UNICREDIT BANK SRBIJA A.D., BEOGRAD

Unconsolidated Financial Statements
Year Ended December 31, 2017 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying unconsolidated financial statements of UniCredit Bank Srbija A.D., Beograd (hereinafter: the "Bank") enclosed on pages 2 to 83 which comprise the statement of the financial position as of December 31, 2017 and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Other Matter

As disclosed in Note 2(a) to the unconsolidated financial statements, the Bank is a parent entity and its consolidated financial statements prepared in accordance with the International Financial Reporting Standards were issued separately. The Bank's consolidated financial statements as of and for the year ended December 31, 2017 were audited by us and in our auditors' report dated February 23, 2018 we expressed an unqualified opinion.

Belgrade, February 23, 2018

BEOGRAD
IV

Miroslav Tončić
Certified Auditor

STATEMENT OF FINANCIAL POSITION
As of December 31, 2017
(Thousands of RSD)

	Note	December 31, 2017	December 31, 2016
Cash and cash funds held with the central bank	3.k, 20	29,661,017	28,085,266
Financial assets at fair value through profit and loss, held for trading	3.j, 3.o, 21	2,281,049	2,315,317
Financial assets available for sale	3.j, 3.p, 22	82,171,636	76,320,664
Financial assets held to maturity	3.j, 3.n, 23	77,886	42,957
Loans and receivables due from banks and other financial institutions	3.j, 3.m, 24	11,825,650	20,282,162
Loans and receivables due from customers	3.j, 3.m, 25	232,553,107	201,321,112
Fair value adjustments of risk hedged items	3.l, 26	192,251	222,845
Receivables per financial derivatives designated as risk hedging instruments	3.l,27	9,195	375
Equity investments in subsidiaries	3.z, 28	112,644	112,644
Intangible assets	3.r, 3.t, 29	1,162,458	917,810
Property, plant and equipment	3.q, 3.t, 30	1,551,389	1,577,325
Investment property	31	1,364	1,397
Deferred tax assets	3.i, 32	171,179	164,592
Other assets	33	977,727	867,668
Total assets		362,748,552	332,232,134
Financial liabilities carried at fair value through profit and loss, held for trading	3.j, 34	207,003	234,232
Liabilities per financial derivatives designated as risk hedging instruments	3.l, 35	448,794	540,097
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.j, 3.u, 36	99,533,573	82,090,424
Deposits and other liabilities due to customers	3.j, 3.u, 37	186,658,833	178,232,370
Fair value adjustments of risk hedged items	3.l, 38	-	103
Subordinated liabilities	3.j, 3.u, 39	2,718,490	3,082,125
Provisions	3.v, 3.y, 40	1,072,531	953,369
Current tax liabilities	3.i, 19.4	178,821	29,200
Other liabilities	41	2,590,012	2,865,999
Total liabilities		293,408,057	268,027,919
Issued (share) capital	43.1	24,169,776	24,169,776
Profit	43.1	6,633,319	6,226,600
Reserves	43.1	38,537,400	33,807,839
Total equity		69,340,495	64,204,215
Total liabilities and equity		362,748,552	332,232,134

Belgrade, February 22, 2018

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

Csilla Ihász
Management Board Chairperson

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

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

Mirjana Kovačević
Head of Accounting Department

INCOME STATEMENT
Year Ended December 31, 2017
(Thousands of RSD)

	Note	2017	2016
Interest income	3.d, 7	14,849,191	15,373,032
Interest expenses	3.d, 7	(2,700,513)	(3,285,734)
Net interest income		12,148,678	12,087,298
Fee and commission income	3.e, 8	4,298,028	3,807,495
Fee and commission expenses	3.e, 8	(1,348,524)	(1,147,688)
Net fee and commission income		2,949,504	2,659,807
Net gains on the financial assets held for trading	3.f, 9	248,467	30,989
Net losses on the hedges against risks	3.g,10	(33,865)	(3,744)
Net gains on the financial assets available for sale	3.p, 11	261,172	166,256
Net foreign exchange gains and positive currency clause effects	3.c, 12	1,371,936	1,432,640
Net investment income	13	120,379	-
Other operating income	14	136,718	154,246
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	3.j, 15	(2,704,361)	(3,000,609)
Staff costs	16	(2,816,321)	(2,635,677)
Depreciation and amortization charge	3.q, 3.r, 17	(535,679)	(597,671)
Other expenses	18	(4,048,987)	(3,768,937)
Profit before taxes		7,097,641	6,524,598
Income tax	3.i, 19	(464,322)	(297,998)
Profit after taxes		6,633,319	6,226,600
Earnings per share			
Basic earnings per share (in RSD, rounded)	43.2	2,810	2,638
Diluted earnings per share (in RSD, rounded)	43.2	2,810	2,638

Belgrade, February 22, 2018

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

Csilla Ihász
Management Board Chairperson

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

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

Mirjana Kovačević
Head of Accounting Department

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2017
(Thousands of RSD)

	Note	2017	2016
PROFIT FOR THE YEAR		6,633,319	6,226,600
Components of other comprehensive income that cannot be reclassified to profit or loss			
- Actuarial gains/(losses)		9,856	(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		(255,417)	(834,514)
(Losses)/gains from taxes on the other comprehensive income for the year	32.2	(1,478)	380
Total negative other comprehensive income for the year	43.3	(247,039)	(836,667)
TOTAL POSITIVE INCOME FOR THE YEAR		6,386,280	5,389,933

Belgrade, February 22, 2018

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

Csilla Ihász
Management Board Chairperson

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

Mirjana Kovačević
Head of Accounting Department

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2017
(Thousands of RSD)

	Note	2017	2016
ISSUED CAPITAL			
Balance, beginning of year		23,607,620	23,607,620
Balance, end of year	43.1	23,607,620	23,607,620
SHARE PREMIUM			
Balance, beginning of year		562,156	562,156
Balance, end of year	43.1	562,156	562,156
OTHER RESERVES FROM PROFIT			
Balance, beginning of year		32,020,480	28,254,097
Prior year's retained earnings distribution		4,976,600	3,766,383
Balance, end of year	43.1	36,997,080	32,020,480
REVALUATION RESERVES			
Balance, beginning of year		1,799,182	2,807,920
Effect of the market value adjustment of securities available for sale		(253,446)	(1,008,738)
Balance, end of year	43.1	1,545,736	1,799,182
UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE			
Balance, beginning of year		-	(174,224)
Effect of the market value adjustment of securities available for sale		(1,971)	174,224
Balance, end of year	43.1	(1,971)	-
ACTUARIAL LOSSES PER DEFINED BENEFIT PLANS			
Balance, beginning of year		(11,823)	(9,670)
Movements during the year		8,378	(2,153)
Balance, end of year	43.1	(3,445)	(11,823)
RETAINED EARNINGS			
Balance, beginning of year		6,226,600	6,366,383
Prior year's profit distribution – allocation to dividend		(1,250,000)	(2,600,000)
Prior year's profit distribution – allocation to reserves		(4,976,600)	(3,766,383)
Profit for the year		6,633,319	6,226,600
Balance, end of year	43.1	6,633,319	6,226,600
TOTAL EQUITY		**69,340,495**	**64,204,215**

Belgrade, February 22, 2018

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

Csilla Ihász
Management Board Chairperson

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

Mirjana Kovačević
Head of Accounting Department

STATEMENT OF CASH FLOWS
Year Ended December 31, 2017
(Thousands of RSD)

	Note	2017	2016
Cash inflows from operating activities		25,127,550	21,268,765
Interest receipts		11,980,152	11,435,217
Fee and commission receipts		4,462,450	3,825,544
Receipts of other operating income		8,684,828	6,007,662
Dividend receipts and profit sharing		120	342
Cash outflows from operating activities		(18,953,313)	(14,902,959)
Interest payments		(2,541,375)	(3,457,497)
Fee and commission payments		(1,356,084)	(1,147,232)
Payments to, and on behalf of employees		(2,963,865)	(2,554,429)
Taxes, contributions and other duties paid		(533,970)	(436,661)
Payments for other operating expenses		(11,558,019)	(7,307,140)
Net cash inflows from operating activities prior to changes in loans and deposits		6,174,237	6,365,806
Decrease in loans and increase in deposits received and other liabilities		42,447,037	49,432,917
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		42,447,037	48,884,992
Increase in loans and decrease in deposits received and other liabilities		(30,726,233)	(21,333,028)
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(30,726,233)	(21,333,028)
Net cash generated by operating activities before income taxes		17,895,041	34,465,695
Income taxes paid		(320,025)	(390,309)
Dividends paid		(1,250,000)	(5,100,000)
Net cash generated by operating activities		16,325,016	28,975,386
Cash inflows from investing activities		120,379	-
Other proceeds from investing activities		120,379	-
Cash outflows from investing activities		(3,834,761)	(3,562,103)
Outflows per investments in investment securities		(3,066,018)	(2,490,290)
Equity investments in subsidiaries, associates and joint ventures		-	(112,644)
Purchases of intangible assets, property, plant and equipment		(768,743)	(959,169)
Net cash used in investing activities		(3,714,382)	(3,562,103)
Cash outflows from financing activities		(6,543,717)	(28,966,596)
Net cash used in repayment of borrowings		(6,543,717)	(28,966,596)
Net cash used in financing activities		(6,543,717)	(28,966,596)

STATEMENT OF CASH FLOWS (Continued)

Year Ended December 31, 2017
(Thousands of RSD)

	Note	2017	2016
Total cash inflows		67,694,966	70,701,682
Total cash outflows		(61,628,049)	(74,254,995)
Net cash increase/(decrease)		6,066,917	(3,553,313)
Cash and cash equivalents, beginning of year	3.k, 44	16,817,106	20,407,612
Foreign exchange losses		(78,125)	(37,193)
CASH AND CASH EQUIVALENTS, END OF YEAR	3.k, 44	22,805,898	16,817,106

Belgrade, February 22, 2018

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

Csilla Ihász
Management Board Chairperson

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

Mirjana Kovačević
Head of Accounting Department

1. BANK'S ESTABLISHMENT AND ACTIVITY

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

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

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

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

As of December 31, 2017, the Bank was comprised of the Head Office in Belgrade and 71 branch offices located in towns throughout the Republic of Serbia (December 31, 2016: 71 branch offices).

As of December 31, 2017, the Bank had 1,254 employees (December 31, 2015: 1,205 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

(a) Basis of Preparation and Presentation of Financial Statements

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

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS nos. 71/2014 and 135/2014).

The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards. The Bank holds a sole (100%) equity interest in the subsidiaries UniCredit Leasing d.o.o., Beograd and UniCredit Partner d.o.o., Beograd. In the accompanying unconsolidated financial statements the Bank's equity investments in subsidiaries are stated at cost. The Bank's consolidated financial statements for 2017 were issued on February 23, 2018.

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

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

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

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

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

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

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

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

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

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

(b) Initial application of amendments to the existing standards effective for the current reporting period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) have been effective over the current reporting period:

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after January 1, 2017); and
- Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017).

Adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

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

c) New standards and amendments to the existing standards in issue not yet adopted

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after January 1, 2019);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021);
- 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);
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018);
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018); and
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after January 1, 2019).

The Bank's management has elected not to adopt these new standards, amendments to existing standards and new interpretations in advance of their effective dates. The management anticipates that the adoption of these Standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

(d) Comparative Information

Comparative information in the accompanying financial statements represents the data from the Bank's financial statements for 2016.

(e) Use of Estimates

Preparation of the financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses. 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 following periods.

(f) Statement of Compliance

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

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

(g) First-Time Adoption of IFRS 9

In accordance with IFRS 9, effective as of January 1, 2018, the Bank has changed its accounting policies on recognition, classification and measurement of its financial assets and labilities as well as those on impairment of the financial assets.

The Bank did not apply provision of IFRS 9 to the earlier financial reporting periods. Effects of adjustments of the financial assets and liabilities' carrying values as of the Standard's first-time adoption date were recognized within retained earnings as the 2018 opening balance adjustment. The Bank will continue to apply provisions of IAS 39 relating to the risk hedging accounting.

(i) Classification and Measurement of Financial Assets and Liabilities

In accordance with IFRS 9 classification and measurement of financial assets depend on the following two main criteria:

a) Business model based on which the Bank manages a financial asset; and
b) Characteristics of the contractual cash flows of a financial assets (the so-called SPPI criterion).

The business model reflects the manner in which the Bank manages its financial assets in order to collect the cash flows therefrom. The Bank performed detailed analysis of its business models taking into account historical experience in sales of the financial assets as well as future expectations in this respect. Upon analysis, the Bank considered other objective and relevant information such as risks affecting the business model performance and the manner of such risk management, the way business model performance is evaluated, how the financial assets within the model are measured, how the Bank's management is reported to, etc. Accordingly, the Bank has defined the following business models:

a) Hold to collect cash flows,
b) Hold to collect cash flows and to sell and
c) Other business models (e.g. hold for sales).

If there a change occurs to the model underlying a financial asset management, the financial assets is reclassified. Reclassification is made prospectively, i.e., as of the first day of the following reporting period. The Bank does not expect frequent changes of its business models.

In instances of business models "Hold to collect" or "Hold to collect and sell" it is assessed whether the cash flows represent solely payments of principal and interest (the so-called SPPI test). In accordance with the basic loan arrangement, interest includes the time value of money, the accepted level of counterparty credit risk and other basic lending risks and adequate profit margin. If the contractual terms include risk exposures that are not in line with the basic loan arrangement, such a financial asset is classified and measured at fair value through profit or loss irrespective of the business model it belongs to.

Based on the performed analysis of the business models and characteristics of the contractual cash flows, as from January 1, 2018 the Bank will classify all is financial assets into the following categories:

1) Financial assets at amortized cost;
2) Financial assets at fair value through other comprehensive income (FVTOCI) and
3) Financial assets through profit or loss (FVTPL).

The Bank has had no changes in the manner of classification and measurement of financial liabilities under IFRS 9 against classification and measurement under IAS 39.

With regard to the classification and measurement of the financial assets, the Bank recognized the effect of IFRS 9 first-time adoption arising from the measurement of equity investments in other entities against impairment previously recognized. In fact, equity investments in other entities, according to IFRS 9, are measured at fair value through other comprehensive income (FVTOCI). Since the Bank assesses that the cost method provides the best fair value approximation, these investments are measured at cost, i.e., at the net present value, which amounted to zero as of December 31, 2017. However, value adjustment of the investments in other entities was made in the same amount against retained earnings, offsetting the said increase, so that there was no cumulative effect.

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

(g) First-Time Adoption of IFRS 9 (Continued)

(ii) Impairment of Financial Assets under IFRS 9

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

Expected credit losses are recalculated at each reporting date in order to reflect changes occurred in the credit risk since the initial recognition of the financial instrument. Such an approach results in earlier identification of credit losses as it is necessary to recalculate expected losses over a 12-month period for all credit risk exposures. It is necessary to recalculate lifetime expected credit losses for all exposures exhibiting significant deterioration.

Upon calculating expected credit losses, the Bank uses forward-looking information and macroeconomic inputs, i.e., the Bank considers not only historical information adjusted so as to reflect the effects of the present conditions and information providing objective evidence of the financial assets being impaired for actual losses incurred, but reasonable and supportable information as well, which includes projections of the future economic conditions upon calculation of expected credit losses, both at individual and at collective levels. The amount of provisions for credit losses will increase with deterioration of the projected economic conditions and decrease with their improvement.

The Bank's basic principles and rules upon calculation of provisions under IFRS 9 are as follows:

The Bank calculates 12-month expected credit loss or a lifetime expected credit loss of a financial instruments depending on the significance of the change in its credit risk occurred since the instrument's initial recognition. For these purposes, the Bank uses the following three stages of impairment:
- Stage 1 includes all new financial assets at initial recognition and instruments without significant credit quality deterioration since their initial recognition or instruments within the low credit risk category;
- Stage 2 includes financial instruments with significant credit quality deterioration since their initial recognition yet with no objective evidence of impairment based on credit losses;
- Stage 3 includes financial instruments where objective evidence of impairment exists at the reporting date.

Stages 1 and 2 include only performing financial assets.
Stage 3 includes only non-performing financial assets
For Stage 1 financial instruments, 12-month expected credit losses are calculated.
For Stage 2 financial instruments, lifetime expected credit losses are calculated.
For Stage 3 financial instruments, lifetime expected credit losses are calculated and interest income is calculated on the net exposures.

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments' initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to all the financial instruments. Deterioration of probabilities of default (PD) is the key parameter underlying the quantitative criterion of the transfer logic. The additional three qualitative criteria applied after the said quantitative parameter are:
- Classification to forbearance performing status results in automatic classification to Stage 2 for the following 9 months (from that status classification date). Following the said period, unless there are other significant credit risk deterioration triggers, such transactions may be reclassified back to Stage 1.
- 30 days past due – if a transaction reaches 30 days past due, it should be classified as Stage 2.
- Classification to restructuring performing status – all performing exposures transferred to the Special Credit Unit are automatically classified as Stage 2.

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

(g) First-Time Adoption of IFRS 9 (Continued)

(ii) Impairment of Financial Assets under IFRS 9 (Continued)

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

Adjustments to the carrying value of the Bank's financial instruments due to transition to IFRS 9, which will be recognized within retained earnings as 2018 opening balance adjustment, will not affect CET 1 ratio given the fact that retained earnings are not included in the calculation of the capital adequacy ratio and common equity Tier 1 capital ratio (CET 1 ratio). In the event that the Bank has no retained earnings, i.e., that the profits equal zero, the effect on the common equity Tier 1 capital ratio (CET 1) would equal -0.18% or -0.73% if the effect would not include the impact of the macroeconomic variables. This effect has been arrived at without calculating the effects of the first-time adoption of IFRS 9 on the calculation of the required reserves and on the calculation of the credit risk weighted assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation

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

(b) Going Concern

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

(c) Foreign Exchange Translation

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign Exchange Translation (Continued)

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

	December 31, 2017	December 31, 2016
USD	99.1155	117.1353
EUR	118.4727	123.4723
CHF	101.2847	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 flows through the expected duration of the financial instrument (or, where appropriate, a shorter period) on the net carrying value of financial assets or financial liabilities. When calculating the effective interest rate, the Bank performs an assessment of cash flows, taking into consideration all conditions of the agreement related to the financial instrument, but not considering future credit losses.

The calculation of the effective interest rate includes all fees and commissions paid and received and transaction costs, which are 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 Bank and are presented together with all other changes in the fair value of trading assets and liabilities within net gains on financial assets held for trading.

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

Impaired loans and receivables are those 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Net Gains/Losses on the Financial Assets Held for Trading

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

(g) Net Gains on the Hedges against Risks

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

(h) Lease Liabilities

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

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

(i) Income Tax Expenses

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

(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 2017 equals 15%. The taxable base is the profit before taxes shown in the statutory statement of income and 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 2017 with the amendments effective as from the preparation of the tax statement for 2018, i.e., a tax period ending in 2018, except for the provisions relating to the recognition of the expenses arising from the write-off and impairment of receivables (applicable to determination, calculation and payment of the tax liabilities for 2017). Accordingly, the tax statement for 2017 will be prepared according to the general rules that were used under the amendments to the Law from the end of 2016, with partial application of the amendments from the end of 2017.

(ii) Deferred Income Taxes

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

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

(iii) Other Taxes and Contributions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities

(i) Recognition and Initial Measurement

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

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

(ii) Classification

The Bank classified its financial assets and liabilities into the following categories:

- loans and receivables;
- held-to-maturity investments;
- financial assets and liabilities at fair value through profit and loss; and
- financial assets available for sale.

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

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

(iii) Derecognition

Financial Assets

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

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

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

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

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

Financial Liabilities

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

(iv) Offsetting

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(iv) Offsetting (continued)

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

(v) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, less any reduction for 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 Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

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

(vii) Impairment Identification and Measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(vii) Impairment Identification and Measurement (Continued)

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

The Bank considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables 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 receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar characteristics.

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

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. 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 acquittal is distinguished from write-off with debt acquittal. Loans are written off without debt acquittal in instances where the Bank has estimated that loans will not be collected, but does not waive its contractual and legal rights in respect of the loan except for a portion of the legally prescribed penalty interest to the accrual of which the Bank would still be entitled even after the conducted write-off without debt acquittal, where the Bank has decided to cease further calculation and recording of interest as from the moment of such write-off. In such cases, the Bank ceases to recognize loans and receivables within the statement of financial position (balance sheet) and commences recording those within the off-balance sheet items. The Bank writes off loans and receivables with debt acquittal 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 Bank's gyro account, other cash funds and the obligatory foreign currency reserve held with the central bank. Cash and cash funds held with the central bank are stated at amortized cost within the statement of financial position.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(i) Fair Value Hedges

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

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

(m) Loans and Receivables

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

Loans and receivables are initially measured at fair value plus 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 receivables 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 of 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 Bank has the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Held-to-Maturity Financial Assets (Continued)

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

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

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

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

(p) Financial Assets Available for Sale

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 market prices. Unquoted equity securities whose fair value cannot be reliably measured are as exception carried at cost net of impairment allowances. Impairment allowance is charged to the income statement as the difference between the carrying value of a financial asset and the present value of its estimated future cash flows. All other available-for-sale investments are carried at fair value.

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

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

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

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (Continued)

(ii) Subsequent Expenditure

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

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

(iii) Depreciation

Items of property and equipment are depreciated from the month following the month when they become available for use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful 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	Estimated Useful Life (Years)	Minimum Annual Rate %
Buildings	Maximum 50	2%
Furniture	Maximum 25	4%
IT equipment and electronic systems	Maximum 15	6.67%
Other	Maximum 10	10%

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) Leases – the Bank as a Lessee

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Impairment of Non-Financial Assets

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

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

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount (as the difference between the two). Impairment losses are recognized in profit or loss.

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

(u) Deposits, Borrowings and Subordinated Liabilities

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

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

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

(v) Provisions

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

(x) Financial Guarantees

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Employee Benefits

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

Pursuant to the Labor Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfillment of the prescribed conditions stated at December 31, 2017 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 2.5%, annual discount rate 5 % with expected inflation rate of 2%, as well as well as margins on annuities to a vanishing point as prepared by the actuary. In addition, in 2017 the Bank accrued expenses for unused annual leaves (vacations).

(z) Investments in Subsidiaries

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

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Introduction and Overview (Continued)

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

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

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

Risk Management Framework

The most important role in the risk management as part of the internal control system is assigned to the Supervisory Board of the Bank, which is responsible for risk management system establishment and oversight. The Supervisory Board defines strategies and policies for managing key risk types that the Bank is exposed to in its operations. In addition, the Supervisory Board is in charge of prior approval of large exposures to a single entity or a group of related entities exceeding 10% of the Bank's own equity as well as of increase of such exposures to above 20% of the Bank's own equity. The Bank's Audit Committee assists the Supervisory Board in performance of its function by considering the Bank's most important internal acts 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 Bank ensures functional and organizational separation of risk management and other regular business activities. The Bank has a separate Risk Management Division in its organizational structure.

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

Internal Audit Department

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk

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

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

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

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

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

Credit Risk Reporting

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

RMIS has to fulfil the four main functions:

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Credit Risk Parameters

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

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

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

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

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

Limits

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

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

Reports

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

- 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.

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 Heads of all departments within this division. The information is presented at the sub-segment level (large corporate clients, middle-sized corporate clients, real estate financing, business clients and entrepreneurs and individuals) with comparative data for the previous month and previous year-end. The report includes the following information:

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

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

- detailed information on the structure and movements of the loan portfolio, overall and per segment;
- data on the key portfolio quality indicators, balance 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 and reporting on the credit risk, improvement of the existing systems and procedures, annual process of budgeting and subsequent control and any adjustments of the budget parameters.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Credit Risk Exposure

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

	Cash and cash funds held with the central bank (Note 20)		Held-to-maturity financial assets (Note 23)		Loans and receivables due from banks and other financial institutions (Note 24)		Loans and receivables due from customers (Note 25)		Financial assets at FVTPL held for trading (Note 21)		Available-for-sale financial assets (Note 22)		Other assets (Note 33)		Off-balance sheet items	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Individually impaired																
Corporate clients, rating 10	-	-	-	623	-	-	1.833.363	6.194.783	-	-	-	-	14.724	97.176	3.084	5.154
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-	-	-	-	91	-	-
Corporate clients, restructured loans*	-	-	-	-	7	6	10.558.175	14.398.550	-	-	-	-	30.170	139.650	213.576	369.075
Retail clients, > 90 days past due	-	-	-	-	-	-	1.398.583	4.034.605	-	-	-	-	3.076	92.780	724	1.209
Gross loans	-	-	-	623	7	6	13.820.121	24.627.938	-	-	-	-	47.970	329.697	217.384	375.438
Impairment allowance	-	-	-	623	7	3	8.083.030	14.704.396	-	-	-	-	31.869	315.567	126.577	99.508
Carrying value	-	-	-	-	-	3	5.737.091	9.923.542	-	-	-	-	16.101	14.130	90.807	275.930
Group-level impaired																
Corporate clients, rating 1 - 6	38.226	43.692	70.179	43.526	11.834.160	20.313.536	147.265.403	119.587.854	-	-	2.120.222	2.583.082	72.120	290.332	134.431.232	110.501.685
Corporate clients, rating 7	-	-	-	-	-	-	5.158.399	6.095.293	-	-	-	-	2.438	618	3.675.251	5.970.505
Corporate clients, rating 8	-	-	9.355	-	-	-	458.097	3.095.824	-	-	-	-	499	521	41.710	367.794
Retail clients, < 90 days past due	-	-	-	-	-	-	75.224.008	63.846.878	-	-	-	-	388	482	1.575.544	1.619.058
Gross loans	38.226	43.692	79.534	43.526	11.834.160	20.313.536	228.105.907	192.625.849	-	-	2.120.222	2.583.082	75.445	291.953	139.723.737	118.459.042
Impairment allowance	196	775	1.648	569	8.510	31.377	1.290.680	1.285.862	-	-	-	-	543	559	198.264	197.727
Carrying value	38.030	42.917	77.886	42.957	11.825.660	20.282.159	226.815.227	191.339.987	-	-	2.120.222	2.583.082	74.902	291.394	139.525.473	118.261.315
Carrying value of rated assets	38.030	42.917	77.886	42.957	11.825.660	20.282.162	232.552.318	201.263.529	-	-	2.120.222	2.583.082	91.003	305.524	139.616.280	118.537.245
Carrying value of non-rated assets	29.622.987	28.042.349	-	-	-	-	789	57.583	2.281.049	2.315.317	80.051.414	73.737.582	886.724	562.144	-	-
Total carrying value	**29.661.017**	**28.085.266**	**77.886**	**42.957**	**11.825.650**	**20.282.162**	**232.553.107**	**201.321.112**	**2.281.049**	**2.315.317**	**82.171.636**	**76.320.664**	**977.727**	**867.668**	**139.616.280**	**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)

(b) Credit Risk (Continued)

Implementation of Basel Standards

In the area of Basel standards 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 2017 the Bank performed internal validation of all internally developed rating models and credit risk parameters, 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 improved calibration of PD model for the segment of entrepreneurs and small businesses. In 2017 the Bank fully implemented Basel III Standards for reporting to the National Bank of Serbia, while it has been reporting to UniCredit Group under Basel III standards since 2014.

Internal Rating System (Rating Scale)

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

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

The internal master scale is compliant with Basel standards, meaning that each rating subgroup has a PD parameter associated with it, with probability that a customer with particular characteristics will be unable to settle liabilities toward the Bank and will be in default. For the first 24 subgroups the probability of default ranges between 0.02% and 20.00%, where those clients are rated between 1+ and 8. Their probability of default is based on statistical analysis based on the historical data.

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

Rating 9 comprises customers with loan loss provision calculated 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 specific credit loss provisioning calculation.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology

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

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

Rules and Principles for Individual Impairment/Provision

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

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

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

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

Rules and Principles for General Provisioning

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology (Continued)

General Provisioning Rules and Principles (Continued)

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

In order for an occurred (but still not identified) loss to be covered for a part of the credit portfolio without the existence of objective evidence of loan impairment, a general provision is calculated as the product of the expected loss for the period of one year and the LCP parameter expressed as parts of the year. The value of the LCP parameter is 12 months for legal entities, SME, 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.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Impairment Allowance and Provisioning Methodology (Continued)

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

	Held-to-maturity financial assets (Note 23)		Loans and receivables due from banks and other financial institutions (Note 24)		Loans and receivables due from customers (Note 25)		Other assets (Note 33)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2017										
Corporate clients, rating 10	-	-	-	-	1,833,363	571,006	14,724	3,262	3,084	85
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	7	-	10,588,175	4,205,748	30,170	12,700	213,576	90,139
Retail clients, > 90 days past due	-	-	-	-	1,398,583	960,337	3,076	139	724	583
Total	**-**	**-**	**7**	**-**	**13,820,121**	**5,737,091**	**47,970**	**16,101**	**217,384**	**90,807**
December 31, 2016										
Corporate clients, rating 10	623	-	-	-	6,194,783	894,875	97,176	952	5,154	88
Corporate clients, rating 9	-	-	-	-	-	-	91	-	-	-
Corporate clients, restructured loans	-	-	6	3	14,398,550	8,186,047	139,650	12,684	369,075	274,983
Retail clients, > 90 days past due	-	-	-	-	4,034,605	842,620	92,780	494	1,209	859
Total	**623**	**-**	**6**	**3**	**24,627,938**	**9,923,542**	**329,697**	**14,130**	**375,438**	**275,930**

The aging structure of matured and unimpaired loans as of December 31, 2017 is provided in the table below:

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
Loans and receivables due from customers					
Gross	7,298,141	872,187	211,591	-	8,381,919
Impairment allowance	(89,528)	(21,321)	(10,847)	-	(121,695)
Net carrying value	7,208,613	850,866	200,744	-	8,260,224

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments - Collaterals

Credit risk is mitigated through adequate collateral management process. The purpose of acquiring all available collaterals, proper booking, assessment and monitoring is to minimize risk as much as possible. Therefore the Bank is especially dedicated to the management of collaterals, maintaining the acceptable relationship between the undertaken risk and real rate of the collateral recovery, control and mitigation of risks related to quality, concentration, or insurance of the receivables, maturity, currency, etc. Aiming at further enhancement of processes and systems with regards to credit risk mitigation, the Bank set up a special unit, whose activities included collateral appraisal, process of collateral monitoring, accurate reporting, management of the relationships with external associates, preparations of expert opinions, improvement of data quality and statistical monitoring of collaterals. The process of collateral monitoring has been additionally improved by the Bank having its internal appraisers licensed in accordance with the new Law on Real Estate Appraisers.

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

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

In the event that the currency of a security instrument differs from the currency of the loan for which it provides security, the value of the security instrument must be further reduced using a factor defined for every currency combination, as specified by the Bank's policy "Credit Risk Mitigation Policy – Special Local Standards".

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments – Collaterals (Continued)

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

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Held-to-maturity financial assets		Available-for-sale financial assets		Other assets		Off-balance sheet assets	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Corporate clients, rating 10	**-**	**-**	**627,258**	**838,933**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**826**
Real estate	-	-	627,258	831,353	-	-	-	-	-	-	-	-
Other	-	-	-	7,580	-	-	-	-	-	-	-	826
Corporate clients, rating 9	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	**-**	**-**	**3,217,452**	**6,131,575**	**-**	**-**	**-**	**-**	**-**	**-**	**75,832**	**76,252**
Real estate	-	-	2,313,590	4,440,111	-	-	-	-	-	-	70,805	58,780
Other	-	-	903,862	1,691,464	-	-	-	-	-	-	5,027	17,472
Retail clients, > 90 days past due	**-**	**-**	**376,898**	**437,005**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	376,898	436,616	-	-	-	-	-	-	-	-
Other	-	-	-	389	-	-	-	-	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**1,304,963**	**3,193**	**59,485,755**	**63,520,473**	**-**	**-**	**-**	**-**	**-**	**-**	**10,298,486**	**9,620,687**
Real estate	2,000	3,193	50,342,776	48,556,332	-	-	-	-	-	-	5,555,007	4,889,206
Other	1,302,963	-	9,142,979	14,964,141	-	-	-	-	-	-	4,743,479	4,731,481
Total	**1,304,963**	**3,193**	**63,707,363**	**70,927,986**	**-**	**-**	**-**	**-**	**-**	**-**	**10,374,318**	**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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk

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

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

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

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

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

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

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

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

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

The Bank is under obligation to report to the National Bank of Serbia if the liquidity ratio is not within prescribed parameters for two consecutive working days, and must do so on the next working day. If the Bank determines a critically low liquidity ratio, it must report this to the National Bank of Serbia at the latest by the next working day. Such 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 on a daily basis.

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (Continued)

Depending on the crisis severity, the Bank may declare the Warning Stage or the Alert Stage. The Bank's liquidity policy in unforeseen events describes the engagement rules for each of the two stages. There are specific rules for activation of and response in each stage and each stage has a dedicated task force. Whenever a stage is activated, the relevant responsibility lines convene, assess the situation and make a decision on further actions. The Liaison Officer (LO) appointed by CRO (Chief Risk Officer – Head of Risk Management Division) and CFO (Head of 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.

	2017	2016
Liquidity ratio (I grade)		
- as at 31 December	1.39	1.29
- average for the period – December	1.32	1.37
- maximum for the period – December	1.40	1.49
- minimum for the period – December	1.25	1.27

	2017	2016
Rigid/cash liquidity ratio:		
- as of December 31	1.05	0.96
- average for the period – December	1.07	1.11
- maximum for the period – December	1.18	1.29
- minimum for the period – December	0.99	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.

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4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as of December 31, 2017:

	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	29,661,017	-	-	-	-	**29,661,017**
Financial assets at fair value through profit and loss, held for trading	11	230,303	33,628	1,958,774	58,333	**2,281,049**
Financial assets available for sale	-	8,798,001	3,567,870	61,670,297	8,135,468	**82,171,636**
Financial assets held to maturity	48,681	29,205	-	-	-	**77,886**
Loans and receivables due from banks and other financial institutions	10,047,969	-	1,773,127	4,554	-	**11,825,650**
Loans and receivables due from customers	9,237,530	4,399,647	33,900,614	83,022,614	101,992,702	**232,553,107**
Receivables per financial derivatives designated as risk hedging instruments	-	-	-	9,195	-	**9,195**
Other assets	977,727	-	-	-	-	**977,727**
Total assets	**49,972,935**	**13,457,156**	**39,275,239**	**146,665,434**	**110,186,503**	**359,557,267**
Liabilities						
Financial liabilities at fair value through profit and loss, held for trading	54,456	-	-	98,690	53,857	**207,003**
Liabilities per financial derivatives designated as risk hedging instruments	-	-	-	17,524	431,270	**448,794**
Deposits and other liabilities due to banks, other financial institutions and the central bank	27,747,586	3,121,932	21,728,958	35,188,026	11,747,071	**99,533,573**
Deposits and other liabilities due to customers	146,517,472	14,033,430	14,298,078	10,489,356	1,320,497	**186,658,833**
Subordinated liabilities	1,022	-	2,717,468	-	-	**2,718,490**
Current tax liabilities	178,821	-	-	-	-	**178,821**
Other liabilities	2,590,012	-	-	-	-	**2,590,012**
Total liabilities	**177,089,369**	**17,155,362**	**38,744,504**	**45,793,596**	**13,552,695**	**292,335,526**
Net liquidity gap as at December 31, 2017	**(127,116,434)**	**(3,698,206)**	**530,735**	**100,871,838**	**96,633,808**	**67,221,741**

The structure of asset and liability maturities as at December 31, 2017 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 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 their stability, growth rate and withdrawal rate. At the same time, the Bank is in possession of liquid instruments, securities that can be pledged with the National Bank of Serbia at any time, as well as agreed and not yet withdrawn lines of credit approved by the international financial institutions and the Parent Bank.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk (Continued)

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

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash funds held with the central bank	28,085,266	-	-	-	-	**28,085,266**
Financial assets at fair value through profit and loss, held for trading	-	127,323	60,901	2,002,449	124,644	**2,315,317**
Financial assets available for sale	5,468,533	1,681,629	16,693,745	47,035,284	5,441,473	**76,320,664**
Financial assets held to maturity	17,906	25,051	-	-	-	**42,957**
Loans and receivables due from banks and other financial institutions	16,782,091	1,852,085	1,640,546	7,440	-	**20,282,162**
Loans and receivables due from customers	7,658,771	4,479,068	31,612,398	93,311,562	64,259,313	**201,321,112**
Receivables per financial derivatives designated as risk hedging instruments	375	-	-	-	-	**375**
Other assets	867,668	-	-	-	-	**867,668**
Total assets	**58,880,610**	**8,165,156**	**50,007,590**	**142,356,735**	**69,825,430**	**329,235,521**
Liabilities						
Financial liabilities at fair value through profit and loss, held for trading	93,814	-	33,733	83,127	23,558	**234,232**
Liabilities per financial derivatives designated as risk hedging instruments	-	-	-	18,275	521,822	**540,097**
Deposits and other liabilities due to banks, other financial institutions and the central bank	36,219,508	764,911	4,740,571	32,610,386	7,755,048	**82,090,424**
Deposits and other liabilities due to customers	131,936,662	8,754,518	19,522,037	15,263,268	2,755,885	**178,232,370**
Subordinated liabilities	772	-	-	3,081,353	-	**3,082,125**
Current tax liabilities	29,200	-	-	-	-	**29,200**
Other liabilities	2,865,999	-	-	-	-	**2,865,999**
Total liabilities	**171,145,955**	**9,519,429**	**24,296,341**	**51,056,409**	**11,056,313**	**267,074,447**
Net liquidity gap as at December 31, 2016	**(112,265,345)**	**(1,354,273)**	**25,711,249**	**91,300,326**	**58,769,117**	**62,161,074**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks

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

(i) Interest Rate Risk

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

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

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

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

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

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

	December 31, 2017		December 31, 2016	
	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp
RSD	-	(2,316,315)	-	(1,464,387)
EUR	-	1,238,032	-	(610,839)
USD	-	(66,671)	-	25,684
GBP	-	-	-	-
CHF	-	319,604	-	(76,695)
JPY	-	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
DKK	-	-	-	-
NOK	-	-	-	-
SEK	-	-	-	-
Total effect	-	(825,350)	-	(2,126,237)

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4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(i) Interest Rate Risk (Continued)

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

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

One of the objective targets of Finance Department/ALM is to establish procedures to be in line with defined limits for interest rate risk. This is achieved through acting on financial market (through interbank trading) in collaboration with the Markets Department in order to hedge the interest rate risk in accordance with the risk profile desired by the Bank. At the same time, ALM manages the Bank's investment portfolio, which, along with the approved instruments, allows for achievement of such strategic position that would enable stability of interest income of the banking book. ALM also uses hedging transactions for protection against the interest rate risk.

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

	Parallel increases by 200 b.p.	Parallel decreases by 200 b.p.
2017		
As at December 31	3,056,141	(3,056,141)
Average for the year	2,551,785	(2,551,785)
Maximum for the year	5,403,226	(5,403,226)
Minimum for the year	2,013,833	(2,013,833)
2016		
As at December 31	2,297,558	(2,297,558)
Average for the year	2,115,397	(2,115,397)
Maximum for the year	2,947,069	(2,947,069)
Minimum for the year	810,105	(810,105)

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

	As at December 31	Average	Maximum	Minimum
2017				
Currency risk	316	4,053	20,870	121
Interest rate risk	2,930	2,777	7,116	89
Credit spread risk	3,691	3,441	8,170	1,116
Other price risks	-	-	-	-
Covariance	(2,220)	-	-	-
Overall	4,718	6,059	19,790	1,571
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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(i) Interest Rate Risk (Continued)

Exposure to interest rate movements as at December 31, 2017:

	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	29,661,017	15,965,402	-	-	-	-	13,695,615
Financial assets at fair value through profit and loss, held for trading	2,281,049	2,095,845	-	-	-	-	185,204
Financial assets available for sale	82,171,636	-	8,798,001	3,567,870	61,670,297	8,135,468	-
Financial assets held to maturity	77,886	48,681	29,205	-	-	-	-
Loans and receivables due from banks and other financial institutions	11,825,650	10,046,067	-	1,773,129	4,554	-	1,900
Loans and receivables due from customers	232,553,107	8,384,437	4,398,789	197,850,446	16,578,446	4,487,915	853,074
Receivables per financial derivatives designated as risk hedging instruments	9,195	-	-	-	-	-	9,195
Other assets	977,727	-	-	-	-	-	977,727
Total assets	**359,557,267**	**36,540,432**	**13,225,995**	**203,191,445**	**78,253,297**	**12,623,383**	**15,722,715**
Financial liabilities at fair value through profit and loss, held for trading	207,003	-	-	-	-	-	207,003
Liabilities per financial derivatives designated as risk hedging instruments	448,794	-	-	-	-	-	448,794
Deposits and other liabilities due to banks, other financial institutions and the central bank	99,533,573	26,276,233	4,078,331	68,404,055	260,000	-	514,954
Deposits and other liabilities due to customers	186,658,833	75,244,759	72,897,649	20,078,300	4,350,796	-	14,087,329
Subordinated liabilities	2,718,490	-	2,718,490	-	-	-	-
Current tax liabilities	178,821	-	-	-	-	-	178,821
Other liabilities	2,590,012	-	-	-	-	-	2,590,012
Total liabilities	**292,335,526**	**101,520,992**	**79,694,470**	**88,482,355**	**4,610,796**	-	**18,026,913**
Net interest rate risk sensitivity exposure at December 31, 2017	**67,221,741**	**(64,980,560)**	**(66,468,475)**	**114,709,090**	**73,642,501**	**12,623,383**	**(2,304,198)**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(i) Interest Rate Risk (Continued)

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

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and cash funds held with the central bank	28,085,266	8,734,297	-	-	-	-	19,350,969
Financial assets at fair value through profit and loss, held for trading	2,315,317	2,039,136	-	129,508	-	-	146,673
Financial assets available for sale	76,320,664	2,901,036	-	73,419,628	-	-	-
Financial assets held to maturity	42,957	17,283	25,051		-	-	623
Loans and receivables due from banks and other financial institutions	20,282,162	16,779,413	1,853,212	1,643,686	3,173	-	2,678
Loans and receivables due from customers	201,321,112	6,632,590	6,409,799	166,150,763	17,197,472	3,922,849	1,007,639
Receivables per financial derivatives designated as risk hedging instruments	375						375
Other assets	867,668	-	-	-	-	-	867,668
Total assets	**329,235,521**	**37,103,755**	**8,288,062**	**241,343,585**	**17,200,645**	**3,922,849**	**21,376,625**
Financial liabilities at fair value through profit and loss, held for trading	234,232	-	-	-	-	-	234,232
Liabilities per financial derivatives designated as risk hedging instruments	540,097	-	-	-	-	-	540,097
Deposits and other liabilities due to banks, other financial institutions and the central bank	82,090,424	34,769,039	21,769,483	6,051,894	16,969,727	-	2,530,281
Deposits and other liabilities due to customers	178,232,370	41,891,707	62,257,932	27,702,886	13,677,022	-	32,702,823
Subordinated liabilities	3,082,125	-	3,082,125	-	-	-	-
Current tax liabilities	29,200	-	-	-	-	-	29,200
Other liabilities	2,865,999	-	-	-	-	-	2,865,999
Total liabilities	**267,074,447**	**76,660,746**	**87,109,540**	**33,754,780**	**30,646,749**	**-**	**38,902,632**
Net interest rate risk sensitivity exposure at December 31, 2016	**62,161,074**	**(39,556,991)**	**(78,821,478)**	**207,588,805**	**(13,446,104)**	**3,922,849**	**(17,526,007)**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(ii) Currency Risk

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

The foreign currency risk ratio is the total open foreign currency position relative to the Bank's capital, calculated in accordance with NBS Decision on Capital. The Bank is under obligation to maintain the ratio between assets and liabilities in such a way that its foreign currency position at the end of a working day must not exceed 20% of its capital. The Financial and Operational Risk Department prepares a report on daily liquidity for NBS on daily and monthly bases.

The Bank is exposed to the effects of exchange rate fluctuations of the most important foreign currencies on its financial position and cash flows. Bank management sets limits for risk of exposure to particular foreign currencies and constantly monitors whether balances of various foreign currencies are within prescribed limits. Limits are effective for all relevant foreign currency products within the 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 UniCredit Bank Serbia, both for the Bank in the aggregate and for the Markets and ALM departments individually.

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

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

	2017	2016
Foreign exchange risk ratio:		
- as at December 31	0.93	3.82
- maximum for the period – December	3.59	6.95
- minimum for the period – December	0.06	0.23

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4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(ii) Currency Risk (Continued)

The Bank's net currency position as at December 31, 2017:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and cash funds held with the central bank	190,858	10,011,837	97,931	126,245	19,234,146	29,661,017
Financial assets at fair value through profit and loss, held for trading	-	391,986	-	-	1,889,063	2,281,049
Financial assets available for sale	1,946,572	20,418,234	-	-	59,806,830	82,171,636
Financial assets held to maturity	-	-	-	-	77,886	77,886
Loans and receivables due from banks and other financial institutions	1,764,534	9,804,623	20,209	233,452	2,832	11,825,650
Loans and receivables due from customers	4,303,490	161,563,932	4,855,601	-	61,830,084	232,553,107
Fair value adjustments of risk hedged items	-	141	192,110	-	-	192,251
Receivables per financial derivatives designated as risk hedging instruments	-	9,195	-	-	-	9,195
Investments in subsidiaries	-	-	-	-	112,644	112,644
Intangible assets	-	-	-	-	1,162,458	1,162,458
Property, plant and equipment	-	-	-	-	1,551,389	1,551,389
Investment property	-	-	-	-	1,364	1,364
Deferred tax assets	-	-	-	-	171,179	171,179
Other assets	601	47,038	4	330	929,754	977,727
Total assets	**8,206,055**	**202,246,986**	**5,165,855**	**360,027**	**146,769,629**	**362,748,552**
Financial liabilities carried at fair value through profit and loss, held for trading	-	152,548	-	-	54,455	207,003
Liabilities per financial derivatives designated as risk hedging instruments	-	171,484	277,310	-	-	448,794
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,397,484	86,359,808	771,632	457	9,004,192	99,533,573
Deposits and other liabilities due to customers	15,120,973	96,095,671	1,443,969	1,160,204	72,838,016	186,658,833
Fair value adjustments of risk hedged items	-	-	-	-	-	-
Subordinated liabilities	-	-	2,718,490	-	-	2,718,490
Provisions	-	-	-	-	1,072,531	1,072,531
Current tax liabilities	-	-	-	-	178,821	178,821
Other liabilities	194,790	1,099,908	1,852	4,235	1,289,227	2,590,012
Equity	-	-	-	-	69,340,495	69,340,495
Total liabilities and equity	**18,713,247**	**183,879,419**	**5,213,253**	**1,164,896**	**153,777,737**	**362,748,552**
Off-balance sheet financial instruments	10,503,270	(18,275,802)	60,771	836,823	6,841,896	(33,042)
Net currency position as of December 31, 2017	**(3,922)**	**91,765**	**13,373**	**31,954**	**(166,212)**	**(33,042)**

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

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4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks (Continued)

(ii) Currency Risk (Continued)

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

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and cash funds held with the central bank	123,601	17,633,937	130,023	90,867	10,106,838	28,085,266
Financial assets at fair value through profit and loss, held for trading	-	276,180	-	-	2,039,137	2,315,317
Financial assets available for sale	-	21,098,398	-	-	55,222,266	76,320,664
Financial assets held to maturity	-	-	-	-	42,957	42,957
Loans and receivables due from banks and other financial institutions	560,823	19,442,510	5,315	268,855	4,659	20,282,162
Loans and receivables due from customers	6,990,487	129,703,596	6,118,849	-	58,508,180	201,321,112
Fair value adjustments of risk hedged items	-	-	222,845	-	-	222,845
Receivables per financial derivatives designated as risk hedging instruments	-	375	-	-	-	375
Investments in subsidiaries	-	-	-	-	112,644	112,644
Intangible assets	-	-	-	-	917,810	917,810
Property, plant and equipment	-	-	-	-	1,577,325	1,577,325
Investment property	-	-	-	-	1,397	1,397
Deferred tax assets	-	-	-	-	164,592	164,592
Other assets	2,393	60,396	846	71	803,962	867,668
Total assets	**7,677,304**	**188,215,392**	**6,477,878**	**359,793**	**129,501,767**	**332,232,134**
Financial liabilities carried at fair value through profit and loss, held for trading	-	140,418	-	-	93,814	234,232
Liabilities per financial derivatives designated as risk hedging instruments	-	231,786	308,311	-	-	540,097
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,645,035	71,959,374	1,869,093	4,742	4,612,180	82,090,424
Deposits and other liabilities due to customers	15,475,851	99,810,869	1,331,747	1,358,839	60,255,064	178,232,370
Fair value adjustments of risk hedged items	-	103	-	-	-	103
Subordinated liabilities	-	-	3,082,125	-	-	3,082,125
Provisions	-	-	-	-	953,369	953,369
Current tax liabilities	-	-	-	-	29,200	29,200
Other liabilities	68,372	1,502,094	3,067	10,361	1,282,105	2,865,999
Equity	-	-	-	-	64,204,215	64,204,215
Total liabilities and equity	**19,189,258**	**173,644,644**	**6,594,343**	**1,373,942**	**131,429,947**	**332,232,134**
Off-balance sheet financial instruments	11,512,917	(12,497,872)	91,878	980,597	(217,911)	(130,391)
Net currency position as of December 31, 2016	**963**	**2,072,876**	**(24,587)**	**(33,552)**	**(2,146,091)**	**(130,391)**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Concentration Risk

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

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

Concentration risk mitigation and control is achieved through active management of the loan portfolio and definition of appropriate exposure limits enabling portfolio diversification. The process of deciding on approval of the Bank's large exposures involves the Supervisory Board, Credit Committee and relevant organizational units within the Group, which ensures another aspect of concentration risk control. In its separate internal acts 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 25.3 and 25.5.

(f) Exposure Risk

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

(g) Investment Risk

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

(h) Country Risk

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(h) Country Risk (Continued)

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

(i) Compliance Risks

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

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

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

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

(j) Strategic Risks

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(j) Strategic Risks (Continued)

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

(k) Risk Money Laundering and Terrorist Financing

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

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

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

Within the Compliance Department a separate organizational unit has been formed – Anti Money Laundering and Terrorist Financing prevention unit – 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 malversation, employment practice and safety at work, receivables from clients, distribution of products, fines and penalties for injury, damage to property, disruption in operation and system errors, process management. Strategic risks, business risks and reputation risks differ from operational risks, while legal risks and compliance risk are included in the definition of operational risk.

The Financial and Operational Risk Department is responsible for recording, monitoring and managing the Bank's operational risks and directly answers to the Chief Risk Officer (CRO).This Department's basic task is to coordinate and cooperate with operating risk managers and to communicate with colleagues at the Operational Risk Department in Milan, with the purpose of securing information for the efficient monitoring of operational risk at all levels. On a daily basis the Department monitors changes in specially defined accounts and on a weekly basis it reports to members of the Management Board regarding all changes in operational risks. For the purpose of efficient monitoring of significant changes in connection with operational risks within the Bank, Operational Risk Managers and Deputy Managers have been appointed from various organizational units that are responsible for the accuracy and timeliness of recording data on all harmful events in their organizational unit into a database. 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 is responsibility of the Department to calculate the capital requirements for operational risks, which is computed using the standardized approach and to prepare reports for local management and the Group.

4. FINANCIAL RISK MANAGEMENT (Continued)

(m) Capital Management

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

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

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

The Bank is required to maintain its core capital in RSD equivalent amount of EUR 10,000,000 at all times, using the official middle exchange rate of NBS effective as at the calculation date. In addition, the Bank is required to maintain at all times its capital in the amount necessary for coverage of all risks the Bank is or may be exposed to in its operations, yet no less than the amount required to maintain the minimum capital adequacy ratios or increased capital adequacy ratios – in case NBS orders the Bank to achieve and maintain capital adequacy ratios higher than the prescribed ones. In 2017 NBS did not impose on the Bank capital adequacy ratios higher than the prescribed ones.

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

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

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

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

The Bank does not include in its capital the following:

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(m) Capital Management (Continued)

Deductible from the common equity Tier 1 capital are:

- current and prior year's losses and unrealized losses;
- intangible assets, including goodwill, decreased for the amount of deferred tax liabilities that would be derecognized in case of impairment or derecognition of intangible assets under IFRS/IAS;
- deferred tax assets dependable on the Bank's future profitability in line with the effective regulations;
- defined benefit pension fund assets on the Bank's balance sheet;
- the Bank's direct, indirect and synthetic holdings of its own common equity Tier 1 instruments, including those that the Bank is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
- the Bank's direct, indirect and synthetic holdings of common equity Tier 1 instruments of financial sector institutions (hereinafter: FSI) entities where those entities have reciprocal holdings in the Bank, designed to artificially inflate the bank's capital;
- the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds no significant investments in accordance with Articles 19 and 20 of the Decision;
- the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments in accordance with Sections 19 of the Decision;
- the amount for which the Bank's additional Tier 1 capital deductible items exceed the Bank's additional Tier 1 capital;
- the amount of exposures qualifying for application of a risk weight of 1.25%, where the Bank decides to deduct the exposure from the common equity Tier 1 rather than apply the said risk weight, such as:
    - holdings in non-FSI entities exceeding 10% of their capital and/or holdings enabling effective execution of significant influence on the management of such entities or their business policies;
    - securitized items in accordance with Section 201, paragraph 1, item 2), Section 202, paragraph 1, item 2), and Section 234 of the Decision;
    - free deliveries, if the counterparty has failed to settle its liability within four working days from the agreed delivery/payment date, in accordance with Section 299 of the Decision;
- any tax charge relating to the common equity Tier 1 items foreseeable at the moment of its calculation, except where the Bank has previously suitably adjusted the amount of common equity Tier 1 items in the amount such tax charges reduce the amount up to which those items may be used to absorb risks or losses;
- amount of the required reserve for estimated losses on the Bank's balance sheet assets and off-balance sheet items.

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

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

As of December 31, 2017 the Bank did not reduce its common equity Tier 1 capital for the amount of direct holdings of common equity Tier 1 instruments or for deferred tax assets dependable on the Bank's future profitability, arising from the temporary differences since their aggregate amount was below the defined limit.

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

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

As of December 31, 2017 the Bank had no additional Tier 1 capital.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(m) Capital Management (Continued)

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

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

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

The Bank includes into the supplementary Tier 2 capital subordinated liabilities in the amount and in manner prescribed by the Decision.

The following table presents the Bank's balance of capital and total risk-weighted assets as of December 31, 2017:

	2017	2016*
Common equity Tier 1 capital - CET1		
Paid in common equity Tier 1 instruments	23,607,620	23,607,620
Relevant share premium with the common equity Tier 1 instruments	562,156	562,156
Revaluation reserves and other unrealized gains	1,545,736	1.529.305
(-) Unrealized losses	(5,416)	(11,823)
Other reserves	36,997,080	32,020,480
(-) Intangible assets, including goodwill, decreased for the amount of deferred tax liabilities)	(1,162,458)	(917,810)
(-) Tax charge relating to the common equity Tier 1 items foreseeable at the moment of its calculation, except where the Bank has previously suitably adjusted the amount of common equity Tier 1 items in the amount such tax charges reduce the amount up to which those items may be used to absorb risks or losses	(231,860)	-
(-) The required reserve for estimated losses on the Bank's balance sheet assets and off-balance sheet items	(13,237,594)	(18,800,670)
(-) Other deductible items **	-	(56,322)
Total common equity Tier 1 capital - CET1	**48,075,264**	**37.932.936**
Additional Tier 1 capital - AT1	-	-
Total core Tier 1 capital - T1 (CET1 + AT1)	**48,075,264**	**37.932.936**
Supplementary capital - T2		
Paid amount of subordinated liabilities	538,731	616.271
Deductible items**	-	(56,322)
Total supplementary capital - T2	538,731	559.949
Total regulatory capital (T1 + T2)	**48,613,995**	**38,492,885**

* Regulatory capital for 2016 has been adjusted to the requirements of KAP form, which has been in use since June 30, 2017.
** Other deductible items in the comparative data (for 2016) relate to direct or indirect holdings of the bank in FSI entities in excess of 10% of their capital.

In both 2017 and 2016 the Bank achieved capital adequacy ratios within the limits prescribed by NBS Decision on Capital Adequacy of Banks and Decision on Risk Management.

5. USE OF ESTIMATES AND JUDGMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under given 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 receivables and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowances, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

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

(ii) Fair Value Estimates

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

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

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

(i) Measurement of Financial Instruments

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

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

(i) Measurement of Financial Instruments (Continued)

- 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. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable price exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, bond and 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 Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

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

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

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

(iii) Impairment of Non-Financial Assets

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

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

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

(iv) Deferred Tax Assets

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

(v) Provisions for Litigations

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

(vi) Provisions for Employee Benefits

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

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

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

	Note	Level 1	Level 2	Level 3	Total
2017					
Financial assets at fair value through profit and loss, held for trading	21	-	2,281,049	-	2,281,049
Financial assets available for sale	22	1,946,572*	80,225,064	-	82,171,636
Fair value adjustments of risk hedged items	26	-	17,956	174,295	192,251
Receivables per derivatives designated as risk hedging instruments	27	-	9,195	-	9,195
		1,946,572	**82,533,264**	**174,295**	**84,654,131**
Financial liabilities at fair value through profit and loss, held for trading	34	-	207,003	-	207,003
Liabilities per financial derivatives designated as risk hedging instruments	35	-	448,794	-	448,794
		-	**655,797**	**-**	**655,797**

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

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

	Note	Level 1	Level 2	Level 3	Total
2016					
Financial assets at fair value through profit and loss, held for trading	21	-	105,553	2,209,764	2,315,317
Financial assets available for sale	22	-	76,669	76,243,995	76,320,664
Fair value adjustments of risk hedged items	26	-	24,067	198,778	222,845
Receivables per derivatives designated as risk hedging instruments	27	-	375	-	375
		-	**206,664**	**78,652,537**	**78,859,201**
Financial liabilities at fair value through profit and loss, held for trading	34	-	87,814	146,418	234,232
Liabilities per financial derivatives designated as risk hedging instruments	35	-	540,097	-	540,097
Fair value adjustments of risk hedged items	38	-	11	92	103
		-	**627,922**	**146,510**	**774,432**

*Financial assets available for sale – level 1 include Treasury bills of the Republic of Serbia denominated in USD, listed in EU Stock Exchanges as highly liquid assets.

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

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

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2017						
Cash and cash funds held with the central bank	20	-	-	29,661,017	29,661,017	29,661,017
Financial assets held to maturity	23	-	-	81,780	81,780	77,886
Loans and receivables due from banks and other financial institutions	24	-	9,248,386	2,577,264	11,825,650	11,825,650
Loans and receivables due from customers	25	-	80,231,248	169,267,555	249,498,803	232,553,107
Other assets	33	-	977,727	-	977,727	977,727
		-	**90,457,361**	**201,587,616**	**292,044,977**	**275,095,387**
Deposits and other liabilities due to banks, other financial institutions and the central bank	36	-	85,780,106	15,199,254	100,979,360	99,533,573
Deposits and other liabilities due to customers	37	-	34,783,435	152,525,877	187,309,312	186,658,833
Subordinated liabilities	39	-	2,718,490	-	2,718,490	2,718,490
Current tax liabilities	19.4	-	178,821	-	178,821	178,821
Other liabilities	41	-	2,590,012	-	2,590,012	2,590,012
		-	**126,050,864**	**167,725,131**	**293,775,995**	**291,679,729**

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

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

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

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2016						
Cash and cash funds held with the central bank	20	-	-	28,085,266	28,085,266	28,085,266
Financial assets held to maturity	23	-	-	44,819	44,819	42,957
Loans and receivables due from banks and other financial institutions	24	-	14,618,710	5,663,452	20,282,162	20,282,162
Loans and receivables due from customers	25	-	73,870,874	141,211,732	215,082,606	201,321,112
Other assets	33	-	867,668	-	867,668	867,668
		-	**89,357,252**	**175,005,269**	**264,362,521**	**250,599,165**
Deposits and other liabilities due to banks, other financial institutions and the central bank	36	-	20,872,714	62,785,370	83,658,084	82,090,424
Deposits and other liabilities due to customers	37	-	54,497,172	124,053,207	178,550,379	178,232,370
Subordinated liabilities	39	-	3,082,125	-	3,082,125	3,082,125
Current tax liabilities	19.4	-	29,200	-	29,200	29,200
Other liabilities	41	-	2,865,999	-	2,865,999	2,865,999
		-	**81,347,210**	**186,838,577**	**268,185,787**	**266,300,118**

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

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

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

(iii) Financial Instruments with Fixed Interest Rates

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

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

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

7. NET INTEREST INCOME

Net interest income includes:

	2017	2016
Interest income		
Cash and cash funds held with the central bank	288,892	274,123
Financial assets at fair value through profit and loss, held for trading	219,701	206,992
Financial assets available for sale	3,613,540	4,163,368
Financial assets held to maturity	6,951	3,793
Loans and receivables due from banks and other financial institutions	143,880	121,448
Loans and receivables due from customers	10,262,550	10,328,287
Financial derivatives and assets held for risk hedging purposes	313,677	275,021
Total interest income	14,849,191	15,373,032
Interest expenses		
Financial liabilities carried at fair value through profit and loss, held for trading	114,804	84,553
Liabilities per financial derivatives designated as risk hedging instruments	80,105	79,480
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,085,444	1,517,731
Deposits and other liabilities due to customers	1,284,698	1,465,011
Subordinated liabilities	135,462	138,959
Total interest expenses	2,700,513	3,285,734
Net interest income	12,148,678	12,087,298

In accordance with the Bank's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 261,402 thousand in 2017 (2016: RSD 465,999 thousand).

8. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	2017	2016
Fee and commission income		
Payment transfer activities	1,166,651	977,971
Fees on issued guarantees and other contingent liabilities	586,770	637,731
Brokerage fees	19,725	20,154
Custody fees	363,251	390,544
Fees arising from card operations	1,186,707	924,048
Fees per deposits	369,753	343,732
Loan origination and processing fees	360,645	295,861
Other fees and commissions	244,526	217,454
Total fee and commission income	4,298,028	3,807,495
Fee and commission expenses		
Payment transfer activities	163,816	152,320
Fees arising on guarantees, sureties and letters of credit	11,688	22,958
Fees arising from card operations	1,026,715	843,815
Other fees and commissions	146,305	128,595
Total fee and commission expenses	1,348,524	1,147,688
Net fee and commission income	2,949,504	2,659,807

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9. NET GAINS ON THE FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

	2017	2016
Net gains on the sales of securities held for trading	44,559	88,376
Net losses on the changes in the fair value securities held for trading	(3,550)	(8,545)
Net gains/(losses) on the fair value changes of derivatives held for trading	207,458	(48,842)
Net gains on the financial assets held for trading	248,467	30,989

10. NET LOSSES ON THE HEDGES AGAINST RISKS

Net losses on the hedges against risks include:

	2017	2016
Net (losses)/gains on the fair value changes of loans, receivables and securities	(90,429)	36,715
Net gains/(losses) on the fair value changes of derivatives held for risk hedging purposes	56,564	(40,459)
Net losses on the hedges against risks	(33,865)	(3,744)

11. NET GAINS ON THE FINANCIAL ASSETS AVAILABLE FOR SALE

Net gains on the financial assets available for sale include:

	2017	2016
Gains on the sale of securities available for sale	433,080	210,242
Losses on the sale of securities available for sale	(171,908)	(43,986)
Net gains on the financial assets available for sale	261,172	166,256

12. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

Net foreign exchange gains and positive currency clause effects include:

	2017	2016
Foreign exchange gains and positive currency clause effects	62,061,049	92,982,139
Foreign exchange losses and negative currency clause effects	(60,689,113)	(91,549,499)
Net foreign exchange gains and positive currency clause effects	1,371,936	1,432,640

13. NET INVESTMENT INCOME

Net investment income represents gains on the sales of the shares the Bank owned in the company MasterCard:

	2017	2016
Income from the sales of investments	120,379	-
Total investment income	120,379	-

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

14. OTHER OPERATING INCOME

Other operating income includes:

	2017	2016
Reversal of unreleased provisions for litigations (Note 40)	19,139	29,388
Reversal of unreleased provisions for other liabilities (Note 40)	4,895	10,977
Dividend income	120	342
Gains on the sale of other loans and receivables	12,760	58,609
Other operating income	99,804	54,930
Total other operating income	136,718	154,246

15. 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:

	2017	2016
Loans and receivables due from customers		
Individual impairment allowance charge, net	2,993,586	2,641,535
Collective impairment allowance (reversal)/charge, net	(115,822)	267,367
	2,877,764	2,908,902
Contingent liabilities		
Individual impairment allowance charge, net (Note 40)	27,069	19,970
Collective impairment allowance charge, net (Note 40)	537	65,164
	27,606	85,134
Write-off	1,199	9,102
Collection of receivables previously written off	(202,208)	(2,529)
Total	2,704,361	3,000,609

16. STAFF COSTS

Staff costs comprise:

	2017	2016
Net salaries	1,609,009	1,556,999
Payroll taxes and contributions	629,663	601,233
Net provisioning for retirement benefits and unused annual leaves (vacations)	5,613	20,496
Other staff costs	572,036	456,949
Total	2,816,321	2,635,677

17. DEPRECIATION AND AMORTIZATION CHARGE

Depreciation and amortization charge includes:

	2017	2016
Amortization of intangible assets (Notes 29.2, 29.3)	271,501	372,610
Depreciation of investment property (Note 31)	33	33
Depreciation of property and equipment (Notes 30.2, 30.3)	264,145	225,028
Total	535,679	597,671

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

18. OTHER EXPENSES

Other expenses include:

	2017	2016
Business premises costs	89,547	93,428
Office supplies	39,595	48,624
Rental costs	671,491	664,542
Information system maintenance	513,390	446,196
Property and equipment maintenance	55,768	51,626
Marketing, advertising, entertainment and donations	300,575	321,343
Lawyer fees, other consultant services and auditing fees	195,356	157,200
Telecommunications and postage services	138,098	132,476
Insurance premiums	775,071	683,204
Insurance of property and security services	85,509	89,699
Professional training costs	20,432	16,282
Servicing	92,448	99,792
Transportation services	17,504	20,344
Employee commuting allowances	37,998	36,515
Accommodation and meal allowance – business travel costs	30,372	25,517
Other taxes and contributions	451,785	435,553
Provisions for litigations and other provisions (Note 40)	127,009	68,719
Losses on disposal of property, equipment and intangible assets	17,349	8,263
Other costs	389,690	369,614
Total	4.048.987	3.768.937

19. INCOME TAXES

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

	2017	2016
Current income tax expense	(472,387)	(320,254)
Increase in deferred tax assets and decrease in deferred tax liabilities	28,593	22,256
Decrease in deferred tax assets and increase in deferred tax liabilities	(20,528)	-
Total	(464,322)	(297,998)

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

	2017	2016
Profit before taxes	7,097,641	6,524,598
Effective income tax at the legally prescribed tax rate of 15%	1,064,646	978,690
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	5,685	5,977
Tax effects of income adjustment	(613,958)	(689,769)
Tax effects of temporary differences:		
Difference between depreciation/amortization calculated for tax and financial reporting purposes	(6,973)	11,700
Tax effects of expenses recognized in the forthcoming period	22,987	13,656
Current income tax expense	472,387	320,254
Effective tax rate	6.66%	4.91%

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

19. INCOME TAXES (Continued)

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

	2017			2016		
	Before taxes	**Tax expense**	**After taxes**	**Before taxes**	**Tax expense**	**After taxes**
Actuarial losses	(1,967)	(1,478)	(3,445)	(12,203)	380	(11,823)
Balance at December 31	(1,967)	(1,478)	(3,445)	(12,203)	380	(11,823)

19.4. The calculated current income tax payable for the year 2017 amounted to RSD 472,387 thousand, of which RSD 293,566 thousand was settled through several tax advance payments. The outstanding current tax liabilities as of December 31, 2017 hence amounted to RSD 178,821 thousand.

20. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

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

	2017	2016
RSD cash on hand	1,577,892	1,363,614
Gyro account balance	17,645,389	8,734,298
Foreign currency cash on hand	1,034,221	1,024,061
Other foreign currency cash funds	38,226	43,692
Obligatory foreign currency reserve held with NBS	9,365,485	16,920,376
	29,661,213	28,086,041
Impairment allowance	(196)	(775)
Balance at December 31	29,661,017	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 2017 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 2017 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 was 100%.

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.

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

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

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

	Individual level		Group level	
	2017	2016	2017	2016
Balance at January 1	-	-	(775)	(398)
Reversal/(charge for the year)	-	-	497	(363)
Foreign exchange effects	-	-	82	(14)
Total for the year	-	-	579	(377)
Balance at December 31	-	-	(196)	(775)

21. 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:

	2017	2016
Securities held for trading:		
- RS Treasury bills	2,095,845	2,168,644
	2,095,845	2,168,644
Receivables per derivative held for trading:		
- interest rate swaps	157,024	146,673
- FX swaps and forwards	28,180	-
	185,204	146,673
Balance at December 31	2,281,049	2,315,317

As of December 31, 2017 investments in securities held for trading totaling RSD 2,095,845 thousand represent investments in the Treasury bills of the Republic of Serbia with maturities up to 2022.

22. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

	2017	2016
Securities available for sale		
- RS Treasury bills and local municipality bonds	70,182,412	70,275,281
- local municipality bonds and RS Treasury bills – hedged items	11,989,224	6,045,383
Balance at December 31	82,171,636	76,320,664

As of December 31, 2017 investments in available-for-sale securities totaling RSD 11,989,224 thousand represent investments in bonds issued by local municipalities and the RS Treasury bills - hedged items with maturities up to 2023, while the amount of RSD 70,182,412 thousand represents investments in the local municipality and RS Treasury bills with maturities up to 2023.

For hedging local municipality and RS Treasury bills against the interest rate risk, the Bank implemented micro fair value hedging, i.e., designated as hedge items investments in bonds issued by local municipalities and the RS Treasury bills with the aggregate face value of EUR 97.4 million, while interest rate swaps with the aggregate notional value of EUR 97.4 million were designated as hedging instruments. As of December 31, 2017, an effectiveness test was performed, which showed that the hedging was highly effective.

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23. FINANCIAL ASSETS HELD TO MATURITY

23.1. Financial assets held to maturity comprise:

	2017	2016
Securities held to maturity:		
- receivables per discounted bills of exchange	79,534	44,149
Impairment allowance	(1,648)	(1,192)
Balance at December 31	77,886	42,957

As of December 31, 2017 receivables per discounted bills of exchange of RSD 79,534 thousand represent investments with maturities of up to a year and at a discount rate equal to 1-month BELIBOR plus 2% to 3.9% per annum.

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

	Individual level		Group level	
	2017	2016	2017	2016
Balance at January 1	(623)	(16,252)	(569)	(9,113)
Impairment loss:				
(Charge for the year) / reversal	-	-	(1,079)	8,544
Write-offs	623	15,629	-	-
Total impairment allowance	623	15,629	(1,079)	8,544
Balance at December 31	-	(623)	(1,648)	(569)

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

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

	2017	2016
Foreign currency accounts held with:		
- other banks within UniCredit Group	712,860	4,953,054
- other foreign banks	1,797,310	698,387
Total foreign currency accounts	2,510,170	5,651,441
Overnight deposits:		
- in foreign currencies	7,463,780	11,112,514
Total overnight deposits	7,463,780	11,112,514
Guarantee foreign currency deposit placed for purchase and sale of securities	4,739	4,939
Foreign currency special purpose deposits	11,509	13,602
Short-term loans:		
- in RSD	678	3,438,720
Total short-term loans	678	3,438,720
Long-term loans:		
- in RSD	1,786,030	90,070
Total long-term loans	1,786,030	90,070
Other foreign currency placements	57,261	2,256
Impairment allowance	(8,517)	(31,380)
Balance at December 31	11,825,650	20,282,162

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24. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

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

	Individual level		Group level	
	2017	2016	2017	2016
Balance at January 1	(3)	(1)	(31,377)	(15,747)
Impairment loss				
(Charge for the year) / reversal	(4)	(2)	22,633	(15,243)
Foreign exchange effects	-	-	234	(387)
Total impairment allowance	(4)	(2)	22,867	(15,630)
Balance at December 31	(7)	(3)	(8,510)	(31,377)

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

25.1 Loans and receivables due from customers include:

	2017	2016
Short-term loans:		
- in RSD	27,469,938	25,565,936
- in foreign currencies	3,023,971	1,766,592
Total short-term loans	30,493,909	27,332,528
Long-term loans:		
- in RSD	194,066,817	169,111,255
- in foreign currencies	10,849,201	16,342,875
Total long-term loans	204,916,018	185,454,130
Receivables in respect of acceptances, sureties and payments made per guarantees:		
- in RSD	49,474	182,225
- in foreign currencies	14,807	3,834,365
Total	64,281	4,016,590
RSD factoring receivables	560,067	508,122
Other RSD placements	5,892,542	-
Impairment allowance	(9,373,710)	(15,990,258)
Balance at December 31	232,553,107	201,321,112

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

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

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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

	Individual-level		Group-level	
	2017	2016	2017	2016
Balance at January 1	(14,704,397)	(19,899,044)	(1,285,861)	(1,005,727)
Impairment loss				
(Charge for the year) / reversal	(2,979,629)	(2,571,828)	93,755	(270,698)
Foreign exchange effects	644,882	(268,102)	(98,574)	(9,436)
Interest income adjustment	(207,918)	(240,968)	-	-
Portfolio sale effects	1,833,636	366,717	-	-
Write-off with debt acquittal	30,727	392,053	-	-
Write-off without debt acquittal*	7,299,669	7,516,775	-	-
Total impairment allowance	6,621,367	5,194,647	(4,819)	(280,134)
Balance at December 31	(8,083,030)	(14,704,397)	(1,290,680)	(1,285,861)

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

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

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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

	2017			2016		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	11,085,390	(26,499)	11,058,891	6,049,787	(113,559)	5,936,228
Corporate customers	150,134,535	(8,285,016)	141,849,519	140,681,618	(12,047,693)	128,633,925
Retail customers	80,706,892	(1,062,195)	79,644,697	70,579,965	(3,829,006)	66,750,959
Balance at December 31	241,926,817	(9,373,710)	232,553,107	217,311,370	(15,990,258)	201,321,112

25.4. 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 2.65%, on the average, while RSD short-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 1.01% on the average.

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

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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 2.85% annually on the average, while RSD long-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 1.14% annually on the average, according to other costs and the Bank's interest rate policy.

Retail housing loans were approved for periods of 5 to 30 years, at the nominal interest rates ranging from 6-month EURIBOR plus 2.3% to 4.2% annually. In early October 2017 the Bank launched a campaign where up to the end of the year the clients were allowed to apply for pre-approval of housing loans, whereby the loan approval process was optimized in accordance with the clients' needs and requirements. The Bank included in its product mix housing loans with combined and fixed interest rates thus responding to the needs of its clients with regard to the volatility of the interest rates.

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 2017 the Bank increased the maximum loan amount to RSD 3 million.

Further, the Bank continued sales of cash loans approved to pensioners with life insurance at either a fixed interest rate of 17.9% or a rate equal to 3-month BELIBOR plus 4.2% to 8.5% annually.

In 2017, interest rates applied to investment funding of small entities and entrepreneurs equaled 6/12-month EURIBOR plus 3% to 6% annually, while interest rates for working capital loans with maturity up to 42-month ranged from 12-month EURIBOR plus 3% to 7.5 annually or, in instances of fixed-interest rate loans, from 3.2% to 7.5%. Interest rates applied to RSD loans equaled 1/3-month BELIBOR plus 2.3% to 7% annually.

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

As a hedge against interest rate risk, the Bank implemented micro fair value hedging, i.e. it designated as a hedged item a customer loan with the present value of EUR 1,613,491 as at December 31, 2017, while an interest swap of the same amount was designated as a hedging instrument. The Bank also implemented macro fair value hedging, where loan portfolios with the net carrying value of EUR 20,100,000 and CHF 8,589,846 were designated as hedged items, while interest swaps of the same notional amounts were designated as hedging instruments. As of December 31, 2017 an effectiveness test was performed, which showed that the hedging was highly effective.

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

	2017	2016
Corporate customers		
- Energy	2,298,746	1,534,998
- Agriculture	6,471,833	5,690,148
- Construction industry	7,615,611	8,553,620
- Mining and industry	54,175,376	51,856,638
- Trade	39,030,404	30,228,331
- Services	22,051,341	19,511,184
- Transportation and logistics	13,954,059	18,787,162
- Other	4,537,165	4,519,537
	150,134,535	140,681,618
Public sector	11,085,390	6,049,787
Retail customers		
- Private individuals	77,279,149	67,951,542
- Entrepreneurs	3,427,743	2,628,423
	80,706,892	70,579,965
Total	241,926,817	217,311,370
Impairment allowance	(9,373,710)	(15,990,258)
Balance at December 31	232,553,107	201,321,112

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

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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

26. FAIR VALUE ADJUSTMENTS OF RISK HEDGED ITEMS

Fair value adjustments of risk hedged items include:

	2017	2016
Fair value adjustments of risk hedged items	192,251	222,845
Balance at December 31	192,251	222,845

As a hedge against the interest rate risk inherent in loans approved in CHF and EUR at fixed interest rates, the Bank implemented macro fair value hedging (Note 35). As of December 31, 2017 an effectiveness test was performed, which showed that the hedging was highly effective.

27. RECEIVABLES PER FINANCIAL DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Receivables per financial derivatives designated as risk hedging instruments comprise:

	2017	2016
Fair value adjustments of derivatives designated as risk hedging instruments	9,195	375
Balance at December 31	9,195	375

In 2017, the fair value adjustments of derivatives designated as risk hedging instruments pertained to the micro fair value hedging (Note 25.4) while in 2016 those adjustments related to the macro fair value hedging (Note 38).

28. INVESTMENTS IN SUBSIDIARIES

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

	2017	2016
UniCredit Leasing d.o.o.	-	-
UniCredit Partner d.o.o.	112,644	112,644
Impairment allowance	-	-
Balance at December 31	112,644	112,644

29. INTANGIBLE ASSETS

29.1 Intangible assets, net:

	2017	2016
Intangible assets	1,001,317	721,941
Investments in progress	161,141	195,869
Balance at December 31	1,162,458	917,810

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

29. INTANGIBLE ASSETS (Continued)

29.2 Movements on the account of intangible assets in 2017 are presented in the table below:

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2017	2,976,237	195,869	3,172,106
Additions	550,877	(23,379)	527,498
Disposal and retirement	(202,986)	(11,349)	(214,335)
Balance at December 31, 2017	3,324,128	161,141	3,485,269
Accumulated amortization and impairment losses			
Balance at January 1, 2017	2,254,296	-	2,254,296
Amortization charge for the year	271,501	-	271,501
Disposal and retirement	(202,986)	-	(202,986)
Balance at December 31, 2017	2,322,811	-	2,322,811
Net book value at December 31, 2017	1,001,317	161,141	1,162,458
Net book value at January 1, 2017	721,941	195,869	917,810

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

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2016	2,665,406	150,398	2,815,804
Additions	310,831	48,149	358,980
Other	-	(2,678)	(2,678)
Balance at December 31, 2016	2,976,237	195,869	3,172,106
Accumulated amortization and impairment losses			
Balance at January 1, 2016	1,881,686	-	1,881,686
Amortization charge for the year	372,610	-	372,610
Balance at December 31, 2016	2,254,296	-	2,254,296
Net book value at December 31, 2016	721,941	195,869	917,810
Net book value at January 1, 2016	783,720	150,398	934,118

30. PROPERTY, PLANT AND EQUIPMENT

30.1 Property, plant and equipment comprise:

	2017	2016
Buildings	566,288	580,714
Equipment and other assets	728,758	727,677
Leasehold improvements	200,575	222,018
Investments in progress	55,768	46,916
Balance at December 31	1,551,389	1,577,325

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30. PROPERTY, PLANT AND EQUIPMENT (Continued)

30.2 Movements on the account of property and equipment in 2017 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance at January 1, 2017	671,034	1,813,957	480,187	46,916	3,012,094
Additions	-	-	-	248,334	248,334
Transfer from investments in progress	541	209,631	29,310	(239,482)	-
Disposal and retirement	(541)	(366,330)	(27,553)	-	(394,424)
Other	-	(7,551)	-	-	(7,551)
Balance at December 31, 2017	671,034	1,649,707	481,944	55,768	2,858,453
Accumulated depreciation and impairment losses					
Balance at January 1, 2017	90,320	1,086,280	258,169	-	1,434,769
Depreciation charge for the year	14,502	202,351	47,292	-	264,145
Impairment losses	-	-	-	-	-
Disposal and retirement	(76)	(360,452)	(24,092)	-	(384,620)
Other	-	(7,230)	-	-	(7,230)
Balance at December 31, 2017	104,746	920,949	281,369	-	1,307,064
Net book value at December 31, 2017	566,288	728,758	200,575	55,768	1,551,389
Net book value at January 1, 2017	580,714	727,677	222,018	46,916	1,577,325

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30. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance at January 1, 2016	671,034	1,387,988	388,889	25,543	2,473,454
Additions	-	-	-	627,178	627,178
Transfer from investments in progress	6,122	442,678	157,005	(605,805)	-
Disposal and retirement	(6,122)	(13,399)	(65,707)	-	(85,228)
Other	-	(3,310)	-	-	(3,310)
Balance at December 31, 2016	671,034	1,813,957	480,187	46,916	3,012,094
Accumulated depreciation and impairment losses					
Balance at January 1, 2016	77,008	930,993	283,713	-	1,291,714
Depreciation charge for the year	14,006	171,162	39,860	-	225,028
Impairment losses	-	-	-	-	-
Disposal and retirement	(694)	(12,851)	(65,404)	-	(78,949)
Other	-	(3,024)	-	-	(3,024)
Balance at December 31, 2016	90,320	1,086,280	258,169	-	1,434,769
Net book value at December 31, 2016	580,714	727,677	222,018	46,916	1,577,325
Net book value at January 1, 2016	594,026	456,995	105,176	25,543	1,181,740

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

31. INVESTMENT PROPERTY

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

	Investment property	Investments in progress	Total
Cost			
Balance at January 1, 2017	1,642	-	1,642
Balance at December 31, 2017	1,642	-	1,642
Accumulated depreciation and impairment losses			
Balance at January 1, 2017	245	-	245
Depreciation charge for the year	33	-	33
Balance at December 31, 2017	278	-	278
Net book value at December 31, 2017	1,364	-	1,364
Net book value at January 1, 2017	1,397	-	1,397

32. DEFERRED TAX ASSETS AND LIABILITIES

32.1 Deferred tax assets and liabilities relate to:

	2017			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	27,407	-	27,407	47,935	-	47,935
Deferred tax assets in respect of unrecognized current year expenses	143,163	-	143,163	114,570	-	114,570
Deferred tax assets in respect of actuarial losses based on defined benefit plans	609	-	609	2,087	-	2,087
Total	171,179	-	171,179	164,592	-	164,592

32.2 Movements on temporary differences during 2017 are presented as follows:

	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	47,935	(20,528)	-	27,407
Deferred tax assets in respect of expenses not recognized in the current year	114,570	28,593	-	143,163
Deferred tax assets in respect of actuarial losses based on defined benefit plans	2,087	-	(1,478)	609
Total	164,592	8,065	(1,478)	171,179

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

33. OTHER ASSETS

33.1. Other assets relate to:

	2017	2016
Other assets in RSD:		
Fee and commission receivables calculated per other assets	62,433	194,455
Advances paid, deposits and retainers	13,848	8,963
Receivables per actual costs incurred	344,889	369,249
Receivables from the RS Health Insurance Fund	63,596	57,429
Other receivables from operations	397,579	452,185
Assets acquired through collection of receivables	4,927	4,927
Other investments	4,992	4,992
Accrued other income receivables	15,434	10,408
Deferred other expenses	88,596	41,484
Total	996,294	1,144,092
Other assets in foreign currencies:		
Fee and commission receivables calculated per other assets	320	3,850
Advances paid, deposits and retainers	-	109
Other receivables from operations	12,086	18,183
Accrued other income receivables	1,439	17,560
Total	13,845	39,702
Impairment allowance	(32,412)	(316,126)
Balance at December 31	977,727	867,668

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

	Individual level		Group level	
	2017	2016	2017	2016
Balance at January 1	(315,567)	(294,594)	(559)	(10,952)
Impairment loss				
(Charge for the year)/reversal	(13,953)	(69,705)	16	10,393
Foreign exchange effects	561	(148)	-	-
Portfolio sale effects	38,515	472	-	-
Write-off with debt acquittal	12,675	3,225	-	-
Write-off without debt acquittal	245,900	45,183	-	-
Total impairment allowance	283,698	(20,973)	16	10,393
Balance at December 31	(31,869)	(315,567)	(543)	(559)

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

	2017	2016
FAP Priboj a.d.	4,737	4,737
Fund for Supplementary Education of Young Farmers	147	147
Tržište novca a.d. [Money Market, shareholding company]	108	108
	4,992	4,992
Impairment allowance	(4,992)	(4,992)
Balance at December 31	-	-

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

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

34. 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:

	2017	2016
Instrument types:		
- currency swaps and forwards	54,455	93,814
- interest rate swaps	152,548	140,418
Balance at December 31	207,003	234,232

35. LIABILITIES PER FINANCIAL DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Liabilities per financial derivatives designated as risk hedging instruments include:

	2017	2016
Instrument types:		
- interest rate swaps	448,794	540,097
Balance at December 31	448,794	540,097

The Bank uses interest rate swaps to protect itself from the exposure to the changes in the fair values of the local municipality bonds and RS Treasury bills with fixed return rates (Note 22), and loans extended in CHF and EUR at fixed interest rates (Note 26).

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

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

	2017	2016
Demand deposits:		
- in RSD	4,679,346	1,671,612
- in foreign currencies	1,182,722	1,329,664
Total demand deposits	5,862,068	3,001,276
Overnight deposits:		
- in RSD	672,376	539,588
- in foreign currencies	14,223,612	21,682,567
Total overnight deposits	14,895,988	22,222,155
Short-term deposits:		
- in RSD	3,202,788	2,054,563
- in foreign currencies	15,937,684	13,576,227
Total short-term deposits	19,140,472	15,630,790
Long-term deposits:		
- in RSD	617,334	547,233
- in foreign currencies	39,536,765	18,151,034
Total long-term deposits	40,154,099	18,698,267
Long-term borrowings:		
- in foreign currencies	19,374,495	22,473,975
Other financial liabilities:		
- in foreign currencies	106,451	63,961
Balance at December 31	99,533,573	82,090,424

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

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

Short-term RSD deposits were placed by other banks for periods of up to a year at annual interest rates from 1.66% to 3.4%, while short-term foreign currency deposits of other banks maturing within a year accrued interest at the rates ranging from -0.7% to 1.6 annually, depending on the currency.

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

	2017	2016
European Bank for Reconstruction and Development (EBRD)	3,318,653	5,641,486
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	1,125,387	1,882,732
European Investment Bank, Luxembourg	672,252	931,675
International Financial Corporation, Washington	1,385,101	1,805,921
European Fund for Southeast Europe SA, Luxembourg	9,245,983	1,520,280
MIDF B.V, Netherlands	-	1,173,869
Green for Growth Fund, Southeast Europe, Luxembourg	2,348,419	1,210,486
UniCredit Bank Austria AG	1,278,700	1,964,546
EFSE Netherlands B.V.	-	6,342,980
Balance at December 31	19,374,495	22,473,975

The above listed long-term borrowings were approved to the Bank for periods from 5 to 15 years at nominal interest rates ranging up to 3.39% per annum.

37. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

37.1. Deposits and other liabilities due to customers comprise:

	2017	2016
Demand deposits:		
- in RSD	45,701,976	42,078,829
- in foreign currencies	76,454,097	69,595,210
Total demand deposits	122,156,073	111,674,039
Overnight deposits:		
- in RSD	1,775,281	5,278,666
- in foreign currencies	2,475,327	343,800
Total overnight deposits	4,250,608	5,622,466
Short-term deposits:		
- in RSD	22,531,919	11,072,515
- in foreign currencies	20,425,493	23,448,515
Total short-term deposits	42,957,412	34,521,030
Long-term deposits:		
- in RSD	2,878,358	1,618,759
- in foreign currencies	8,226,646	12,835,532
Total long-term deposits	11,105,004	14,454,291
Long-term borrowings		
- in foreign currencies	5,845,446	10,478,736
Total long-term borrowings	5,845,446	10,478,736
Other financial liabilities		
- in RSD	136,031	208,014
- in foreign currencies	208,259	1,273,794
Total other financial liabilities	344,290	1,481,808
Balance at December 31	186,658,833	178,232,370

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

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

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

	2017	2016
Public sector	1,243,399	4,273,234
Corporate customers	122,593,576	108,674,462
Retail customers	56,976,412	54,805,938
Long-term borrowings (Note 37.3)	5,845,446	10,478,736
Balance at December 31	186,658,833	178,232,370

RSD demand deposits of corporate customers accrued interest at the annual rate of 0.8%, on the average, while EUR-denominated demand deposits accrued interest at the annual rate of 0.2% on the average.

Corporate RSD term deposits accrued interest at the average rate of 3.51% annually, while EUR-denominated corporate deposits were placed at average interest rate of 1.05% annually.

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

Short-term foreign currency deposits of retail customers were placed at interest rates ranging from 0.05% to 0.4% annually, depending on the period of placement. The annual interest rates applied to medium-term deposits (18 to 36 months) were in the range between 0.4% and 0.9%. Short-term RSD deposits of retail customers accrued interest at the rates ranging from 1.3% to 1.9% annually, depending on the period of placement.

RSD deposits placed by small entities and entrepreneurs were deposited at annual interest rates between 0.8% and 1.2% while foreign currency deposits of these customers accrued interest at the rates ranging from 0.1% to 0.7% annually.

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

	2017	2016
NBS - European Investment Bank, Luxembourg	-	8.567.215
NBS Revolving Credit Fund	5,807,101	390,517
Government of the Republic of Italy	38,345	1,521,004
Balance at December 31	5,845,446	10,478,736

Long-term borrowings obtained from customers were approved to the Bank for periods from 6 to 13 years at nominal interest rates of up to 2.15% per annum.

38. FAIR VALUE ADJUSTMENTS OF RISK HEDGED ITEMS

Fair value adjustments of risk hedged items include:

	2017	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 Bank implemented macro fair value hedging (Note 27).

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

39. SUBORDINATED LIABILITIES

Subordinated liabilities relate to:

	2017	2016
UniCredit Bank Austria AG, Vienna	2,718,490	3,082,125
Balance at December 31	2,718,490	3,082,125

As at December 31, 2017 subordinated liabilities in foreign currencies in the amount of RSD 2,718,490 thousand pertain to the subordinated long-term borrowing received from UniCredit Bank Austria AG in the amount of CHF 26,830,000. This loan was approved to the Bank for a period of 12 years at the interest rate equal to 3-month CHF LIBOR increased by 2.93%, but the interest rate was subsequently set at the fixed rate of 4.51%. The loan is not securitized with collateral and all the liabilities arising from this loan agreement are considered subordinated, i.e. in the event of the Bank's liquidation or bankruptcy, such liabilities will be settled only after settlement of liabilities to all other creditors.

40. PROVISIONS

Provisions relate to:

	2017	2016
Individual provisions for off-balance sheet items	126,577	99,508
Group provisions for off-balance sheet items	198,264	197,727
Provisions for other long-term employee benefits	59,275	67,019
Provisions for potential litigation losses	344,425	240,230
Provisions for other liabilities	343,990	348,885
Balance at December 31	1,072,531	953,369

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

	Individual Provisions for Off- Balance Sheet Items	Group Provisions for Off- Balance Sheet Items	Provisions for Long-Term Employee Benefits	Provisions for Potential Litigation Losses	Provisions for Other Liabilities	Total
Balance, January 1	99,508	197,727	67,019	240,230	348,885	953,369
Charge for the year						
- in the income statement	94,263	675	5,079	127,009	-	227,026
- in the statement of other comprehensive income	-	-	(9,856)	-	-	(9,856)
	94,263	675	(4,777)	127,009	-	217,170
Release of provisions	-	-	(2,967)	(3,675)	-	(6,642)
Reversal of provisions (Note 14)	(67,194)	(138)	-	(19,139)	(4,895)	(91,366)
Balance, at December 31	126,577	198,264	59,275	344,425	343,990	1,072,531

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

41. OTHER LIABILITIES

Other liabilities include:

	2017	2016
Advances received, deposits and retainers:		
- in RSD	12,761	11,632
- in foreign currencies	3,669	3,139
Trade payables:		
- in RSD	228,352	176,855
- in foreign currencies	294,110	498,105
Other liabilities:		
- in RSD	490,343	516,604
- in foreign currencies	771,940	863,897
Fees and commissions payable per other liabilities:		
- in RSD	8,645	5,762
- in foreign currencies	13,974	14,230
Deferred other income:		
- in RSD	206,619	149,113
- in foreign currencies	56,364	82,037
Accrued other expenses:		
- in RSD	394,339	313,543
- in foreign currencies	35,124	43,350
Liabilities per managed funds	19,288	51,069
Taxes and contributions payable	54,484	136,663
Balance at December 31	2,590,012	2,865,999

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

In accordance with the Law on Accounting, the Bank reconciled its balances of payables and receivables with its debtors and creditors. The balance reconciliations were made as of September 30, 2017. Out of the total amount of receivables for balance reconciliation, unreconciled balances totaled RSD 76.307 thousand, gross, while non-responded balance confirmation requests amounted to RSD 16.909.656 thousand. Out of the total amount of liabilities for balance reconciliation, unreconciled balances totaled RSD 123.725 thousand, while non-responded balance confirmation requests amounted to RSD 73,564,802 thousand. As for off-balance sheet items, the unreconciled balances amounted to RSD 889.977 thousand and confirmation requests totaling RSD 302.869.144 thousand were not responded to.

43. EQUITY

43.1. Equity is comprised of:

	2017	2016
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	6,633,319	6,226,600
Reserves	38,537,400	33,807,839
Balance at December 31	69,340,495	64,204,215

As of December 31, 2017 the Bank's share capital totaled RSD 23,607,620 thousand and comprised 2,360,762 common stock (ordinary) shares with the individual par value of RSD 10,000. All shares issued by the Bank are ordinary shares.

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

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

43. EQUITY (Continued)

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

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

43.2. Earnings per Share

The basic earnings per share totaled RSD 2,810 in 2017 (2016: RSD 2,638).

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

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

	2017	2016
Actuarial gains/(losses) per defined employee benefits	8,378	(2,153)
Net fair value adjustments of financial assets available for sale	(255,417)	(834,514)
Other comprehensive income, net of taxes	(247,039)	(836,667)

44. CASH AND CASH EQUIVALENTS

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

	2017	2016
In RSD:		
Gyro account (Note 20)	17,645,389	8,734,298
Cash on hand (Note 20)	1,577,892	1,363,614
	19,223,281	10,097,912
In foreign currencies:		
Foreign currency accounts (Note 24)	2,510,170	5,651,441
Cash on hand (Note 20)	1,034,221	1,024,061
Other cash funds (Note 20)	38,226	43,692
	3,582,617	6,719,194
Balance at December 31	22,805,898	16,817,106

45. CONTINGENT LIABILITIES AND COMMITMENTS

45.1. Litigation

As of December 31, 2017 there were 301 legal suits filed against the Bank (including 7 labor lawsuits) with claims totaling RSD 1,206,753 thousand. In 11 of these proceedings plaintiffs are legal entities and in 290 proceedings private individuals appear as plaintiffs.

The Bank made provisions of RSD 344,425 thousand in respect of the legal suits filed against it (Note 40). The aforesaid amount of provisions includes those for the labor lawsuits filed.

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

45. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

45.1. Litigation (Continued)

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

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

45.2. The Bank's commitments for operating lease liabilities for business premises (including parking spots and lease of spaces for ATMs) are provided below:

	2017	2016
Commitments due		
- within a year	451,246	409,723
- from 1 to 5 years	1,675,721	1,585,123
- after 5 years	1,166,115	1,343,996
Total	3,293,082	3,338,842

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

	2017	2016
Contingent liabilities		
Payment guarantees		
- in RSD	11,544,832	11,063,135
- in foreign currencies	11,350,088	9,699,275
Performance bonds		
- in RSD	40,258,699	28,487,153
- in foreign currencies	5,200,519	6,028,667
Letters of credit		
- in RSD	-	27,718
- in foreign currencies	2,023,063	4,208,584
Irrevocable commitments for undrawn loans	24,619,436	19,623,936
Other irrevocable commitments	21,323,572	11,331,633
Balance at December 31	116,320,209	90,470,101

45.4. Breakdown of irrevocable commitments is provided below:

	2017	2016
Commitments		
Current account overdrafts approved	3,629,513	1,322,601
Unused portion of approved credit card loan facilities	922,145	986,087
Unused framework loans	18,675,532	15,324,092
Letters of intent	1,392,246	1,991,156
Other irrevocable commitments	21,323,572	11,331,633
Balance at December 31	45,943,008	30,955,569

45.5 Undrawn foreign line of credit funds as of December 31, 2017 amounted to RSD 1,777,091 thousand (2016: RSD 9,151,273 thousand).

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46. RELATED PARTY DISCLOSURES

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

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

		2017	2016
Statement of financial position			
Loans and receivables due from banks and other financial institutions			
1.	UniCredit Bank Austria AG, Vienna	619,359	381,052
2.	UniCredit Bank AG, Munich	26,109	20,229
3.	UniCredit Bank Czech Republic and Slovakia a.s.	6	-
4.	UniCredit Bulbank, Sofia	22	23
5.	UniCredit S.P.A. Milano	7,515,042	14,407,879
6.	UniCredit Banka Slovenia, Ljubljana	-	331
7.	Zagrebačka banka d.d., Croatia	550	4,220
8.	UniCredit Bank Hungary Z.r.t., Hungary	5,212	7,469
9.	UniCredit Bank ZAO Moscow	9,924	6,943
10.	UniCredit Bank BIH	416	-
11.	Bank Polska Kasa Opieki SA*	-	2,692
12.	UniCredit Leasing Serbia	-	1,852,085
		8,176,640	16,682,923
Loans and receivables due from customers			
1.	Bank's Management Board	22,205	10,862
2.	UCTAM D.O.O.	82,004	104,719
		104,209	115,581
Other assets			
1.	UniCredit S.P.A. Milano	12,040	12,165
2.	UniCredit Bank Austria AG, Vienna	2,493	211,616
3.	UniCredit Bank AG, Munich	2,518	3,174
4.	Zagrebačka banka d.d., Croatia	316	282
5.	UniCredit Bank BIH	287	6
6.	UniCredit Banka Slovenia, Ljubljana	4	4
7.	UniCredit Bank ZAO Moscow	6	6
8.	UniCredit Bank Hungary Z.r.t., Hungary	28,538	2,696
9.	UniCredit Rent d.o.o.	275	101
10.	UniCredit Partner d.o.o	78	87
11.	UniCredit Leasing Serbia	742	835
12.	UniCredit Bank AG, London	1,025	-
13.	UniCredit Tiriac Bank SA, Romania	1,483	-
14.	UCTAM D.O.O.	80	1
15.	UNICREDIT S.p.A. Zweigniederlassung Wien	-	30
		49,885	231,003

*Bank Polska Kasa Opieki SA was no longer member of UniCredit Group since 2017.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
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46. RELATED PARTY DISCLOSURES (Continued)

		2017	2016
Deposits and other liabilities due to banks, other financial institutions and the central bank			
1.	UniCredit Bank Austria AG, Vienna	16,920,170	18,656,802
2.	UniCredit Leasing Srbija d.o.o	908,295	700,293
3.	UniCredit Partner d.o.o	212,510	192,378
4.	UniCredit Bank AD Banja Luka	241,132	252,008
5.	Zagrebačka banka d.d. Croatia	53,062	39,985
6.	UniCredit Bank AG, London	36	12
7.	UniCredit Banka Slovenia, Ljubljana	4,639	6,933
8.	UniCredit Bank AG, Munich	6,091	2,928
9.	UniCredit Bank Hungary Z.r.t., Hungary	2,790	1,500
10.	UniCredit Bulbank, Sofia	2	2
11.	UniCredit S.P.A. Milano	46,920,057	29,267,389
12.	UniCredit Bank Czech Republic and Slovakia a.s.	42,071	2,420
13.	UniCredit Bank ZAO Moscow	-	193
14.	Bank Polska Kasa Opieki SA	-	111
		65,310,855	49,122,954
Deposits and other liabilities due to customers			
1.	Bank's Management Board	25,115	20,633
2.	UniCredit Rent d.o.o	168,222	13,528
3.	BA CA Leasing Deutschland GmbH, Germany	4,591	4,621
4.	Ambassador Parc Dedinje d.o.o.	451,858	414,801
5.	UniCredit CAIB AG, Vienna	63	65
6.	UCTAM D.O.O.	22,433	43,613
		672,282	497,261
Subordinated liabilities			
1.	UniCredit Bank Austria AG, Vienna	2,718,490	3,082,125
		2,718,490	3,082,125
Other liabilities			
1.	UniCredit Bank AG, Munich	-	3,387
2.	UniCredit Bank Austria AG, Vienna	89,522	-
3.	UniCredit Bank Hungary Z.r.t., Hungary	155	190
4.	UniCredit Bank AD Banja Luka	14,431	-
5.	UniCredit S.P.A. Milano	135,619	179,669
6.	UniCredit Bulbank, Sofia	5,552	-
7.	Yapi ve Kredi Bankasi AS, Turkey	1,292	-
8.	UniCredit Rent d.o.o.	-	201
9.	UBIS GmbH, Vienna	1,412	291,324
10.	UniCredit Business Integrated Solutions S.C.P.A, Czech Republic	2,793	2,682
		250,776	477,453
Liabilities, net as of December 31		60,621,669	36,150,286

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

	2017	2016
Income statement		
Interest income	7,353	13,631
Interest expenses	(721,642)	(1,002,563)
Fee and commission income and other income	176,268	152,778
Fee and commission expenses and other expenses	(530,379)	(467,876)
Expenses, net as of December 31	(1,068,400)	(1,304,030)

Total gross salaries and other remunerations of the Bank's Management Board members amounted to RSD 96,388 thousand in 2017.

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47. EVENTS AFTER THE REPORTING PERIOD

At its regular session held on January 31, 2018, the Bank's Supervisory Board adopted Decision no. 18/18 on the relief of duty of the Management Board Member and Chairperson Ms. Csilla Ihász, at her personal request, due to transfer to a position outside UniCredit Group effective from March 1, 2018.

At the same session the Bank's Supervisory Board adopted Decision no.19/18 on the appointment of Mr. Nikola Vuletić, a member of the Board as the Management Board Chairperson effective from March 1, 2018.

Belgrade, February 22, 2018

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

Csilla Ihász
Management Board Chairperson

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

"UniCredit Bank Srbija a.d." Beograd
"UniCredit Bank Serbia JSC" Belgrade
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Mirjana Kovačević
Head of Accounting Department