.065
Tax effects of permanent differences:	
Tax effects of expenses not recognized for tax purposes	21.024
Tax effects of income adjustment	(692.432)
Tax effects of temporary differences:	
Difference between depreciation/amortization calculated for tax and financial reporting purposes	11.930
Tax effects of expenses recognized in the forthcoming period	13.656
Current income tax expense	**343.243**
Effective tax rate	5,21%

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

(Thousands of RSD)

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

18.4 The Group's calculated current income tax payable for the year 2016 amounted to RSD 343.243 thousand, of which RSD 311.494 thousand was settled through several tax advance payments. The outstanding current tax liabilities as of December 31, 2016 hence amounted to RSD 31.749 thousand.

Notes to the Newly Consolidated Financial Statements (CONTINUED)

19) Cash and cash funds held with the central bank

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

(Thousands of RSD)

	2016
RSD cash on hand	1.363.614
Gyro account balance	8.734.298
Foreign currency cash on hand	1.024.061
Other foreign currency cash funds	43.692
Obligatory foreign currency reserve held with NBS	16.920.376
	28.086.041
Impairment allowance	(775)
Balance at December 31	**28.085.266**

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%.

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:

(Thousands of RSD)

	Individual level	Group level
	2016	2016
Balance at January 1	-	-
Opening balance of the parent entity	-	(398)
Effects of acquisition through business combination	-	-
		(398)
Impairment loss:		
(Charge for the year) / reversal	-	(363)
Foreign exchange effects	-	(14)
Balance at December 31	**-**	**(775)**

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:

(Thousands of RSD)

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

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.

Notes to the Newly Consolidated Financial Statements (CONTINUED)

21) Financial assets available for sale

Financial assets available for sale comprise:

(Thousands of RSD)

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

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 Group 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:

(Thousands of RSD)

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

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:

(Thousands of RSD)

	Individual level	Group level
	2016	2016
Balance at January 1	-	-
Opening balance of the parent entity	(16.252)	(9.113)
Effects of acquisition through business combination	-	-
	(16.252)	(9.113)
Impairment loss:		
(Charge for the year) / reversal	-	8.544
Write-offs	15.629	-
Total impairment allowance	**15.629**	**8.544**
Balance at December 31	**(623)**	**(569)**

Notes to the Newly Consolidated Financial Statements (CONTINUED)

23) Loans and receivables due from banks and other financial institutions

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

(Thousands of RSD)

	2016
Foreign currency accounts held with:	
- other banks within UniCredit Group	4.953.054
- other foreign banks	698.387
Total foreign currency accounts	**5.651.441**
Overnight deposits:	
- in foreign currencies	11.112.514
Total overnight deposits	**11.112.514**
Guarantee foreign currency deposit placed for purchase and sale of securities	4.939
Foreign currency earmarked deposits	13.602
Short-term loans:	
- in RSD	1.586.635
Total short-term loans	**1.586.635**
Long-term loans:	
- in RSD	90.070
Total long-term loans	**90.070**
Other foreign currency loans	2.256
Finance lease receivables in RSD	**61.090**
Impairment allowance	**(32.115)**
Balance at December 31	**18.490.432**

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

(Thousands of RSD)

	Individual level	Group level
	2016	2016
Balance at January 1	-	-
Opening balance of the parent entity	(1)	(15.747)
Effects of acquisition through business combination	-	(1.309)
	(1)	(17.056)
Impairment loss		
(Charge for the year) / reversal	(2)	(14.649)
Foreign exchange effects	-	(407)
Write-off	**-**	**-**
Total impairment allowance	(2)	(15.056)
Balance at December 31	**(3)**	**(32.112)**

24) Loans and receivables due from customers

24.1 Loans and receivables due from customers include:

(Thousands of RSD)

	2016
Short-term loans	
in RSD	25.565.936
in foreign currencies	1.766.592
Total short-term loans	**27.332.528**
Long-term loans	
in RSD	169.111.255
in foreign currencies	16.342.875
Total long-term loans	**185.454.130**
Receivables in respect of acceptances, sureties and payments made per guarantees:	
in RSD	182.225
in foreign currencies	3.834.365
Total	**4.016.590**
RSD factoring receivables	508.122
Finance lease receivables in RSD	7.503.481
Impairment allowance	(16.475.378)
Balance at December 31	**208.339.473**

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:

(Thousands of RSD)

	Individual level	Group level
	2016	2016
Balance at January 1	-	-
Opening balance of the parent entity	(19.899.044)	(1.005.727)
Effects of acquisition through business combination	(53.318)	(438.102)
	(19.952.362)	(1.443.829)
Impairment loss		
(Charge for the year) / reversal	(2.935.902)	106.385
Foreign exchange effects	(268.446)	(17.031)
Interest income adjustment	(240.968)	-
Portfolio sale effects	366.717	-
Write-offs	7.910.058	-
Total impairment allowance	**4.831.459**	**89.354**
Balance at December 31	**(15.120.903)**	**(1.354.475)**

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

(Thousands of RSD)

	2016		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	6.765.010	(117.902)	6.647.108
Corporate customers	147.151.497	(12.496.811)	134.654.686
Retail customers	70.898.344	(3.860.665)	67.037.679
Balance at December 31	**224.814.851**	**(16.475.378)**	**208.339.473**

Notes to the Newly Consolidated Financial Statements (CONTINUED)

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 Group'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 Group 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 Group 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.

Finance lease receivables relate to receivables from legal entities for the purchase of vehicles and equipment at interest rates ranging from 1.99% to 6.75% over the lease term from 2 to 5 years.

Finance lease receivables relate to receivables from private individuals for the purchase of automobiles at average interest rate of 3.29% and repayment period from 4 to 5 years.

As a hedge against credit risk, the Group 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.

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:

(Thousands of RSD)

	2016.
Corporate customers	
- Energy	1.534.998
- Agriculture	5.890.471
- Construction industry	8.847.057
- Mining and industry	53.098.860
- Trade	31.110.658
- Services	20.233.391
- Transportation and logistics	21.684.422
- Other	4.751.640
	147.151.497
Public sector	6.765.010
Retail customers	
- Private individuals	68.122.231
- Enterpreneurs	2.776.113
	70.898.344
Total	**224.814.851**
Impairment allowance	**(16.475.378)**
Balance, December 31	**208.339.473**

The Group' 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.

Notes to the Newly Consolidated Financial Statements (CONTINUED)

25) Fair value adjustments of risk hedged items

Fair value adjustments of risk hedged items include:

(Thousands of RSD)

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

As a hedge against the interest rate risk inherent in loans approved in CHF at fixed interest rates, the Group implemented macro fair value hedging (Note 33). As of December 31, 2016 an effectiveness test was performed, which showed that the hedging was highly effective.

26) Receivables per financial derivatives designated as risk hedging instruments

Receivables per financial derivatives designated as risk hedging instruments comprise:

(Thousands of RSD)

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

The Group 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 36)..

Notes to the Newly Consolidated Financial Statements (CONTINUED)

27) Intangible assets

27.1 Intangible assets, net:

(Thousands of RSD)

	2016
Intangible assets	725.467
Investments in progress	195.869
Balance at December 31	**921.336**

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

(Thousands of RSD)

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2016	-	-	-
Opening balance of the Parent Entity	2.665.406	150.398	2.815.804
Effects of acquisition through business combination	15.898	-	15.898
	2.681.304	**150.398**	**2.831.702**
Additions	**312.418**	**48.149**	**360.567**
Disposal and retirement	-	-	-
Other	-	(2.678)	(2.678)
Balance at December 31, 2016	**2.993.722**	**195.869**	**3.189.591**
Accumulated amortization and impairment losses			
Balance at January 1, 2016			
Opening balance of the Parent Entity	1.881.686	-	1.881.686
Effects of acquisition through business combination	10.638	-	10.638
	1.892.324	-	1.892.324
Amortization charge for the year	375.931	-	375.931
Disposal and retirement	-	-	-
Other	-	-	-
Balance at December 31, 2016	**2.268.255**	**-**	**2.268.255**
Net book value at December 31, 2016	**725.467**	**195.869**	**921.336**

28) Property, plant and equipment

28.1 Property, plant and equipment comprise:

(Thousands of RSD)

	2016
Buildings	580.714
Equipment and other assets	731.549
Leasehold improvements	222.018
Investments in progress	46.916
Balance at December 31	**1.581.197**

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

(Thousands of RSD)

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance at January 1, 2016	-	-	-	-	-
Opening balance of the parent entity	671.034	1.387.988	388.889	25.543	2.473.454
Effects of acquisition through business combination	-	23.167	1.115	-	24.282
	671.034	**1.411.155**	**390.004**	**25.543**	**2.497.736**
Additions	-	2.944	-	627.178	630.122
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**	**1.840.068**	**481.302**	**46.916**	**3.039.320**
Accumulated depreciation and impairment losses					
Balance at January 1, 2016	-	-	-	-	-
Opening balance of the parent entity	77.008	930.993	283.713	-	1.291.714
Effects of acquisition through business combination	-	21.370	573	-	21.943
	77.008	**952.363**	**284.286**	**-**	**1.313.657**
Depreciation charge for the year	14.006	172.031	40.402	-	226.439
Impairment losses	-	-	-	-	-
Disposal and retirement	(694)	(12.851)	(65.404)	-	(78.949)
Other	-	(3.024)	-	-	(3.024)
Balance at December 31, 2016	**90.320**	**1.108.519**	**259.284**	**-**	**1.458.123**
Net book value at December 31, 2016	**580.714**	**731.549**	**222.018**	**46.916**	**1.581.197**

Notes to the Newly Consolidated Financial Statements (CONTINUED)

29) Investment property

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

(Thousands of RSD)

	Investment property	Investments in progress	Total
Cost			
Balance at January 1, 2016	-	-	-
Opening balance of the parent entity	1.642	-	1.642
Effects of acquisition through business combination	-	-	-
	1.642	-	1.642
Balance at December 31, 2016	1.642	-	1.642
Accumulated depreciation and impairment losses			
Balance at January 1, 2016	-	-	-
Opening balance of the parent entity	212	-	212
Effects of acquisition through business combination	-	-	-
	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**

30) Deferred tax assets and liabilities

30.1 Deferred tax assets and liabilities relate to:

(Thousands of RSD)

	2016		
	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	48.841	-	48.841
Deferred tax assets in respect of unrecognized current year expenses	114.570	-	114.570
Deferred tax assets in respect of actuarial losses based on defined benefit plans	2.087	-	2.087
Total	**165.498**	**-**	**165.498**

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

(Thousands of RSD)

	Balance at January 1 (1)	Opening Balance of the Parent Entity (2)	Effects of Acquisition through Business Combination (3)	Total (1+2+3)	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	906	39.942	8.900	-	48.842
Deferred tax assets in respect of unrecognized expenses	-	101.214	-	101.214	13.356	-	114.570
Deferred tax assets in respect of actuarial losses based on defined benefit plans	-	1.706	-	1.706	-	380	2.086
Total	**-**	**141.956**	**906**	**142.862**	**22.256**	**380**	**165.498**

Notes to the Newly Consolidated Financial Statements (CONTINUED)

31) Other assets

31.1 Other assets relate to:

(Thousands of RSD)

	2016
Other assets in RSD:	
Fee and commission receivables calculated per other assets	196.199
Advances paid, deposits and retainers	9.311
Receivables per actual costs incurred	369.249
Receivables from the RS Health Insurance Fund	59.908
Other receivables from operations	458.926
Assets acquired in lieu of debt collection	60.853
Receivables from prepaid taxes and contributions	165
Receivables from employees in RSD	3.215
Other investments	4.992
Accrued other income receivables	14.232
Deferred other expenses	43.448
Total	**1.220.498**
Other assets in foreign currencies:	
Fee and commission receivables calculated per other assets	3.850
Advances paid, deposits and retainers	109
Foreign currency receivables from employees	3.667
Other receivables from operations	13.696
Accrued other income receivables	17.560
Total	**38.882**
Impairment allowance	**(343.813)**
Balance at December 31	**915.567**

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

(Thousands of RSD)

	Individual level	Group level
	2016	2016
Balance at January 1	-	-
Opening balance of the parent entity	(294.594)	(10.952)
Effects of acquisition through business combination	(3.591)	-
	(298.185)	(10.952)
Impairment loss		
(Charge for the year)/reversal	(93.746)	10.393
Foreign exchange effects	(203)	-
Portfolio sales effects	472	-
Write-off	48.408	-
Total impairment allowance	**(45.069)**	**10.393**
Balance at December 31	**(343.254)**	**(559)**

31.3 Other investments in associates comprise equity investments of up to 10% in the following companies:

(Thousands of RSD)

	2016
FAP Priboj a.d.	4.737
Fund for Supplementary Education of Young Farmers	147
Tržište novca a.d. [Money Market, shareholding company]	108
	4.992
Impairment allowance	(4,992)
Balance at December 31	**0**

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

32) 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:

(Thousands of RSD)

	2016
Instrument types:	
- currency swaps and forwards	93.814
- interest rate swaps	140.418
Balance at December 31	**234.232**

Notes to the Newly Consolidated Financial Statements (CONTINUED)

33) Liabilities per financial derivatives designated as risk hedging instruments

Liabilities per financial derivatives designated as risk hedging instruments include:

(Thousands of RSD)

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

The Group 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).

34) Deposits and other liabilities due to banks, other financial institutions and the central bank

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

(Thousands of RSD)

	2016
Demand deposits:	
- in RSD	1.446.791
- in foreign currencies	1.326.813
Total demand deposits	**2.773.604**
Overnight deposits:	
- in RSD	539.588
- in foreign currencies	21.682.567
Total overnight deposits	**22.222.155**
Short-term deposits:	
- in RSD	1.386.002
- in foreign currencies	13.576.227
Total short-term deposits	**14.962.229**
Long-term deposits:	
- in RSD	547.233
- in foreign currencies	18.151.034
Total long-term deposits	**18.698.267**
Long-term borrowings:	
- in foreign currencies	27.740.483
Total long-term borrowings:	27.740.483
Other financial liabilities:	
- in foreign currencies	63.961
Total other financial liabilities	**63.961**
Balance at December 31	**86.460.699**

Short-term RSD deposits were placed by other banks for periods of up to a year at annual interest rates from 2% to3,05%, 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.

34.2 Breakdown of foreign borrowings from banks is provided below:

(Thousands of RSD)

	2016
European Bank for Reconstruction and Development (EBRD)	6.776.790
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	1.882.732
European Investment Bank, Luxembourg	2.197.981
International Financial Corporation, Washington	1.805.921
European Fund for Southeast Europe SA, Luxembourg	1.520.280
MIDF B.V, Netherlands	1.173.869
Green for Growth Fund, Southeast Europe, Luxembourg	1.210.486
UniCredit Bank Austria AG	4.829.444
EFSE Netherlands B.V.	6.342.980
Balance at December 31	**27.740.483**

The above listed long-term borrowings were approved to the Group for periods from 3 to 15 years at nominal interest rates ranging up to 4,70% per annum.

Notes to the Newly Consolidated Financial Statements (CONTINUED)

35) Deposits and other liabilities due to customers

35.1 Deposits and other liabilities due to customers comprise:

(Thousands of RSD)

	2016
Demand deposits:	
- in RSD	42.078.829
- in foreign currencies	69.595.210
Total demand deposits	**111.674.039**
Overnight deposits:	
- in RSD	5.278.666
- in foreign currencies	343.800
Total overnight deposits	**5.622.466**
Short-term deposits:	
- in RSD	11.072.515
- in foreign currencies	23.448.515
Total short-term deposits	**34.521.030**
Long-term deposits:	
- in RSD	1.618.759
- in foreign currencies	12.835.532
Total long-term deposits	**14.454.291**
Long-term borrowings	
- in foreign currencies	10.478.736
Total long-term borrowings	**10.478.736**
Other financial liabilities	
- in RSD	208.014
- in foreign currencies	1.273.794
Total other financial liabilities	**1.481.808**
Balance at December 31	**178.232.370**

35.2 Breakdown of deposits and other liabilities due to customers:

(Thousands of RSD)

	2016
Public sector	4.273.234
Corporate customers	108.674.462
Retail customers	54.805.938
Long-term borrowings (Note 35.3)	10.478.736
Balance at December 31	**178.232.370**

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

35) Deposits and other liabilities due to customers (CONTINUED)

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.

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

(Thousands of RSD)

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

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

36) Fair value adjustments of risk hedged items

Fair value adjustments of risk hedged items include:

(Thousands of RSD)

	2016
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 Group 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.

37) Subordinated liabilities

Subordinated liabilities relate to:

(Thousands of RSD)

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

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 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 Group's liquidation or bankruptcy, such liabilities will be settled only after settlement of liabilities to all other creditors.

Notes to the Newly Consolidated Financial Statements (CONTINUED)

38) Provisions

Provisions relate to:

(Thousands of RSD)

	2016
Individual provisions for off-balance sheet items	99.508
Group provisions for off-balance sheet items	197.727
Provisions for other long-term employee benefits	67.622
Provisions for potential litigation losses	247.839
Provisions for other liabilities	348.885
Balance at December 31	**961.581**

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

(Thousands of RSD)

	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	-	-	-	-	-	-
Opening balance of the parent entity	79.538	132.563	48.354	216.865	359.862	837.182
Effects of acquisition through business combination	-	-	603	3.905		4.508
	79.538	132.563	48.957	220.770	359.862	841.690
Charge for the year:						
- in the income statement	94.887	171.443	17.069	72.422	-	355.821
- in the statement of other comprehensive income	-	-	2.533	-	-	2.533
	94.887	171.443	19.602	72.422	-	358.354
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**	**67.622**	**247.839**	**348.885**	**961.581**

39) Other liabilities

Other liabilities include:

(Thousands of RSD)

	2016
Advances received, deposits and retainers:	
- in RSD	71.593
- in foreign currencies	3.139
Trade payables:	
- in RSD	182.145
- in foreign currencies	498.105
Other liabilities:	
- in RSD	563.428
- in foreign currencies	863.897
Fees and commissions payable per other liabilities:	
- in RSD	5.762
- in foreign currencies	14.230
Deferred other income:	
- in RSD	162.405
- in foreign currencies	82.037
Accrued other expenses:	
- in RSD	318.445
- in foreign currencies	43.350
Liabilities per managed funds	51.069
Taxes and contributions payable	139.858
Balance at December 31	2.999.463

Notes to the Newly Consolidated Financial Statements (CONTINUED)

40) Reconciliation of outstanding balances of receivables and liabilities with creditors and debtors

In accordance with the Law on Accounting, the Group reconciled its balances of payables and receivables with its debtors and creditors. Out of the total amount of receivables for which the Group delivered outstanding item statement forms for balance reconciliation, unreconciled balances totaled RSD 574.245 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 Group 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.

41) Equity

41.1 Equity is comprised of:

(Thousands of RSD)

	2016
Issued capital – share capital	23.607.620
Share premium	562.156
Retained earnings	6.882.290
Reserves	33.807.839
Balance at December 31	**64.859.905**

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

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

In accordance with the reorganization of the UniCredit 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, as the parent entity.

Reserves from fair value adjustments relate to the net cumulative changes in the fair values of securities available for sale.

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

(Thousands of RSD)

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

42) Cash and cash equivalents

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

(Thousands of RSD)

	2016
In RSD:	
Gyro account (Note 19)	8.734.298
Cash on hand (Note 19)	1.363.614
	10.097.912
In foreign currencies:	
Foreign currency accounts (Note 23)	5.651.441
Cash on hand (Note 19)	1.024.061
Other cash funds (Note 19)	43.692
	6.719.194
Balance at December 31	**16.817.106**

43) Business combinations

43.1 Acquisition of equity interest in UniCredit Partner d.o.o, Beograd:

Under the Agreement on the Sale and Purchase of Equity Interest executed by and between the Bank and Company Allegro Leasing Gesellschaft, Vienna and the required approval obtained from the National Bank of Serbia, in January 2016 the Bank purchased an entire (100%) equity interest in UniCredit Partner d.o.o, Beograd at the agreed price of EUR 927.000 (RSD 112.644 thousand), whereby the said entity became the Bank's subsidiary.

(Thousands of RSD)

Assets and liabilities acquires as of	January 1, 2016
Assets	
Inventories	91
Trade receivables	2.191
Other receivables	65
Short-term financial investments	165.000
Cash and cash equivalents	9.903
Prepayments	1.013
Total assets	**178.263**
Equity and liabilities	
Equity	
Issued capital	2.002
Retained earnings	171.205
Non-current provisions and liabilities	3.906
Current liabilities	1.150
Total equity and liabilities	**178.263**
Consideration paid upon acquisition	112.644
Net assets of the acquired subsidiary	173.207
Effect of acquisition through business combination	**60.563**

Given that this was a business combination involving entities under joint control, the effect of acquisition is presented within retained earnings.

43.2. Acquisition of equity interest in UniCredit Leasing d.o.o, Beograd

Under the Agreement on the Sale and Purchase of Equity Interest executed by and between the Bank and UniCredit Leasing S.p.A. and the required approval obtained from the National Bank of Serbia, in January 2016 the Bank purchased an entire (100%) equity interest in UniCredit Leasing d.o.o., Beograd at the agreed price of RSD 122,57 thousand, whereby the said entity became the Bank's subsidiary.

(Thousands of RSD)

Assets and liabilities acquires as of	January 1, 2016
Assets	
Cash and cash equivalents	176.181
Financial assets held with banks	480.527
Other financial investments and derivatives	501.490
Finance lease receivables	7.747.788
Repossessed leased assets and inventories	6.611
Intangible assets	5.260
Property, plant and equipment	2.339
Deferred tax assets	906
Other assets	24.164
Total assets	**8.945.266**
Liabilities and equity	
Financial liabilities per borrowings from banks and other financial institutions	8.179.837
Other financial liabilities and derivatives	27.974
Provisions	603
Current tax liabilities	13.293
Other liabilities	174.610
Total liabilities	**8.396.317**
Equity	
Limited liability company' permanent investments, share capital, share premium	1.078.133
Accumulated losses	(529.184)
Total equity	**548.949**
Total liabilities and equity	**8.945.266**
Consideration paid upon acquisition	-
Net assets of the acquired subsidiary	548.949
Effect of acquisition through business combination	**548.949**

Given that this was a business combination involving entities under joint control, the effect of acquisition is presented within retained earnings.

44) Contingent liabilities and commitments

44.1 Litigation

As of December 31, 2016 there were 177 legal suits filed against the Group (including 4 labor lawsuits) with claims totaling RSD 666.669 thousand, which amount does not include the labor lawsuits. In 8 of these proceedings plaintiffs are legal entities, in 165 proceedings private individuals appear as plaintiffs.

The Group made provisions of RSD 247.839 thousand in respect of the legal suits filed against it (Note 38). The aforesaid amount of provisions includes those for the labor lawsuits filed.

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

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

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

(Thousands of RSD)

	2016
Commitments due	
- within a year	409.236
- from 1 to 5 years	1.588.241
- after 5 years	1.343.996
Total	**3.341.473**

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

(Thousands of RSD)

	2016
Contingent liabilities	
Payment guarantees	
- in RSD	11.063.135
- in foreign currencies	9.699.275
Performance bonds	
- in RSD	28.487.153
- in foreign currencies	6.028.667
Letters of credit	
- in RSD	27.718
- in foreign currencies	4.208.584
Irrevocable commitments for undrawn loans	19.006.574
Other irrevocable commitments	11.331.633
Balance at December 31	**89.852.739**

44.4 Breakdown of irrevocable commitments is provided below:

(Thousands of RSD)

	2016
Commitments	
Current account overdrafts approved	1.322.601
Unused portion of approved credit card loan facilities	986.087
Unused framework loans	14.706.730
Letters of intent	1.991.156
Other irrevocable commitments	11.331.633
Balance at December 31	**30.338.207**

44.5 Undrawn foreign loan facility funds as of December 31, 2016 amounted to RSD 10.929.274 thousand.

45) Related party disclosures

The Group is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the 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:

(Thousands of RSD)

		2016
Statement of financial position		
Loans and receivables due from banks and other financial institutions		
1.	UniCredit Bank Austria AG, Vienna	381.052
2.	UniCredit Bank AG, Munich	20.229
3.	UniCredit Bulbank, Sofia	23
4.	UniCredit S.p.A, Milano	14.407.879
5.	UniCredit Banka Slovenia, Ljubljana	331
6.	Zagrebačka banka d.d, Zagreb	4.220
7.	UniCredit Bank Hungary Z.r.t, Hungary	7.469
8.	UniCredit Bank ZAO Moscow	6.943
9.	Bank Polska Kasa Opieki SA	2.692
		14.830.838
Loans and receivables due from customers		
1.	Bank's Management Board	11.186
2.	UCTAM d.o.o, Beograd	104.719
		115.905
Other assets		
1.	UniCredit S.p.A., Milan	12.165
2.	UniCredit Bank Austria AG, Vienna	222.077
3.	UniCredit Bank AG, Munich	3.174
4.	Zagrebačka banka d.d. , Zagreb	282
5.	UniCredit Bank BIH	6
6.	UniCredit Business Partner S.C.P.A., Milan	3.017
7.	UniCredit Banka Slovenia, Ljubljana	4
8.	UniCredit Bank ZAO Moscow	6
9.	UniCredit Bank Hungary Z.r.t., Hungary	2.696
10.	UniCredit Rent d.o.o., Beograd	101
11.	UCTAM d.o.o., Beograd	1
12.	UNICREDIT S.p.A. Zweigniederlassung Wien	30
		243.559
Deposits and other liabilities due to banks, other financial institutions and the central bank		
1.	UniCredit Bank Austria AG, Vienna	21.523.116
2.	UniCredit Bank a.d., Banja Luka	252.008
3.	Zagrebačka banka d.d., Zagreb	39.985
4.	UniCredit Bank AG, London	12
5.	UniCredit Banka Slovenia, Ljubljana	6.933
6.	UniCredit Bank AG, Munich	2.928
7.	UniCredit Bank Hungary Z.r.t., Hungary	1.500
8.	UniCredit Bulbank, Sofia	2
9.	UniCredit S.p.A., Milan	29.267.389
10.	UniCredit Bank Czech Republic	2.420
11.	UniCredit Bank ZAO Moscow	193
12.	Bank Polska Kasa Opieki SA	111
		51.096.597

Notes to the Newly Consolidated Financial Statements (CONTINUED)

45) Related party disclosures (CONTINUED)

(Thousands of RSD)

		2016
Statement of financial position		
Deposits and other liabilities due to customers		
1.	Bank's Management Board	21.122
2.	UniCredit Rent d.o.o., Beograd	13.528
3.	BA CA Leasing Deutschland GmbH, Germany	4.621
4.	Ambassador Parc Dedinje d.o.o., Beograd	414.801
5.	UNICREDIT CAIB AG, Vienna	65
6.	UCTAM d.o.o., Beograd	43.613
		497.750
Subordinated liabilities		
1.	UniCredit Bank Austria AG, Vienna	3.082.125
		3.082.125
Other liabilities		
1.	UniCredit Bank AG, Munich	3.387
2.	UniCredit Bank Hungary Z.r.t., Hungary	190
3.	UniCredit S.p.A., Milan	223.703
4.	UniCredit Rent d.o.o., Beograd	201
5.	UBIS G.m.b.H, Vienna	291.324
6.	UniCredit Business Integrated Solutions S.C.P.A, Czech Republic	2.682
		521.487
Liabilities, net as of December 31		**40.007.657**

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

(Thousands of RSD)

	2016
Income statement	
Interest income	8.671
Interest expenses	(1.100.120)
Fee and commission income and other income	139.663
Fee and commission expenses and other expenses	(511.910)
Expenses, net as of December 31	**(1.463.696)**

Total gross salaries and other remunerations of the Bank's Management Board members amounted to RSD 21.877 thousand in 2016.

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 consolidated financial statements.

Belgrade, February 24, 2017
Signed by the management of UniCredit Bank Serbia JSC Belgrade:

Csilla Ihász
Management Board CEO

Alen Dobrić
Management Board Member

Sandra Vojnović
Director of the Strategy and Finance Division

Miloš Belić
Head of Finance Department

Mirjana Kovačević
Head of Accounting Department

Execution & Discipline

We know that to do well we must be extremely disciplined in the execution of everything we do. In addition to our strategic plan, we have performance measures in place which provide all our teams with clear targets and regularly follow-up on progress to ensure we are always on track.