MARFIN BANK A.D., BEOGRAD

Financial Statements
December 31, 2015 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

CONTENTS

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Founders of Marfin Bank A.D., Beograd

We have audited the accompanying financial statements of Marfin Bank A.D., Beograd (hereinafter: the "Bank"), enclosed on pages 4 to 91, which comprise the statement of the financial position as of December 31, 2015 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with the Law on Audit of the Republic of Serbia and the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Basis for Qualified Opinion

As disclosed in Note 23 to the financial statements, as of December 31, 2015 the Bank's investment property was stated at the revalued amount of RSD 1,039,983 thousand, based on the value appraisal performed by independent certified appraisers. Based on the audit procedures performed, for three investment properties amounting to RSD 679,551 thousand, we were unable to satisfy ourselves that the methods and approaches used in the appraisal are adequate or that the supporting information used in the appraisal upon application of certain valuation methods is properly documented. Accordingly, we were unable to estimate the effects that this matter may have on the stated amount of the said investment property as of December 31, 2015.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Founders of Marfin Bank A.D., Beograd (Continued)

Qualified Opinion

In our opinion, except for effects of any adjustments that may have been determined as necessary had we been able to satisfy ourselves as to the matter disclosed in the *Basis for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of Marfin Bank A.D., Beograd as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 2.7 to the financial statements, disclosing that the accompanying financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate for and indefinite period in the foreseeable future. The Bank is obligated to maintain the scope of its business operations within the legally prescribed ratios, i.e. to reconcile the scope and structure of its risk-weighted assets with the Law on Banks and the relevant regulations of the National Bank of Serbia. As of December 31, 2015, the capital adequacy ratio as calculated by the Bank equaled 6.88%, which is below the prescribed minimum of 12%, whereas the Bank's capital amounted to EUR 6,700 thousand (while the prescribed minimum is EUR 10 million). As of December 31, 2015, in addition to the capital adequacy ratio and the minimum amount of capital, the Bank did not comply with the prescribed ratio of investments in fixed assets, which amounted to 191.91% of the Bank's net assets (the prescribed minimum is 60%), and the ratio of exposure to a single entity or a group of related entities, which amounted to 28.5% and 26.85% (while the prescribed maximum is 25%).

Any measures that the National Bank of Serbia might undertake in respect of the above described departures cannot currently be anticipated. The ability of the Bank to continue as a going concern is dependent on the future developments and capital increase for the amount necessary to comply with all the requirements of the Law on Banks and the relevant decisions of the National Bank of Serbia governing operations of banks. Plans of the Bank's management are disclosed in Note 2.7 to the financial statements, where, inter alia, we draw attention to the fact that the Bank's majority shareholder has initiated the sale of its majority shareholding in the Bank, which was not completed until these financial statements' issue date, as well as to the concentration of the sources of funding transferred from the parent bank to the Bank of Cyprus, which needs to be continually renewed upon maturity, as well as to the measures imposed by the National Bank of Serbia aimed at retention of these assets with the Bank in order to maintain its liquidity. The aforesaid facts indicate the existence of material uncertainties that may give rise to significant doubt about the Bank's ability to continue as going concern. The Bank's financial statements as of and for the year ended December 31, 2015 do not include any adjustments that may arise from the said uncertainties.

We conducted our audit in accordance with the statutory audit requirements. The scope of our work did not include procedures for any special purpose or specified users. Our audit may not have encompassed all the matters that may be of interest to the users of our report and of the related financial statements. Accordingly, our report is not to be taken or relied on as the sole source of information.

Our opinion is not qualified in respect of these matters.

Report on Other Legal and Regulatory Requirements

Management of the Bank is responsible for the preparation of the annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia. In accordance with the Law on Audit of the Republic of Serbia and Decision on Amendments and Supplements to the Decision on External Audit of Banks, it is our responsibility to express an opinion on the compliance of the accompanying annual business report for the year 2015 with the Bank's financial statements for the same financial year. In our opinion, the financial information disclosed in the Bank's annual business report for 2015 is consistent with its audited financial statements for the year ended December 31, 2015.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Founders of Marfin Bank A.D., Beograd (Continued)

Other Matter

The Bank's financial statements as of and for the year ended December 31, 2014 were audited by another auditor, whose report dated April 28, 2015 expressed an unqualified opinion with emphasis of matter drawing attention to the going concern due to the concentration of sources of funding transferred from the parent bank to the Bank of Cyprus, which needs to be continually renewed upon maturity, as well as to the measures imposed by the National Bank of Serbia aimed at retention of these assets with the Bank in order to maintain its liquidity.

Belgrade, April 21, 2016

Deloitte d.o.o. BEOGRAD IV

Nataša Milojević

Nataša Milojević
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2015
(Thousands of RSD)

	Note	2015	2014
Interest income	6	1,391,034	1,451,281
Interest expenses	6	(502,564)	(658,877)
Net interest income		**888,470**	**792,404**
Fee and commission income	7	198,407	212,223
Fee and commission expenses	7	(49,317)	(45,820)
Net fee and commission income		**149,090**	**166,403**
Net (losses)/gains on the hedges against risks	8	(4,177)	3,857
Net foreign exchange (losses)/gains and (negative)/positive currency clause effects	9	(15,431)	20,194
Other operating income	10	70,030	97,405
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	11	(746,439)	(425,352)
TOTAL OPERATING INCOME, NET		**341,543**	**654,911**
Staff costs	12	(486,289)	(528,217)
Depreciation and amortization charge	13	(91,496)	(84,412)
Other expenses	14	(593,549)	(609,399)
LOSS BEFORE TAXES		**(829,791)**	**(567,117)**
Deferred tax expenses	15	(7,541)	(4,284)
LOSS FOR THE YEAR, NET OF TAXES		**(837,332)**	**(571,401)**
NET LOSS FOR THE YEAR		**(837,332)**	**(571,401)**
Earnings per share (in RSD, rounded)	16	(75)	(51)

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

These financial statements were approved by the Executive Board of Marfin bank A.D., Beograd on March 30, 2016.

Signed on behalf of Marfin bank A.D., Beograd by:

Mirjana Dragojlović
Finance Controlling and Risk Management Manager

MARFIN BANK AKCIONARSKO DRUŠTVO BEOGRAD 1

Borislav Strugarević
Executive Board Chairman

Translation of the Auditors' Report issued in the Serbian language

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2015
(Thousands of RSD)

	2015	2014
LOSS FOR THE YEAR	**(837,332)**	**(571,401)**
Components of other comprehensive income that cannot be reclassified to profit or loss:		
Decrease in revaluation reserves due to sales of property, plant and equipment	(4,360)	-
Actuarial losses	(2,324)	-
Total negative comprehensive income for the year	(6,684)	-
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE YEAR	**(844,016)**	**(571,401)**

Notes on the following pages
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These financial statements were approved by the Executive Board of Marfin bank A.D., Beograd on March 30, 2016.

Signed on behalf of Marfin bank A.D., Beograd by:

Mirjana Dragojlović
Finance Controlling and Risk Management Manager

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD 1

Borislav Strugarević
Executive Board Chairman

STATEMENT OF THE FINANCIAL POSITION
As of December 31, 2015
(Thousands of RSD

	Note	2015	2014
ASSETS			
Cash and cash funds held with the central bank	17	3,720,883	3,464,593
Loans and receivables due from banks and other financial institutions	18	2,619,789	3,299,323
Loans and receivables due from customers	19	13,508,023	14,597,077
Receivables per financial derivatives designated as risk hedging instruments	20	-	4,662
Intangible assets	21	128,213	142,426
Property, plant and equipment	22	523,852	507,980
Investment property	23	1,039,983	1,260,239
Current tax assets		1,325	1,325
Other assets	24	890,138	903,736
TOTAL ASSETS		**22,432,206**	**24,181,361**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities due to banks, other financial institutions and the central bank	25	8,349,107	8,326,060
Deposits and other liabilities due to customers	26	10,129,503	11,062,789
Treasury shares and other borrowed funds	27	123,053	123,052
Subordinated liabilities	28	612,033	605,900
Provisions	29	40,569	43,892
Deferred tax liabilities	30	27,085	19,544
Other liabilities	31	191,806	201,417
TOTAL LAIBILITIES		**19,473,156**	**20,382,654**
EQUITY			
Share capital	32a	8,426,043	8,426,043
Loss	32	(5,884,782)	(5,051,809)
Reserves	32	417,789	424,473
TOTAL EQUITY		**2,959,050**	**3,798,707**
TOTAL LIABILITIES AND EQUITY		**22,432,206**	**24,181,361**

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

These financial statements were approved by the Executive Board of Marfin bank A.D., Beograd on March 30, 2016.

Signed on behalf of Marfin bank A.D., Beograd by:

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD

Mirjana Dragojlović
Finance Controlling and Risk Management Manager

Borislav Strugarević
Executive Board Chairman

Translation of the Auditors' Report issued in the Serbian language

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2015
(Thousands of RSD)

	Issued and Other Capital	Share Premium	Reserves from Profit and Other Reserves	Revaluation Reserves and Unrealized Losses	Loss	Total
Opening balance at January 1, 2014	5,548,556	2,877,487	151,673	272,800	(4,480,412)	4,370,104
Loss for the year	-	-	-	-	(571,397)	(571,397)
Balance at December 31, 2014	5,548,556	2,877,487	151,673	272,800	(5,051,809)	3,798,707
Opening balance at January 1, 2015	5,548,556	2,877,487	151,673	272,800	(5,051,809)	3,798,707
Total negative comprehensive income for the year	-	-	-	(6,684)	-	(6,684)
Loss for the year	-	-	-	-	(837,332)	(837,332)
Transfer from revaluation reserves – sales of buildings	-	-	-	-	4,360	4,360
Other	-	-	-	-	(1)	(1)
Balance at December 31, 2015	5,548,556	2,877,487	151,673	266,116	(5,884,782)	2,959,050

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

These financial statements were approved by the Executive Board of Marfin bank A.D., Beograd on March 30, 2016.

Signed on behalf of Marfin bank A.D., Beograd by:

AKCIONARSKO DRUŠTVO „MARFIN BANK" BEOGRAD 1

Mirjana Dragojlović
Finance Controlling and Risk Management Manager

Borislav Strugarević
Executive Board Chairman

STATEMENT OF CASH FLOWS
Year Ended December 31, 2015
(Thousands of RSD)

	2015	2014
OPERATING ACTIVITIES	**1,723,741**	**1,776,686**
Cash inflows from operating activities		
Interest receipts	1,467,445	1,563,367
Fee and commission receipts	198,689	213,319
Receipts from other operating activities	57,607	-
Cash outflows from operating activities	**(1,859,557)**	**(2,013,651)**
Interest payments	(532,171)	(836,894)
Fee and commission payments	(49,438)	(46,003)
Payments to, and on behalf of employees, gross	(519,379)	(578,795)
Taxes, contributions and other duties paid	(141,982)	(157,506)
Payments for other operating expenses	(616,587)	(394,453)
Net cash inflows from operating activities prior to changes in loans and deposits	**(135,816)**	**(236,965)**
Decrease in loans and increase in deposits received and other liabilities	**1,166,245**	**1,135,430**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	1,166,245	-
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	-	150,606
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	-	984,824
Increase in loans and decrease in deposits received and other liabilities	**923,591**	**2,168,104**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	-	2,020,126
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	-	147,978
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	923,591	-
Net cash generated by/(used in) operating activities before income taxes	**106,838**	**(1,269,639)**
Income taxes paid	-	(514)
Net cash generated by/(used in) operating activities	**106,838**	**(1,270,153)**
INVESTING ACTVITIES		
Inflows/(outflows) from the sales/(purchases) of intangible assets, property, plant and equipment	225,712	(227,673)
Other outflows from investing activities	(268,579)	(535,991)
Net cash used in investing activities	**42,867**	**763,664**
FINANCING ACTIVITIES		
Inflows per subordinated liabilities, net	-	604,792
Inflows/(outflows) from borrowings, net	35,456	(907,252)
Net cash generated by/(used in) financing activities	**35,456**	**(302,460)**
TOTAL CASH INFLOWS	**3,151,154**	**3,564,580**
TOTAL CASH OUTFLOWS	**3,051,727**	**5,900,857**
NET CASH INCREASE/(DECREASE)	**99,427**	**(2,336,277)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,964,943	4,867,553
FOREIGN EXCHANGE LOSSES, NET	(119,369)	(566,333)
CASH AND CASH EQUIVALENTS, END OF YEAR	**1,945,001**	**1,964,943**

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

These financial statements were approved by the Executive Board of Marfin bank A.D., Beograd on March 30, 2016.

Signed on behalf of Marfin bank A.D., Beograd by:

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD 1

Mirjana Dragojlović
Finance Controlling and Risk Management Manager

Borislav Strugarević
Executive Board Chairman

1. GENERAL INFORMATION ON THE BANK

Marfin Bank a.d. Beograd was established on December 28, 1990. In accordance with the Law on Banks, the Bank was registered to perform domestic and foreign payment operations and domestic crediting and depositary activities.

The Bank is headquartered in Belgrade, at the address of no. 22, Dalmatinska Street. As at December 31, 2015, the Bank's network of branches, business units and cash desks comprised 18 organizational units (December 31, 2014: 19 organizational units).

As at December 31, 2015, the Bank had 289 employees (December 31, 2014: 307 employees), while the average headcount during 2015 was 293 (2014: 317).

The Bank's corporate ID number is 07534183, and its tax identification number is 100003148.

Under the Serbian Business Registers Agency's Decision no. BD 75207/2014 dated September 9, 2014, Mr. Georgios Phiniotis was appointed member of the Bank's Executive Board.

Under the Serbian Business Registers Agency's Decision no. BD 82147/2014 dated October 2, 2014, Mr. Borislav Strugarević was appointed Chairman of the Executive Board in place of Mr. Eleftherios Papaeracleous.

Members of the Executive Board are: Borislav Strugarević and Georgios Phiniotis.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. 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).

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;
- financial assets and liabilities held for trading stated at fair value; and
- investment property and buildings stated at fair value.

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

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

2.1. Basis of Preparation and Presentation of Financial Statements (Continued)

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

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

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

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

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

Standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2. Standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

2.2. Standards and Interpretations Issued that Came into Effect in the Current Period

In the current year the Bank applied the following amendments and revisions to IFRS issued by the International Accounting Standards Board ("IASB") mandatorily effective for the accounting periods beginning on or after January 1, 2015:

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

- Amendments resulting from Annual Improvements to IFRSs 2010-2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

- Amendments resulting from Annual Improvements to IFRSs 2011-2013 Cycle (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

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

2.3. Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective for the financial year ended December 31, 2015:

- IFRS 9 "Financial Instruments" and subsequent amendments, supplanting the requirements of IAS 39 "Financial Instruments: Recognition and Measurement", with regard to classification and measurement of financial assets. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016).

- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).

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

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

- 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 (effective for annual periods beginning on or after January 1, 2016).

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

- Amendments resulting from Annual Improvements to IFRSs 2012-2014 Cycle (IFRS 5, IFRS 7 and IAS 19) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2016).

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

- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016).

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

2.3. Standards and Interpretations in Issue not yet in Effect (Continued)

IFRS 9 *"Financial Instruments"*

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

The Bank believes that IFRS 9 will have an impact on the financial statements of the Bank; however, the Bank is currently unable to estimate the effects of IFRS 9 introduction.

The key requirements of IFRS 9 are:

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

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

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

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

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

2.3. Standards and Interpretations in Issue not yet in Effect (Continued)

IFRS 15 *"Revenue from Contracts with Customers"*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer,
- Step 2: Identify the performance obligations in the contract,
- Step 3: Determine the transaction price,
- Step 4: Allocate the transaction price to the performance obligations in the contract, and
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 11 "*Accounting for Acquisitions of Interests in Joint Operations"*

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 "Business Combinations". Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 "Income Taxes" regarding the recognition of deferred taxes at the time of acquisition and IAS 36 "Impairment of Assets" regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after January1, 2016. Management of the Bank anticipates that the application of these amendments to IFRS 11 may have an impact on the Bank's financial statements in future periods should such transactions arise.

Amendments to IAS 1 *"Disclosure Initiative"*

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016. Management of the Bank does not anticipate that the application of these amendments to IAS 1 will have a material impact on the Bank's financial statements.

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

2.3. Standards and Interpretations in Issue not yet in Effect (Continued)

Amendments to IAS 16 and IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortization*"

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Bank uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. Management of the Bank believes that that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and, accordingly, does not anticipate the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 41 *"Agriculture: Bearer Plants"*

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The application of these amendments to IAS 16 and IAS 41 will have a material impact on the Bank's financial statements as the Bank is not engaged in agricultural activities.

Amendments to IFRS 10, IFRS 12 and IAS 28 "*Investment Entities: Applying the Consolidation Exception*"

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Management of the Bank does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Bank's financial statements, as the Bank is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

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

2.3. Standards and Interpretations in Issue not yet in Effect (Continued)

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

Management of the Bank does not anticipate that the application of these amendments will have a material effect on the Bank's financial statements.

2.4. Comparative Information

Comparative information in the accompanying financial statements represents the data from the Bank's financial statements for 2014.

2.5 Use of Estimates

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

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

2.6 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").

2.7. Going Concern

The Bank's financial statements have been prepared on a going concern basis, entailing that the Bank will continue to operate in the foreseeable future.

2.7.1 a) Position of Cyprus Popular Group (the Parent Entity) and Recent Developments

Over the past few years the Cypriot economy has been adversely affected by the international credit crisis and instability on the financial markets. During 2012 there was substantial tightening of accessibility to funding by the Cypriot financial institutions, mainly arising from the Greek sovereign debt crisis and impairment of the Greek Government bonds. In addition, following the credit rating downgrades, the ability of Cyprus to borrow funds in the international financial markets has been significantly reduced. The Cypriot Government entered into negotiations with the European Commission, the European Central Bank and International Monetary Fund in order to obtain financial support.

On March 25, 2013 an agreement was reached on the key elements necessary for the future macroeconomic adjustments program, which includes provision of financial aid to Cyprus up to EUR 10 billion. This program, supported by the European Stability Mechanism ("EMS") and International Monetary Fund ("IMF") aims to address exceptional economic challenges Cyprus is facing and restore sustainability of the financial sector in order to strengthen the sustainability of the public finances and adopt structural reforms for support of the long-term growth and simultaneous protection of the welfare of the population.

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

2.7. Going Concern (Continued)

2.7.1 a) Position of Cyprus Popular Group (the Parent Entity) and Recent Developments (Continued)

In accordance with the Decree issued by the Central Bank of Cyprus (Official Gazette of the Republic of Cyprus no. 4645 dated March 29, 2013) Cyprus Popular Bank transferred to the Bank of Cyprus all assets, title deeds and rights, except, among others, investments in shares of Cyprus Popular Bank subsidiaries incorporated in a jurisdiction other than the Republic of Cyprus.

The European Troika, comprised of the members from the European Commission ("EC"), European Central Bank ("ECB") and IMF performed regular reviews to ensure that the compliance program was being implemented properly. All the reviews were deemed successful given the macroeconomic conditions in Cyprus have been developing in line with the program projections and that the GDP growth in 2015 was 1.6 - the highest growth achieved for the past seven years. Fiscal consolidation has been progressing in line with the agreed consolidation process. It was also determined that structural reforms were progressing and that steps were taken in the right direction in terms of capital increase and financial sector restructuring. As a result, there was a gradual relaxation of the administrative measures during 2014 and 2015 until they were definitely revoked on March 31, 2016, ending the program without drawdown of the final trance amounting to EUR 2.7 billion.

b) The Bank's Position in Serbia

In the current environment in Serbia the Bank has focused on liquidity and capital adequacy. Currently, a significant source of funding is provided by the Bank of Cyprus (formerly by Cyprus Popular Group prior to the Decree issuance by the Central Bank of Cyprus), which at December 31, 2015 amounted to EUR 73 million (equivalent to RSD 8,879 million) in comparison to EUR 72.5 million at December 31, 2014 (equivalent to RSD 8,764 million).

This source of funding was a portion of the net assets of Cyprus Popular Group transferred to the Bank of Cyprus in accordance with the Decree passed by the Central Bank of Cyprus on March 29, 2013. As a result of developments in Cyprus that affected the Parent Cyprus Popular Group and brought about the subsequent transfer of its net assets to the Bank of Cyprus, on March 28, 2013 the National Bank of Serbia issued temporary measures against the Bank operating in Serbia. These temporary measures include: a) the need for prior approval of the National Bank of Serbia for all significant repayments to Cyprus Popular Group or the Bank of Cyprus, which had taken over the financing of the Bank in the aggregate amount of EUR 74 million; b) undertaking of all the necessary steps to enable possible repayment of debt to Cyprus Popular Group or the Bank of Cyprus; c) improvement of the Bank's liquidity plan and stress testing at least on a monthly basis; d) maintenance of the retail deposit coverage ratio (with cash and cash equivalents) at the minimum of 50%.

The main effect of the developments in Cyprus on the Serbian Bank was the transfer of funding repayment liabilities from the Parent Laiki Group to a third party, the Bank of Cyprus.

During 2015, in accordance with the original contractual terms, the Bank had liabilities due in the amounts of EUR 6,000,000 and EUR 4,267,401. The Bank of Cyprus agreed to the rescheduling of all liabilities for another 13 months upon maturity, demonstrating its willingness to support the Bank in its endeavors to improve its operations. In December 2015, the Bank of Cyprus rescheduled the liabilities amounting to EUR 39 million maturing as of January 22, 2016 to February 21, 2017.

As of December 31, 2015, the Bank's total liquid assets amounted to EUR 52.02 million and its retail and Group deposit coverage ratio equaled 65% (the minimum prescribed by NBS temporary measures is 50%).

The guarantee deposits securitizing loans approved by the Bank to its customers, which are part of the above described EUR 73 million funding originally received from Cyprus Popular Group and now due to the Bank of Cyprus, totaled RSD 1,174 million as at December 31, 2015 (December 31, 2014: RSD 1,259 million). Under the banking regulations of Serbia, these amounts may be drawn only upon maturity and collection of the loans.

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

2.7. Going Concern (Continued)

b) The Bank's Position in Serbia (Continued)

The Bank's capital adequacy ratio (as prescribed by the National Bank of Serbia) equaled 6.88% as at December 31, 2015 (December 31, 2014: 14.86%). At February 29, 2016 the capital adequacy ratio equaled 6.04%. Moreover, under Article 34 of the Decision on Risk Management issued by NBS, the Bank's liquidity ratio was 2.61 at December 31, 2015, while the prescribed minimum is 1.

The Bank's undercapitalization arose on November 30, 2015 caused primarily by the increased amount of reserves for estimated losses as a result of alignment with the recommendations of NBS given during the procedure of direct inspection, as well as allocation of the reserve for property acquired on November 18, 2014 in lieu of debt collection that the Bank was unable to dispose of within a period prescribed by the Decision on Classification of Balance Sheet Assets, as originally planned. The said increase in the reserves for estimated losses reduced the Bank's core capital and simultaneously caused decrease in its supplementary capital by RSD 294,193 thousand.

Due to undercapitalization, on December 18, 2015 the Bank's Executive Board activated the Bank's Recovery Plan. In order to improve the capital amount and capital adequacy ratio, in accordance with the stipulations of the Recovery Plan, the Bank undertook the following activities:

- limiting lending to the level of repayment with restricted growth of exposure to the large-exposure borrowers and limiting lending to the customers with A and B ratings only;
- changing the structure of assets through intensified collection of non-performing loans ("NPLs") and sales of the NPL portfolio;
- the Bank's management together with the appointed Special Administrator has intensified negotiations with the Bank of Cyprus on the restructuring of the Bank's debt and potential relief of a portion of the debt.

The Bank's management believes that it is possible to achieve the capital adequacy ratio above the prescribed regulatory minimum within three to six months through the sale of NPL portfolio and potential approval of the partial relief of debt owed to the Bank of Cyprus.

The Bank's majority shareholder has commenced the process of sale of its majority shareholding in the Bank. The sale process is underway and, according to the information of the sales advisor, there are several interested prospective investors. The deadline for submission of binding bids is April 22, 2016.

Article 33 of the Law on Banks (Official Gazette of RS no. 107/05, 91/10 and 14/2015) prescribed that a bank's exposure to a single entity or a group of related entities may not exceed 25% of the Bank's capital.

Given the issues arising from the events affecting the Parent Cyprus Popular Group and concentration of sources of founding received from the Parent Cyprus Popular Group and transferred to the Bank of Cyprus, which are yet to be resolved in a satisfactory manner, there is currently a material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern. However, taking into account that the Bank of Cyprus agreed on several occasions to the matured debt rescheduling upon maturity, and that allowed the Bank to convert a portion of this debt in the amount of EUR 5 million into subordinated liabilities maturing on November 28, 2021, thus demonstrating its willingness to support the Bank in its endeavors to improve its operations, the Bank's management believes that it will successfully maintain the liquidity necessary to continue on a going concern basis. In addition, the bank's management expects that the current problem regarding its capital will be overcome within three to six months through the positive effects of the sale of NPL portfolio and potential approval of the partial relief of debt owed to the Bank of Cyprus.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Foreign Exchange Translation

Assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at official middle exchange rates of the National Bank of Serbia effective at that date. Gains or losses arising on the translation of receivables and payables are credited or charged to income statement.

Transactions denominated in foreign currencies are translated into dinars at official exchange rates effective at the date of each transaction. Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses.

Commitments and contingent liabilities in foreign currencies are translated into dinars at official middle exchange rates of the National Bank of Serbia effective as at the reporting date.

3.2. Interest Income and Expenses

Interest income and expenses are recognized in the income statement for all interest-bearing financial instruments under the items of “interest income” and “interest expenses” following the effective interest method.

The effective interest method is the method for calculation of the costs of repayment of financial assets or financial liabilities as well as the costs of assignment of interest income or interest expensed within a certain period. The effective interest rate is the rate that precisely discounts the estimated future cash disbursement or payment through the expected duration of the financial instrument or, where appropriate, a shorter period, on the net carrying value of financial assets or financial liabilities. Upon calculating the effective interest rate, the Bank estimates cash flows taking into account all contractual terms of the financial instrument (e.g., prepayment options) but does not consider the future credit losses. The calculation includes all the fees and points paid or received between the contracting parties that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Once a financial asset or a group of similar financial assets has been written off as a result of an impairment loss, the interest income is recognized using the interest rate applied in discounting the future cash flows to measure the impairment loss.

Loan origination fees are deferred and amortized as interest income on straight-line basis throughout the loan repayment period. In the Bank’s assessment, straight-line deferral of fees is not materially different from effective interest approach.

3.3. Fee and Commission Income and Expenses

Fee and commission income and expenses arise from banking services (payment transactions, issuance of guaranties and other sureties, letters of credit, and other banking services) when such services are invoiced and rendered.

3.4. Dividend Income

Dividend income is recognized when the Bank’s entitlement to dividend receipt is established.

3.5. Financial Assets

The Bank classified its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables, financial assets held to maturity and financial assets available for sale. All financial assets are classified upon initial recognition.

Regular purchase or sale of financial assets is recognized at the transaction date, which is the date the Bank committed to purchase or buy an asset. Financial assets are initially recognized at fair value increased by transaction costs except for financial assets held for trading, whose initial measurement does not include transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial Assets (Continued)

Financial assets available for sale and financial assets at fair value through profit and loss are stated at fair value after initial recognition.

(a) Financial Assets at Fair Value Trough Profit and Loss

This category includes financial assets held for trading and any financial assets classified as assets at fair value through profit and loss upon financial recognition, including derivatives used for hedging.

Financial assets are classified as trading instruments if the Bank acquired them principally for the purpose of selling or repurchasing them in the near term or if they are part of the portfolio of identified financial instruments carried jointly and for which there is evidence of the actual deriving of profit from their short-term price fluctuations. Derivative securities are also classified as held for trading unless they are designated as risk hedging instruments.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market.

All loans and receivables are initially recognized at fair value increased by fees and commissions upon disbursement to the borrowers. After initial recognition, they are measured at amortized cost using the effective interest rate.

(c) Financial Assets Held to Maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that do not meet the criteria of the definition of loans and receivables and that the Bank has the positive intention and the ability to hold to maturity. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of the entire category of held-to-maturity assets as available-for-sale.

Held-to-maturity securities are carried at amortized cost using the effective interest method. The amortized cost is calculated taking into account all discounts or premiums earned upon the purchase over the maturity period.

(d) Financial Assets Available for Sale

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, which are not loans and receivables, financial assets held to maturity and assets at fair value through profit and loss.

Upon sale or permanent impairment of financial assets available for sale, cumulative fair value adjustments recognized within equity are stated in the income statement as gains or losses on securities.

Fair values of securities quoted in active markets are based on the current bid prices. If a market for a financial assets (and the market of unquoted securities) is inactive, the Bank determines the fair value using valuation techniques. This includes application of the recent arm's length transactions, reference to other instruments that are substantially the same, analysis of the discounted cash flows and an option of pricing through the maximum use of the market information available.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Derivatives

The Bank uses financial derivatives for risk hedging purposes. In 2015 the Bank had only currency swaps with NBS as financial derivatives. As of December 31, 2015 the bank had no open positions per currency swaps. Changes in the fair market value of the said currency swaps are credited or charged to the income statement.

3.7. Contracts on Repurchase Transactions

Contracts on the sale of securities intended for their repurchase (“repo” transactions) represents securities on resale (“reverse repo”). Accordingly, they are recorded as loans and receivables due from other banks. The difference between the sale price and repurchase price is treated as interest income and is accrued over the respective contract duration using the effective interest method.

3.8. Cash and Cash Equivalents

For purposes of the cash flow statement, cash and cash equivalents include balances with maturities up to three months from the acquisition date, cash and cash fund not restricted by the central bank, treasury bill and other eligible securities, revocable loans approved to other banks, matured receivables of other banks and short-term government securities.

3.9. Impairment of Financial Assets

Assets Carried at Amortized Cost

For the purpose of impairment assessment, the value of balance sheet assets is equal to the gross carrying value of such assets less the amounts of collected payments not yet credited to income (accrual accounts 493 and 593).

For the purpose of probable loss assessment, the value of off-balance sheet items is equal to the gross carrying value of such items multiplied by the credit conversion factors in accordance with the NBS Decision on the Capital Adequacy.

A borrower exposure is determined as the sum of the gross carrying value of the balance sheet assets less collected payments not yet credited to income and the gross carrying value of off-balance sheet items multiplied by the credit conversion factors.

Individual Impairment Assessment

At each reporting date the Bank identifies financial assets that will be subject to individual impairment allowance (individual assessment – individually significant exposures). Such receivables are due from borrowers whose total exposure as at the calculation date is above RSD 4.0 million.

Individually significant exposures - the Bank assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired and impairment loss recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Financial Assets (Continued)

Individual Impairment Assessment (Continued)

The criteria used by the Bank in determining whether there is objective evidence of impairment include:

- financial situation of the borrower indicative of its significant problems in operations;
- information of the breach of contractual provisions, such as failure to settle the liabilities falling due, frequent delays in payment of interest and/or repayment of principal and non-compliance with other contractual provisions;
- due to the borrower's significant financial difficulties, significant alterations were made to the originally agreed terms of repayment;
- it is probable that a bankruptcy procedure or another sort of financial reorganization will be instigated over the borrower as a result of its deteriorating financial situation;
- the Bank has instigated a lawsuit against the borrower;
- there is evidence on the significantly deteriorated ability of the borrower to repay the loan further;
- bankruptcy or liquidation of the borrower; and
- other objective evidence leading to the conclusion that the Bank will not collect the total amount matured.

If the Bank determines that there is objective evidence of impairment o fan individually significant financial assets, the impairment loss amount is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows.

The expected cash flows are calculated using the market value of mortgages and/or deposits used as collaterals securitizing loans and expected period of their collection. The expected cash flows are discounted to their present value.

Depending on the type of property assigned under mortgage, its location and the date of its most recent value appraisal, in the process of impairment calculation the Bank uses the reduced market value of the property by applying the following haircut percentages:

Residential property

Territory	Haircut percentage
Belgrade	10%
Novi Sad	10%
Other cities with population over 50,000	10%
Other towns with population below 50,000	15%
Small towns and villages	20%

Commercial property

Territory	Haircut percentage
Belgrade	10%
Novi Sad	10%
Other cities with population over 50,000	20%
Other towns with population below 50,000	25%

Industrial property

Type	Haircut percentage
Factories	30%
Warehouses	30%

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Financial Assets (Continued)

Individual Impairment Assessment (Continued)

Land

Type	**Haircut percentage**
Land	25%

In instances of the most recent value appraisal dating back to 2012 and prior years, a 40% haircut is applied to the appraised value irrespective of the type or location of the property.

Expected cash flows must be discounted to their present values. The Bank uses the original effective interest rate as the **discount rate** in instance of contracted fixed interest rates, and the current effective interest rate in instances of contracted variable interest rates. In the event that the Bank has approved modification to the repayment terms due to the financial difficulties of the borrower, the originally agreed effective interest rate is used for cash flow discounting.

For off-balance sheet exposures, as well as for the guarantees called on and paid by the Bank, the Bank uses the legally prescribed penalty interest rate as the discount rate.

Expected collateral realization period represents a period within which collateral is expected to be realized so as to enable collection of the Bank's receivables from the value achieved through collateral realization (sale). The expected collateral collection period is determined by Credit Departments, which take into consideration the following factors:

a) mortgage type (depending on the law under which the mortgage was assigned, i.e., whether instituted under the Mortgage Act or the Law on Enforcement Procedure);
b) validity of mortgage documents (quality and completeness of the documents in possession of the Bank);
c) type, purpose, function and size of the property assigned under mortgage and its location;
d) supply and demand of collateralized properties;
e) mortgage collection state, i.e., whether the mortgage collection was initiated through and in-court or out-of-court settlement procedure or it is expected by exercising rights through the bankruptcy proceedings; and
f) borrower cooperation with the Bank.

Where deposits are received as collaterals, the Credit Departments determine the expected collection time depending on the level of the borrower's cooperation with the Bank and the Bank's decision on the timing of commencing collection of the matured amounts due from the guarantee deposit.

Collective (Group) Impairment Assessment

For the purposes of *collective impairment assessment*, financial assets are grouped based on similar credit risk characteristics. These characteristics are relevant to the estimation of the future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all the amounts due in accordance with the contractual terms of the asset subject to impairment assessment.

Individually insignificant (small-amount) receivables with similar characteristics are grouped according to the following criteria:

- borrower type (private individual, entrepreneur, legal entity),
- number of days past due (none, up to 30 days past-due, from 31 to 60 and from 61 to 90 days past-due),
- product type (housing loans, consumer and cash loans, credit cards, current account overdrafts, business credit cards, payment guarantees, performance bonds, etc.),
- portfolio age (old portfolio, i.e., loans approved before June 1, 2008 and new portfolio, i.e., loans approved after the said date),
- legal entity borrower's credit rating (from 1 to 7).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Financial Assets (Continued)

Collective (Group) Impairment Assessment (Continued)

For receivable other than small-amount receivables the collective impairment calculation is performed in the event that:
- the Bank assesses that credit risk has not increased (there is no objective evidence of impairment); and
- Individual impairment assessment identified no impairment loss/impairment allowance amount.

Impairment loss is calculated as the product of:

- unsecured portion of the receivables (credit risk exposure of each group less the secured amount) and
- probability of default ("PD") for each group.

For receivables up to 90 days past due as at the assessment date, the Bank determined PD parameter based on the historical data on payments over 90 days past due. To receivables over 90 days past due as at the assessment date, the Bank applies a PD rate of 100%.

Upon determining the value of collateral, **the recoverable portion** of the loan is calculated by treating the financial collaterals (deposits, guarantees, etc.) as fully collectable, while for mortgages impaired market values are used by applying haircuts, as presented in the table in Policy 3.9., in the same manner as for the individual impairment assessment.

Impairment due to the Country Risk

In calculating impairment allowance of loans approved to entities/persons domiciled outside the republic of Serbia, the Bank increased the impairment allowance amount determined in the above described manner by a certain percentage depending on the degree of the risk of the borrower's country of origin.

A country's degree of risk is determined according to the OECD country classification, as presented in the table below:

OECD Classification	0 / 1 / 2	3	4 / 5 / 6	7
Degree of risk	Low	Medium	Increased	High
Impairment allowance increase percentage	0%	20%	50%	100%

If a country is not included in the OECD classification, the Bank will treat it as a country with the medium risk if it belongs to the OECD countries or the high-yield countries of the Eurozone; otherwise, it will be treated as a high-risk country.

When a loan is irrecoverable, it is written off via the loan impairment allowance account upon completion of all the necessary procedures and determination of the loss amount.

In case the amount of impairment loss on loans in the forthcoming period reverses due to the event which took place after the initial impairment loss was recognized (such as improvement of the borrower's credit rating), the previously recognized impairment loss is adjusted through changes on the impairment allowance accounts. The adjustment amount is recognized in the profit and loss within gains on the reversal of provisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Special Reserve for Estimated Losses on Balance Sheet Assets and Off-Balance Sheet Items in accordance with the requirements of the National Bank of Serbia

Special reserves for estimated losses in accordance with the requirements of the National Bank of Serbia is calculated under the provisions of the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items (Official Gazette of the Republic of Serbia nos. 94/2011; 57/2012, 123/2012; 43/2013; 113/2013; 135/2014; 25/2015; and 38/2015). Provisions of the said Decision prescribe the conditions under which the Bank is obligated to form the special reserve from profit for estimated losses calculated as the sum of the following:

- 0 % of receivables classified in category A;
- 2% of receivables classified in category B;
- 15 % of receivables classified in category V;
- 30% of receivables classified in category G; and
- 100 % of receivables classified in category D.

The Bank is required to classify into categories A, B, V, G and D all receivables deemed under the above said Decision as balance sheet assets and off-balance sheet items subject to classification based on the assessed borrowers financial position and its creditworthiness and regularity in settlement of liabilities due to the Bank as well as the collateral quality.

The Bank is required to determine the amount of special reserve for potential losses, which represents the sum of established positive differences between the reserves for estimated losses calculated in accordance with the NBS Decision and the determined amount of the impairment allowances of balance sheet assets and provisions for losses per off-balance sheet items on the borrower level.

If the impairment allowance/provision amount exceeds the amount of the reserve for estimated losses calculated at the borrower level, the Bank is under no obligation to calculate the required reserve for estimated losses.

The required reserve for estimated losses per balance sheet assets and off-balance sheet items is an equity deductible item.

3.11. Intangible Assets

Licenses

Acquired licenses are stated at historical cost. Licenses have a finite useful life and are stated at cost less accumulated amortization. Amortization is calculated on straight-line basis in order to write down the cost of licenses during their estimated useful life.

3.12. Property, Plant and Equipment

Items of property, plant and equipment are initially measured at cost or purchase price. The cost of an item of property and equipment comprises its invoiced amount, including all acquisition-related expenses and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

In the subsequent measurement of land and buildings, the Bank applies the revaluation model in accordance with IAS 16 “Property, Plant and Equipment“.

Equipment is stated at cost less accumulated depreciation and aggregate impairment losses, if any.

Buildings are subject to regular revaluation. Regularity of revaluation is dependent on the fair value movements of the assets subject to revaluation. Increase in the carrying values of building properties arising on revaluation is credited to the revaluation reserves. Decrease that offsets (to the extent of) the previous increases in the value of the same assets are charged against revaluation reserves directly, while all other decreases are charged to the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Property, Plant and Equipment (Continued)

The revaluation reserve is transferred directly to retained earnings when a gain is realized on retirement or disposal of an asset and if the asset is no longer used by the Bank. In the latter case, the amount of the gain realized is the difference between the depreciation based on the revalued carrying amount and depreciation based on the assets original cost (optional).

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income statement of the period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated on a straight-line basis applying the depreciation rates in order to write down their cost or revalued amounts to their residual values over the estimated useful lives of the assets, as follows:

- Buildings 1.3%
- Computer equipment 20.0%
- Vehicles 20.0%
- Furniture and other equipment 12.5% - 20.0%
- Leasehold improvements 20.0%

Gains or losses from the disposal or sale of assets are determined as the difference between the cash proceeds from the sale and the carrying values of the assets and are credited or charged directly to the income statement, under other income or other expenses.

An asset's residual value is the estimated amount that the Bank could realize through the sale/disposal of the asset less the estimated cost of sale, if the asset is old and in a condition expected to be in at the end of its useful life. The asset's residual value is zero if the Bank expects to be using the asset until the end of its life. Both the residual value and useful life of an asset are reviewed and adjusted, as appropriate, at each reporting date.

When revalued assets are sold, the revaluation amounts included in the revaluation reserve are transferred to the retained earnings.

3.13. Impairment of Non-Financial Assets

Assets with indefinite useful lives are not subject to depreciation but are tested for impairment on an annual basis or whenever events or changes in the circumstance indicate that the carrying values of such assets may not be recoverable. An impairment loss is recognized in the amount for which the asset's carrying value exceeds its recoverable amount. In accordance with IAS 36, the recoverable amount is the higher of an asset's fair value less costs to sell and the value in use.

For the purpose of impairment assessment, assets are grouped at the lowest levels where there are separately identifiable cash flows (cash-generating units). Non-financial assets (other than goodwill) that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

3.14. Investment Property

The Bank's investment property is property held to earn rental income and/or for capital appreciation, or both.

Investment property is held by the Bank for long-term rental income and is not used by the Bank.

Land held under operating lease is classified and accounted for as investment property if meeting the rest of the criteria for investment property definition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Investment Property (Continued)

An investment property item is recognized as an asset only if it is probable that the Bank will realize future economic benefits from the property and if its cost can be measured reliably. Investment property is initially measured at cost/purchase price with transaction costs included in the initial measurement. Cost of the purchased investment property encompasses its purchase price and all costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value. Fair value of the investment property reflects the market conditions at the end of the reporting period. Gains or losses arising on the changes in the investment property's fair value are credited or charged to the income statement of the period when realized/incurred.

Subsequent expenditure is capitalized only if it is probable that future economic benefits associated with it will flow to the Bank and its cost can be measured reliably. All other regular maintenance and repair costs are expensed as incurred. If an investment property is used or occupied by its owner, it is reclassified to property and its carrying amount at the reclassification date becomes its deemed cost, which will subsequently be depreciated.

3.15 Inventories

Upon acquisition, inventories are measured at the lower of the historical cost and net realizable value. Historical cost entails stating inventories at the cost of acquisition, while the net realizable value is the value at which inventories can be realized in a market sale transaction. Inventories include assets acquired in lieu of debt collection, which will further be subject to the requirements of IAS 2.

3.16. Leases

The Bank as the Lessee

Lease arrangements the Bank enters into are primarily operating leases. The total payments made under operating leases are charged to other expenses within the income statement on a straight-line basis over the lease term.

When an operating lease contract is terminated prior to the expiry of the lease term, any payment demanded by the lessor as penalty is recognized as and expense in the period of lease termination.

The Bank as the Lessor

A lease is an arrangement under which the lessor conveys to the lessee an entitlement to the use of an asset over an agreed term in exchange for one payment or a series of payments.

When an asset is issued under operating lease, such an asset is presented within the statement of financial position, depending on the asset type. The rental income is recognized on a straight-line basis over the lease term.

3.17. Borrowings

Borrowings are initially measured at fair value less transaction costs incurred and subsequently stated at amortized cost. Any difference between the proceeds (less transaction costs) and the repayment amounts are recognized in the income statement on a straight-line basis over the life of the borrowing.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer the liability settlement for at least 12 months from the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Provisions

Provisions for restructuring costs and litigation claims are recognized when the Bank has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated.

When there is a number of similar obligations, the likelihood that an outflow of resources will be required for the settlement is determined considering the entire class of obligations on the whole. Provisions are recognized even if the likelihood of and outflow of assets with respect to each individual item included in the same class of obligations is very remote.

Provisions are measured at the present value of the expenditure expected to be required for the settlement of the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

3.19. Employee Benefits

(a) Employee Benefits

Short-term employee benefits include wages and salaries, and payroll taxes and contributions for employee social insurance. Short-term benefits are recognized as expenses of the period when incurred.

The Bank and its employees are obligated to pay taxes and contributions for social security in accordance with the effective legislation. The Bank is under no obligation to pay employees reimbursements of the benefits that are under remit of the National Funds. Taxes and contributions relating to the defined benefit plans per salaries are recorded as expenses of the period they relate to.

(b) Retirement Benefits

According to the prevailing regulations, the Bank is obligated to pay its vesting employee a retirement benefit or a termination benefit in the event of loss of working ability in the amount of three average salaries paid in the Republic of Serbia according to the latest published information of the competent Republic Statistical Office. These payments are recognized in the statement of the financial position as liabilities at discounted amounts in accordance with valuation performed by a certified actuary.

Actuarial gains and losses arising from adjustments based on historical experience and changes to the actuarial assumptions are credited or charged to the income statement and deferred over the employees' expected average remaining years of service.

Actuarial assumption used in the calculation of provisions for future liabilities for retirement benefits were as follows:

- Employee data,
- Total years of service as of December 31, 2015,
- Year of birth and gender,
- Number of the remaining years of service (up to the prescribed retirement age),
- Republic of Serbia mortality rate tables,
- Discount rate of 5.25%,
- Average gross salary paid in the Republic of Serbia for November 2015, and
- Estimated salary growth of 4% annually over the entire period for which provisions are made.

Termination benefits are paid upon employment termination before the regular retirement date, or when an employee accepts voluntary redundancy and consensual employment termination in exchange for a benefit. The Bank recognizes termination benefits when it is evident that the Bank will either terminate employment in accordance with the official detailed termination plan without a withdrawal option or provide termination benefits in order to encourage voluntary redundancy aimed at the reduction of the number of employees. Benefits that fall due in a period of over 12 months after the reporting date are discounted to their present values.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20. Current and Deferred Income Taxes

a) Current Income Tax

Current income tax is calculated and paid in accordance with the tax regulations effective in the Republic of Serbia, based on the profit stated in the prescribed tax statement. The Bank calculates the income tax, its annual tax liability and the amount of advance income tax payment for the ensuing year.

Income tax is payable at the rate of 15% applied to the profit for the year as stated in the tax statement, less certain investments made during the year as presented in the annual tax return - PDP form. The accounting profit is adjusted for certain permanent and temporary difference in order to arrive at taxable profit. The income tax return with the tax statement is submitted within 180 days from the expiry of the period for which the tax liability is to be determined.

b) Deferred Taxes

Deferred taxes are calculated and recorded per temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements of the Bank. Deferred tax liabilities are recognized as at the reporting date for all taxable temporary differences between the carrying values of assets used for financial reporting purposes and their tax bases, resulting in taxable amounts in the future periods.

Deferred tax assets are recognized for all deductible temporary differences and unused tax credits to the extent that it is probable that the future taxable profits will be available against which deductible temporary differences, unused tax credits and credit losses available can be utilized.

Current and deferred taxes are credited or charged to the income statement and are included in the net profit for the year.

3.21. Share Capital

Shares are classified as equity.

(a) Cost of the Share Issue

Incremental costs directly attributable to the issue of new shares or the acquisition of an entity are presented within equity as a deduction from the proceeds, net of tax.

(b) Dividends on Shares

Dividends payable on shares are recorded as liabilities in the period in which a decision on dividend payment was made. Dividends for the year following the reporting date are disclosed in the note on the events after the reporting period.

3.22. Earnings per Share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.23. Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Bank issues such guarantees to other banks, financial institutions and other organizations for the account of its customers for securitization of loans, current account overdrafts and other banking services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23. Financial Guarantees (Continued)

Financial guarantees are initially recognize din the financial statements at fair value as at the guarantee issue date. After initial recognition, the Bank's liabilities per guarantees are measured at the higher of the initially recognized amount amortized on a straight-line basis in order to recognize the fee income on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial liability as at the reporting date. The required estimates regarding measurement are determined based on the historical experience with similar transactions and historical losses, and the appropriate management's estimate. Any increase in the liabilities per guarantee is recorded in the income statement.

3.24. Segment Reporting

An operating segment is a component of an entity:

(a) involved in business activities earning income or incurring expenses (including income and expenses from transactions with other components of the same entity),
(b) whose performance is subject to regular review of the entity's main governing body in order to decide on the resources allocated to the segment and evaluate the segment's performance, and
(c) for which separate financial information is available.

The Bank monitors activities and operations per operating segments, which are Retail Banking and Corporate Banking.

The Bank’s operating segments operate in the Republic of Serbia. Therefore, segmentation per geographic region is not relevant to the Bank.

4. FINANCIAL RISK MANAGEMENT

4.1 Introduction

The Bank's activities are exposed to a variety of financial risks and these activities require identifying, estimating, monitoring, mitigating and control of managing those risks, as well as establishing an adequate risk management reporting system. The Bank manages its risks through a special risk management unit. The Bank prescribes procedures for identifying, measuring, estimating and managing risks in compliance with professional regulations, standards and professional business practice.

By its risk management policies, the Bank establishes a unique system for managing risks to which the operations are exposed.

According to the nature of its business activities, the Bank is exposed to various types of risks, such as:

1. Liquidity risk;
2. Credit risk;
3. Market risk;
4. Risks of exposure to one entity or group of related parties;
5. Risks of investing into other entities and fixed assets;
6. Risks relating to the customer's country of origin;
7. Operation risk (including legal risk).

4.2 Liquidity Risk

Liquidity risk is the risk that the Bank may encounter difficulty in meeting the due financial liabilities, which may adversely affect the Bank's financial performance and equity.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Liquidity Risk (Continued)

The Bank manages liquidity risk in accordance with the Policy on liquidity risk management defining the liquidity risk management system, the competencies and responsibilities of the participants of the system, the controls that are taken for the efficient functioning of the system, the methods used to monitor this risk, as well as the liquidity management plan in times of crisis.

Liquidity risk management implies managing all assets and liabilities of the Bank, which may impact the Bank's ability to meet the liabilities as they become due.

In its operations, the Bank adheres to the key principles of liquidity risk management:

a) Liquidity management by major currencies (currencies participating in the Bank's total portfolio with over 5%, including along with the local currency (RSD) the following EUR, USD, CHF);

b) Stability and diversification of funding by determining the concentration limits of different sources and regular monitoring of data relating to major depositors;

c) creating a stock of liquid assets and a liquidity reserve;

d) addressing temporary and long-term liquidity crisis;

e) developing a Contingency Funding Plan;

f) conducting stress tests.

The Bank defines the individual and cumulative limits of liquidity gaps that looks both at the aggregate level (consolidated view), and the major currencies. The liquidity Gap Report is prepared in accordance with the adopted methodology for liquidity gap reporting.

The table below shows assets and liabilities that are grouped into categories based on the remaining contractual maturities at the balance sheet date.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Liquidity Risk (Continued)

As of December 31, 2015	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
ASSETS						
Cash and cash funds held with the central bank	3,720,883	-	-	-	-	**3,720,883**
Loans and receivables due from banks and other financial institutions	2,613,708	6,081	-	-	-	**2,619,789**
Loans and receivables due from customers	1,294,553	514,054	1,955,096	5,922,593	3,821,727	**13,508,023**
Other assets	79,887	-	-	-	-	**79,887**
Total assets	**7,709,031**	**520,135**	**1,955,096**	**5,922,593**	**3,821,727**	**19,928,582**
LIABILITIES						
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,105,614	2,486	1,308,318	5,151,396	781,293	**8,349,107**
Deposits and other liabilities due to customers	3,491,291	1,167,175	4,263,685	1,191,677	15,675	**10,129,503**
Treasury shares and other borrowed funds	-	-	-	-	123,053	**123,053**
Subordinated liabilities	-	-	-	-	612,033	**612,033**
Other liabilities	187,936	1,248	1,087	1,467	68	**191,806**
Total liabilities	**4,784,841**	**1,170,909**	**5,573,090**	**6,344,540**	**1,532,122**	**19,405,502**
Net Gap (total assets - total liabilities):	**2,924,190**	**(650,774)**	**(3,617,994)**	**(421,947)**	**2,289,605**	**523,080**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Liquidity Risk (Continued)

As of December 31, 2014	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
ASSETS						
Cash and cash funds held with the central bank	3,464,593	-	-	-	-	**3,464,593**
Loans and receivables due from banks and other financial institutions	3,293,275	-	-	-	6,048	**3,299,323**
Loans and receivables due from customers	2,350,205	445,763	2,004,798	6,166,146	3,630,165	**14,597,077**
Receivables arising from financial derivatives designated as hedging instruments	-	4,662	-	-	-	**4,662**
Other assets	117,360	-	-	-	-	**117,360**
Total assets	**9,225,433**	**450,425**	**2,004,798**	**6,166,146**	**3,636,213**	**21,483,015**
LIABILITIES						
Deposits and other liabilities due to banks, other financial institutions and the central bank	980,443	-	1,355,915	5,013,144	976,558	**8,326,060**
Deposits and other liabilities due to customers	3,512,968	415,679	6,226,813	799,923	107,406	**11,062,789**
Treasury shares and other borrowed funds	-	-	-	-	123,052	**123,052**
Subordinated liabilities	-	-	-	-	605,900	**605,900**
Other liabilities	192,877	5,815	1,723	953	49	**201,417**
Total liabilities	**4,686,288**	**421,494**	**7,584,451**	**5,814,020**	**1,812,965**	**20,319,218**
Net Gap (total assets - total liabilities):	**4,539,145**	**28,931**	**(5,579,653)**	**352,126**	**1,823,248**	**1,163,797**

Liquidity is monitored on the basis of liquidity ratios defined as per loan legislation but also on a “trigger” level ratios that are more strictly defined when compared to the regulatory ratios.

The Bank tested its Crisis Liquidity Management Plan as of December 31, 2015, through the stress test of the hypothetical scenario of a liquidity crisis in the Bank, using the following assumptions:

- deterioration of warning indicators of potential disorder of liquidity monitored by the Treasury to the medium risk level;
- decrease in total deposits by over 20% up to 40%;
- liquidity ration drop below 1;
- the Bank has difficulties in obtaining funding

The effect of the applied scenario entails withdrawal of 40% of deposits totaling RSD 4,448 million (EUR 36,5 million), which the Bank may recover through:

- discontinuation of the lending activity and direction of collected repayment to the payout of depositors;
- available funds (cash on hand and in the Bank’s vault),
- available funds held on the Bank’s nostro account,
- withdrawal of funds deposited with other banks,
- withdrawal of foreign currency and RSD obligatory reserves (based on the deposits withdrawn and in accordance with the effective regulations), and
- obtaining borrowings from other banks or NBS with pledged obligatory reserves and mortgaged property owned by the Bank as collateral.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Liquidity Risk (Continued)

The Bank can pay out the deposits withdrawn amounting to RSD 36.54 million within a month from the following available sources:

- cash on hand and balance on the Bank's nostro account in the amount of EUR 4.99 million,
- regular monthly inflows from loan repayment in the average amount of about EUR 2 million,
- funds held with other banks and NBS in the amount of EUR 19.86 million,
- refund of the obligatory reserve funds due to the deposit withdrawal in the amount of EUR 7.19 million,
- obtaining borrowings from other banks or NBS mortgaged property owned by the Bank as collateral in the amount of EUR 2.5 million.

Non derivative cash flows

The amounts presented in the table below shown the contractual undiscounted cash flows of financial liabilities as of December 31, 2015.

As of December 31, 2015	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,115,956	27,046	1,403,970	5,243,761	814,423	**8,605,156**
Deposits and other liabilities due to customers	3,495,172	1,185,110	4,336,445	1,249,492	21,050	**10,287,269**
Subordinated liabilities	4,662	-	13,886	100,768	640,305	**759,621**
Total liabilities (contractual maturity dates)	**4,615,790**	**1,212,156**	**5,754,301**	**6,594,021**	**1,475,778**	**19,652,046**

As of December 31, 2014	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Deposits and other liabilities due to banks, other financial institutions and the central bank	991,635	27,119	1,468,490	5,239,591	1,009,257	**8,736,092**
Deposits and other liabilities due to customers	3,516,544	421,528	6,324,109	835,458	141,129	**11,238,767**
Subordinated liabilities	1,613	-	9,173	118,661	634,016	**763,463**
Total liabilities (contractual maturity dates)	**4,509,792**	**448,647**	**7,801,772**	**6,193,710**	**1,784,402**	**20,738,322**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Credit Risk

The Bank is exposed to credit risk and the possibility of debtors not settling their contractual obligations towards the Bank when they fall due. The Bank's credit risk exposure arises mainly from its credit operations.

To maintain credit risk within acceptable parameters, the Bank:

- Reviews the debtors' creditworthiness for loans, guarantees and other products,
- Determines the credit limits based on the risk assessment,
- Enters into business relations with solvent clients and acquires relevant collaterals.

Clients are under continuous supervision and the exposure level is adjusted as required. Risk limits are determined based on the different types of collateral.

Additionally, the risk concentration by industry is continuously monitored, although limits are not set.

Risk exposure to one debtor, including banks, is subject to limitations and includes both balance sheet and off balance sheet risk exposure. The total risk exposure by client relative to limitations is considered before the transaction occurs.

The total maximum credit exposure, less collateral:

	Dec-31, 2015	Dec-31, 2014
Loans and receivables due from banks –Net	217,256	510,520
Allowance for impairment of loans and receivables due from banks	158,052	146,667
Total gross loans and receivables due from banks	**375,308**	**657,187**
Loans and receivables due from clients		
Retail loans and advances	5,334,144	5,648,957
Corporate loans and advances:		
- Large enterprises	6,093,303	5,119,575
- SMEs	2,147,012	4,124,746
Total net loans and receivables due from clients	**13,574,459**	**14,893,278**
Allowance for impairment of loans and receivables due from clients	4,643,675	4,254,298
Total gross loans and receivables due from clients	**18,218,134**	**19,147,576**
Total risk bearing assets – gross	**18,593,442**	**19,804,763**

The total risk bearing assets of RSD 18,593,442 thousand (Dec-31, 2014: RSD 19,804,763 thousand) are the balance sheet assets which are subject to classification under the NBS rules and regulations, except the assets acquired by collection of receivables (RSD 589,339 thousand).

Financial assets (instruments) other than classified balance sheet assets in accordance with the Decision on Classification, relate to cash, the Bank's gyro account and funds with the NBS in the amount of RSD 6,136,867 thousand (December 31, 2014: RSD 5,893,499 thousand).

The item loans and receivables due from customers comprises repo loans, advances to customers, interest and fee receivables, securities held to maturities and a portion of other risk bearing assets (other risk assets).

Retail loans comprise loans to entrepreneurs.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Credit Risk (Continued)

Off/balance sheet commitments

Guarantees and letters of credit are the Bank's irrevocable commitments to effect payment if customers are unable to fulfill their obligations to third parties and bear the same risk as loans.

Risk bearing off-balance sheet assets – off-balance sheet items subject to classifications	**Dec-31, 2015**	**Dec-31, 2014**
Guarantee payables	120,420	217,312
Performance bonds	287,660	265,677
Avals and acceptances	334	334
Unused commitments	804,053	825,698
Total	**1,212,467**	**1,309,021**

Retail loans by type of facility:

	Dec-31, 2015			**Dec-31, 2014**		
	Advances to Customers	**Allowance for Impairment**	**Net**	**Advances to Customers**	**Allowance for Impairment**	**Net**
Cards	99,863	43,676	56,187	131,220	50,212	81,008
Consumer loans	2,572,276	680,969	1,891,307	2,791,102	675,580	2,115,522
Housing loans	2,931,354	115,699	2,815,655	2,904,347	100,362	2,803,985
Current account overdrafts	73,603	23,448	50,155	88,822	26,183	62,639
	5,677,096	**863,792**	**4,813,304**	**5,915,491**	**852,337**	**5,063,154**
Entrepreneurs	629,387	108,547	520,840	694,300	108,497	585,803
Total retail loans and advances:	**6,306,483**	**972,339**	**5,334,144**	**6,609,791**	**960,834**	**5,648,957**

The policy of determining allowance for impairment in accordance with the Bank's internal methodology is described in Note 3.9, as well as the methodology prescribed by the NBS. The Bank's management applies the classification in accordance with the NBS rules on determining and monitoring the internal rating of loans and receivables due from customers and other financial assets, i.e. for monitoring the credit quality of receivables.

Advances to clients and other risk bearing assets presented in the table below comprise the total risk bearing assets exclusive of advances to banks.

	Dec-31, 2015		**Dec-31, 2014**	
	Gross Loans to Clients	**Allowance for Impairment**	**Gross Loans to Clients**	**Allowance for Impairment**
Rank:				
A	9,277,682	55,675	9,092,721	59,182
B	1,345,439	27,105	2,453,640	35,790
V	838,182	25,532	708,889	48,888
G	1,118,183	119,265	937,832	104,009
D	5,638,648	4,416,098	5,954,494	4,006,429
	18,218,134	**4,643,675**	**19,147,576**	**4,254,298**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Credit Risk (Continued)

Bank ranking:

	Dec-31, 2015		Dec-31, 2014	
	Gross Loans to Banks	**Allowance for Impairment**	**Gross Loans to Banks**	**Allowance for Impairment**
Rank:				
A	214,827	-	268,399	-
B	2,429	-	241,917	-
V	-	-	-	-
G	-	-	-	-
D	158,052	158,052	146,871	146,667
	375,308	**158,052**	**657,187**	**146,667**

Credit quality of portfolio (total balance sheet assets) – expressed in percentage:

	Dec-31, 2015		Dec-31, 2014	
	Group's Share in Total Portfolio	**Provision**	**Group's Share in Total Portfolio**	**Provision**
Rank:				
A	51.1%	0.6%	47.3%	0.6%
B	7.2%	2.0%	13.6%	1.3%
V	4.5%	3.0%	3.6%	6.9%
G	6.0%	10.7%	4.7%	11.1%
D	31.2%	78.9%	30.8%	68.1%
	100.0%		**100.0%**	

Loans and advances:

	Dec-31, 2015		Dec-31, 2014	
	Advances to Customers	**Loans to Banks**	**Advances to Customers**	**Loans to Banks**
Loans neither past due not impaired **(1)**	5,500,314	217,256	6,216,432	510,520
Loans past due but not impaired **(2)**	1,164,224	-	1,863,356	-
Loans past due or not past due, collectively impaired **(3)**	4,555,784	-	4,902,847	-
Individually impaired loans **(4)**	6,997,812	158,052	6,164,941	146,667
Gross loans and advances	**18,218,134**	**375,308**	**19,147,576**	**657,187**
Allowance for impairment	(4,643,675)	(158,052)	(4,254,298)	(146,667)
Net loans and advances	**13,574,459**	**217,256**	**14,893,278**	**510,520**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Credit Risk (Continued)

Category explanation:

1. Advances that are not past due
2. Advances that are past due but collectible i.e. not impaired
3. Collective impairment is determined by applying the relevant probability of default rate to unsecured portion of advance
4. Advances considered uncollectible i.e. impaired loans (loans that are more than 90 days past due and individually impaired loans)

Advances neither past due nor impaired:

	Dec-31, 2015				Dec-31, 2014			
	Retail	Corporate	Total Advances to Customers	Loans to Banks	Retail	Corporate	Total Advances to Customers	Loans to Banks
Rank								
A	2,001,400	2,919,813	4,921,213	214,827	1,871,066	3,298,025	5,169,091	268,399
B	83,300	413,465	496,765	2,429	164,159	678,451	842,610	241,917
V	18,188	45,932	64,120	-	4,380	5,503	9,883	-
G	8,863	5,624	14,487	-	3,189	750	3,939	-
D	1,310	2,419	3,729	-	1,241	189,667	190,908	204
Total	**2,113,061**	**3,387,253**	**5,500,314**	**217,256**	**2,044,035**	**4,172,396**	**6,216,431**	**510,520**

Total advances comprise interest and fee receivables and other risk bearing assets.

Advances past due but not impaired (100% secured advances). The Bank has no advances to other banks in this category:

	Dec-31, 2015			Dec-31, 2014		
	Retail	Corporate	Total	Retail	Corporate	Total
Less than 30 days past due	106,790	783,056	**889,846**	158,416	1,403,053	**1,561,469**
30-60 days past due	109,171	34,742	**143,913**	55,283	131,147	**186,430**
60-90 days past due	56,151	4,077	**60,228**	52,539	36,608	**89,147**
Over 90 days past due	36,164	34,073	**70,237**	18,694	7,616	**26,310**
Total	**308,276**	**855,948**	**1,164,224**	**284,932**	**1,578,424**	**1,863,356**
Fair value of collaterals	826,818	3,849,379	**4,676,197**	689,860	3,477,409	**4,167,269**

Collateral structure for advances pat due but not impaired:

	Dec-31, 2015			Dec-31, 2014		
	Retail	Corporate	Total	Retail	Corporate	Total
Deposits	2,487	7,595	10,082	8,143	11,314	19,457
Mortgage	824,331	3,841,784	4,666,115	681,717	3,466,095	4,147,812
Fair value of collaterals	**826,818**	**3,849,379**	**4,676,197**	**689,860**	**3,477,409**	**4,167,269**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Credit Risk (Continued)

Impaired advances subject to individual assessment. The Bank has no advances to other banks in this category:

	Dec-31, 2015			Dec-31, 2014		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Loans subject to individual assessment	230,466	6,767,346	**6,997,812**	228,592	5,936,349	6,164,941
Fair value of collaterals	188,117	21,838,065	**22,026,182**	164,971	14,264,052	14,429,023

The amounts shown in the table above represent individually impaired advances exceeding RSD 4,000 thousand for which an objective evidence of impairment was estimated. These amounts have been calculated based on the impairment test of future net cash flows.

Advances subject to individual assessment and impairment in 2015 and 2014:

	Dec-31, 2015			Dec-31, 2014		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Deposits	-	789,212	**789,212**	-	-	-
Mortgage	188,117	21,048,853	**21,236,970**	164,971	14,264,052	**14,429,023**
Fair value of collaterals	**188,117**	**21,838,065**	**22,026,182**	**164,971**	**14,264,052**	**14,429,023**
Allowance for impairment	101,496	3,456,894	**3,558,390**	97,888	3,156,715	**3,254,603**
Unsecured loans	75,554	2,310,290	**2,385,844**	99,777	2,641,894	**2,741,671**
Secured loans	154,913	4,457,055	**4,611,968**	128,815	3,294,455	**3,423,270**
Total loans	**230,467**	**6,767,345**	**6,997,812**	**228,592**	**5,936,349**	**6,164,941**

The disclosed fair value of collateral was determined by a local certified appraiser and represents the value realizable by the legal owners of the assets. Provision for impairment reflects the likelihood that the Bank will not be able to exercise their rights and recover the collateral in case in case of unpaid loans. Despite difficulties the Bank may have in the process of enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

Impaired advances subject to collective assessment:

	Dec-31, 2015			Dec-31, 2014		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Loans subject to individual assessment	3,665,729	890,055	4,555,784	4,052,232	850,615	4,902,847
Fair value of collaterals	1,332,975	555,037	1,888,012	459,530	372,825	832,355

Advance subject to collective assessment and impairment:

	Dec-31, 2015			Dec-31, 2014		
	Retail	**Corporate**	**Total**	**Retail**	**Corporate**	**Total**
Deposits	10,888	7,857	18,745	14,720	29,624	44,344
Mortgage	1,322,087	547,181	1,869,268	444,811	343,201	788,012
Fair value of collaterals	**1,332,975**	**555,038**	**1,888,013**	**459,531**	**372,825**	**832,356**
Allowance for impairment	881,892	203,393	1,085,285	862,841	136,749	999,590
Unsecured loans	2,779,772	480,488	3,260,260	3,599,074	571,063	4,170,137
Secured loans	885,957	409,567	1,295,524	453,159	279,551	732,710
Total loans	**3,665,729**	**890,055**	**4,555,784**	**4,052,233**	**850,614**	**4,902,847**

The concentration of credit portfolio by sector is shown in Note 19.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Credit Risk (Continued)

Restructured loans

Loans for which the initially contracted terms were altered, represent renegotiated or restructured loans due to deterioration of debtor's financial position and difficulties in settlement of liabilities within the initially contracted maturity dates.

The Bank performs financial analysis of the borrowers facing problems in liability settlement and if it assesses that, after altering loan terms, such borrowers will be able to service their liabilities to the Bank, the Bank decides to reschedule or restructure such loans.

Loans restructured due to the deterioration in the borrower financial capability, where such receivables would otherwise have been past due or impaired, amounted to RSD 2,400,900 thousand as of December 31, 2015 (December 31, 2014: RSD 1,642,276 thousand).

Collection of past due and impaired receivables through foreclosure of collateral

In accordance with the Bank's policies, foreclosed collateral is disposed of in the normal course of business. In this way, the outstanding receivables from customers are reduced or settled. The Bank normally does not use the foreclosed assets for business purposes.

4.4. Market Risk

Market risk is the risk that the fair value or expected future cash flows of financial instruments will fluctuate because of change in market variable such as interest rate and foreign exchange rate. Except for the concentration of foreign exchange risk, the Bank has no significant concentration of market risk for other items.

Interest Rate Risk

The Bank takes on exposure to the effects of fluctuation in the prevailing levels of market interest rates on both its financial position and cash flows. Interest margin may increase or decrease as a result of such changes, or generate losses in the event that unexpected movements arise. Interest rates are based on market interest rates and the Bank performs their matching on a regular basis.

The aim of risk management is to optimize net interest income and keep the market interest rates constant in accordance with the business strategy of the Bank. The Bank's management coordinate the maturity matching of assets and liabilities based on macroeconomic and microeconomic forecasts, anticipated conditions for attaining liquidity and anticipated interest rate market trends.

The Bank manages the interest rate risk in accordance with the Interest Rate Risk Management Policy, which defines the system and methodologies of interest rate risk management, duties and responsibilities of the system members, as well as controls that should be performed with a view to best system efficiency.

The subject of the interest rate risk management is any item from the Banking Book that may cause negative effects on the result and capital of the Bank owing to the change of the interest rate.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Market Risk (Continued)

Interest Rate Risk (Continued)

The Bank may be exposed to different forms of interest risk:

- Risk of time discrepancy between maturity and repricing (Repricing Risk), i.e. Price Change Risk. This risk arises from the difference between the maturity date (for fixed rates) and the price change date (for variable rates) for the assets, liabilities and off-balance sheet items of the Bank;
- Yield curve risk – i.e. risk arising from the change of the shape and slope of the yield curve. The yield curve risk occurs when unforeseen shifts of the yield curve have adverse effects on the income or basic economic value of the Bank.
- Basic risk –as a risk to which the Bank is exposed owing to different reference interest rates at interest-sensitive positions with similar characteristics regarding maturity/repricing;
- Optionally risk –as a risk to which the Bank is exposed owing to options embedded in interest-sensitive positions (loans with a possibility of early withdrawal, different types of bonds or bills containing the option either of purchase or sale, different types of deposit facilities without maturity date, that give the deponents the right to withdraw the assets at any time, often without paying any penal).

In order to manage interest rate risk exposure the Bank uses GAP Methodology.

An analysis of the interest rate risk exposure comprises and analysis of the account and changes of the balance sheet assets, liabilities and off-balance sheet items, i.e. derivative positions. The bank identifies the interest rate exposure by detecting discrepancies between positions in significant currencies (RSD, EUR, USD, CHF) and in total (consolidated approach) in which the Bank conducts its business operations.

An analysis of the positions of balance sheet assets and liabilities comprises the determination of interest-sensitive items classified by period of new interest rate fixing, i.e. determination of an expected schedule of future cash flows.

*An analysis of off-balance sheet items (swaps, forwards)*comprise the determination of potential changes in positions resulting from the interest rate changes on the market.

An analysis of interest rates involves continuous monitoring and adjusting operations to interest rate changes on the market.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Market Risk (Continued)

Interest Rate Risk (Continued)

Interest rate GAP as of December 31, 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and cash funds held with the central bank	1,226,010	-	-	-	-	2,494,873	**3,720,883**
Loans and receivables due from banks and other financial institutions	2,420,035	-	-	-	-	199,754	**2,619,789**
Loans and receivables due from customers	4,332,803	3,610,835	3,382,372	886,922	202,919	1,092,172	**13,508,023**
Other assets	-	-	-	-	-	79,887	**79,887**
Total assets	**7,978,848**	**3,610,835**	**3,382,372**	**886,922**	**202,919**	**3,866,686**	**19,928,582**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,578,745	1,702,068	1,080	2,000	-	65,214	**8,349,107**
Deposits and other liabilities due to customers	3,216,705	978,807	3,694,124	1,124,036	11,407	1,104,424	**10,129,503**
Treasury shares and other borrowed funds	-	-	-	-	-	123,053	**123,053**
Subordinated liabilities	608,131	-	-	-	-	3,902	**612,033**
Other liabilities	-	-	-	-	-	191,806	**191,806**
Total liabilities	**10,403,581**	**2,680,875**	**3,695,204**	**1,126,036**	**11,407**	**1,423,185**	**19,405,502**
GAP (assets - liabilities):	**(2,424,733)**	**929,960**	**(312,832)**	**(239,114)**	**191,512**	**2,443,501**	**523,080**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Market Risk (Continued)

Interest Rate Risk (Continued)

Interest rate GAP as of December 31, 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and cash funds held with the central bank	1,243,622	-	-	-	-	2,220,971	**3,464,593**
Loans and receivables due from banks and other financial institutions	2,902,999	-	-	-	-	396,324	**3,299,323**
Loans and receivables due from customers	5,072,107	3,287,948	3,208,208	1,093,597	790,266	1,144,951	**14,597,077**
Receivables arising from financial derivatives designated as hedging instruments	-	4,662	-	-	-	-	**4,662**
Other assets	-	-	-	-	-	117,360	**117,360**
Total assets	**9,218,728**	**3,292,610**	**3,208,208**	**1,093,597**	**790,266**	**3,879,606**	**21,483,015**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the central bank	6,535,224	1,684,571	484	-	-	105,781	**8,326,060**
Deposits and other liabilities due to customers	2,523,638	251,597	5,323,267	776,896	95,261	2,092,130	**11,062,789**
Treasury shares and other borrowed funds	-	-	-	-	-	123,052	**123,052**
Subordinated liabilities	-	-	604,792	-	-	1,108	**605,900**
Other liabilities	1,406	-	-	-	-	200,011	**201,417**
Total liabilities	**9,060,268**	**1,936,168**	**5,928,543**	**776,896**	**95,261**	**2,522,082**	**20,319,218**
GAP (assets - liabilities):	**158,460**	**1,356,442**	**(2,720,335)**	**316,701**	**695,005**	**1,357,524**	**1,163,797**

Interest rate GAP limits are defined by the Board of Directors Decision and are monitored and analyzed on regular basis.

As an integral part of the interest rate risk assessment, the Bank conducts stress tests of the effects of changes in interest rates. In determining exposure to interest rate risk in the banking book and interest rate risk limit, the Bank assesses the effects of interest rate changes on the financial result of the Bank (income statement), but also effects on the economic value of the Bank's capital, by applying a test – i.e. standard interest rate shock in accordance with the nature and level of risks that Bank is exposed to.

The standard interest rate shock presents positive and negative parallel shift of interest rate changes by 200 basis points (1bp=0,01%).

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Market Risk (Continued)

Interest Rate Risk (Continued)

In the existing interest rate GAP structure (observed on consolidated level which includes major currencies i.e. currencies EUR, RSD, CHF and USD) interest rate change by 200 bp would change the economic value of the Bank's capital by 1.08% (2014: 3.54%), i.e. the value of capital would be increased by RSD 8,776 thousand (2014: RSD 72,851 thousand).

Positions nominated in '000 RSD	0-1m	1-3m	3-6m	6-12m	1-2y	2-3y	3-4y	4-5y	5-7y	7-10y	10-15y	15-20y	> 20y	TOTAL
Sensitive Asset	10,023,307	3,622,500	3,167,129	223,081	412,256	222,979	167,061	150,500	149,348	51,421	2,150	0	0	18,191,732
Sensitive Liabilities	-10,403,580	-2,680,875	-640,232	-3,054,971	-872,042	-240,526	-9,653	-3,814	-2,280	-9,126	0	0	0	-17,917,102
GAP	-380,273	941,625	2,526,897	-2,831,890	-459,786	-17,547	157,408	146,686	147,067	42,295	2,150	0	0	274,631
Basel 2 sensitivity coefficients (200 bp interest rate changes)	0.08%	0.32%	0.72%	1.43%	2.77%	4.49%	6.14%	7.71%	10.15%	13.26%	17.84%	22.43%	26.03%	
Effects (in '000 RSD)	-304	3,013	18,194	-40,496	-12,736	-788	9,665	11,310	14,927	5,608	383	0	0	***8,776***
Regulatory capital														814,877
Total effects/Regulatory Capital (max 20%)														1.08%

Positions nominated in '000 RSD	0-1m	1-3m	3-6m	6-12m	1-2y	2-3y	3-4y	4-5y	5-7y	7-10y	10-15y	15-20y	> 20y	TOTAL
Sensitive Asset	14,028,283	3,287,948	3,086,307	121,901	334,770	223,180	321,388	214,259	387,561	258,374	86,598	57,732	0	22,408,301
Sensitive Liabilities	-9,060,268	-1,936,168	-1,134,596	-4,793,947	-433,262	-288,841	-32,876	-21,917	-52,078	-34,718	-5,079	-3,386	0	-17,797,136
GAP	4,968,015	1,351,780	1,951,711	-4,672,046	-98,492	-65,661	288,512	192,342	335,483	223,656	81,519	54,346	0	4,611,165
Basel 2 sensitivity coefficients (200 bp interest rate changes)	0.08%	0.32%	0.72%	1.43%	2.77%	4.49%	6.14%	7.71%	10.15%	13.26%	17.84%	22.43%	26.03%	
Effects (in '000 RSD)	3,974	4,326	14,052	-66,810	-2,728	-2,948	17,715	14,830	34,052	29,657	14,543	12,190	0	***72,851***
Regulatory capital														2,060,351
Total effects/Regulatory Capital (max 20%)														3.54%

Currency Risk

The Bank regularly monitors its exposure to foreign currency risk by complying with limits prescribed by the NBS, as well as internally prescribed limits. The Bank maintains its foreign currency position by granting loans with foreign currency clauses. In addition, the Bank actively manages foreign currency risk through prudent assessment of open foreign currency positions by applying foreign currency swaps and observing risk limitations prescribed by the NBS and contained in internal enactments adopted by the Bank's management.

As at December 31, 2015, the Bank was in compliance with the NBS requirement relating to foreign currency risk.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Market Risk (Continued)

Currency Risk (Continued)

The table below summarizes exposure to foreign currency risk as at December 31, 2015. Included in the table are assets and liabilities as their carrying values denominated in relevant currencies.

As of December 31, 2015	USD	EUR	CHF	Other Currencies	Total	RSD	Total
Assets							
Cash and cash funds held with the central bank	38,832	2,234,141	17,676	6,845	**2,297,494**	1,423,389	**3,720,883**
Loans and receivables due from banks and other financial institutions	60,355	2,379,520	176,555	3,359	**2,619,789**	-	**2,619,789**
Loans and receivables due from customers	-	10,104,212	612,133	-	**10,716,345**	2,791,678	**13,508,023**
Other assets		13,994			**13,994**	65,893	**79,887**
	99,187	**14,731,867**	**806,364**	**10,204**	**15,647,622**	**4,280,960**	**19,928,582**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	7,558,617	727,784	-	**8,286,401**	62,706	**8,349,107**
Deposits and other liabilities due to customers	97,997	6,677,866	84,482	4,936	**6,865,281**	3,264,222	**10,129,503**
Treasury shares and other borrowed funds	-	-	-	-	**-**	123,053	**123,053**
Subordinated liabilities	-	612,033	-	-	**612,033**	-	**612,033**
Other liabilities	760	18,821	157	80	**19,818**	171,988	**191,806**
Total liabilities	**98,757**	**14,867,337**	**812,423**	**5,016**	**15,783,533**	**3,621,969**	**19,405,502**
Net currency position	**430**	**(135,470)**	**(6,059)**	**5,188**	**(135,911)**	**658,991**	**523,080**

As of December 31, 2014	USD	EUR	CHF	Other Currencies	Total	RSD	Total
Assets							
Cash and cash funds held with the central bank	4,873	2,069,463	6,435	11,254	**2,092,025**	1,372,568	**3,464,593**
Loans and receivables due from banks and other financial institutions	90,274	3,115,586	80,783	12,680	**3,299,323**	-	**3,299,323**
Loans and receivables due from customers	-	10,079,677	618,871	-	**10,698,548**	3,898,529	**14,597,077**
Receivables arising from financial derivatives designated as hedging instruments	-	-	-	-	**-**	4,662	**4,662**
Other assets	10	34,470	122	-	**34,602**	82,758	**117,360**
	95,157	**15,299,196**	**706,211**	**23,934**	**16,124,498**	**5,358,517**	**21,483,015**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	7,519,511	650,532	-	**8,170,043**	156,017	**8,326,060**
Deposits and other liabilities due to customers	85,781	7,513,102	45,925	3,919	**7,648,727**	3,414,062	**11,062,789**
Treasury shares and other borrowed funds	-	-	-	-	**-**	123,052	**123,052**
Subordinated liabilities	-	605,900	-		**605,900**	-	**605,900**
Other liabilities	679	22,074	140	80	**22,973**	178,444	**201,417**
Total liabilities	**86,460**	**15,660,587**	**696,597**	**3,999**	**16,447,643**	**3,871,575**	**20,319,218**
Net currency position	**8,697**	**(361,391)**	**9,614**	**19,935**	**(323,145)**	**1,486,942**	**1,163,797**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Market Risk (Continued)

Currency Risk (Continued)

The effects of a decrease in foreign exchange rates on the Bank's results are as follows:

	Open Foreign Currency Position as at 31.12.		RSD Depreciation effects of 10%	RSD Depreciation effects of 10%
	2015.	**2014.**	**2015.**	**2014.**
EUR	(135,470)	(361,382)	(11,515)	(30,717)
CHF	(6,059)	9,614	(515)	817
USD	430	8,697	37	739
Other currencies	5,188	19,935	441	1,694

4.5. Fair Value of Financial Assets and Liabilities

The fair value stated in the financial statements is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an independent transaction.

The fair value is calculated using market information available at the reporting date as well as individual evaluation Bank's methods.

The fair value of a financial instrument is shown at its nominal value and is approximately equal to its book value. This includes cash as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, expected future cash flows are discounted to their present value using current interest rates. Bearing in mind that the variable interest rates land to changes in the agreed rates.

Quoted market prices are used for securities traded. The fair value of other securities is calculated as the net present value of expected future cash flows.

The fair value of irrevocable credit commitments and contingent liabilities are the same as their carrying values.

Evaluation of Financial Instruments

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

- Level 1: quoted market prices (unadjusted) in active markets for identical instrument.

- Level 2: Valuation techniques based on observable inputs other than quoted prices included in level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments that are valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less active, or other valuation techniques in which all significant inputs ate directly or indirectly observable from market data.
- Level 3: Valuation techniques that use 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 impact on the valuation of the instrument. This category includes instruments that are valuated based on quoted prices for similar instruments when significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5. Fair Value of Financial Assets and Liabilities (Continued)

Evaluation of Financial Instruments (Continued)

Fair value of financial assets and financial liabilities traded in active markets is based on quoted market price or price quoted by dealers. For all other financial instruments the Bank determines fair value by using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comprising to similar instruments for which there is no observable market price and other valuation models. Assumptions and input used in valuation techniques include free from risk and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond prices and equity securities, foreign exchange rates, equity and equity-indexed prices and expected price fluctuations and correlations. The objective of valuation techniques to determine the fair value which reflects the price of the financial instrument at the reporting date, which would be defined by the market participants in the free and independent transactions.

The Bank use widely accepted models of evaluation to determine the fair value of common and simpler financial instruments, including interest rate and currency swaps that use only observable market data and require little judgment and estimated by management. Quoted prices and inputs for the models are usually available in the market for listed debt and equity securities, derivatives traded and simple derivatives as interest rate swaps.

The availability of observable market prices and inputs the model reduces the need for estimates of management and reduce the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes caused by specific events and general conditions in future markets.

The table below analyzes financial instruments measured at fair value at the end of the reporting period, according to the level in the fair value hierarchy within which the fair value measurement placed:

December 31, 2014	**Level1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
Derivatives	-	4,662	-	4,662
Total assets	**-**	**4,662**	**-**	**4,662**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5. Fair Value of Financial Assets and Liabilities (Continued)

Evaluation of Financial Instruments (Continued)

The following table shows the fair value of financial instruments not measured at fair value and analyzes them according to the level in the fair value hierarchy within the fair value measurement placed:

	Dec-31, 2015		Dec-31, 2014.	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial (monetary) assets				
Cash and cash funds held with the central bank	3,720,883	3,720,883	3,464,593	3,464,593
Loans and receivables due from banks and other financial institutions	2,619,789	2,619,789	3,299,323	3,299,323
Loans and receivables due from customers	13,508,023	13,508,023	14,597,077	14,597,077
Other assets	79,887	79,887	117,360	117,360
Total	**19,928,582**	**19,928,582**	**21,478,353**	**21,478,353**
Financial (monetary) liabilities				
Deposits and other liabilities due to banks and other financial institutions	8,349,107	8,349,107	8,326,060	8,326,060
Deposits and other liabilities due to customers	10,129,503	10,129,503	11,062,789	11,062,789
Subordinated liabilities	612,033	612,033	605,900	605,900
Other liabilities	191,806	191,806	201,417	201,417
Total	**19,282,449**	**19,282,449**	**20,196,166**	**20,196,166**

	Fair Value			
December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash funds held with the central bank	3,720,883	-	-	3,720,883
Loans and receivables due from customers	-	-	13,508,023	13,508,023
Loans and receivables due from banks and other financial institutions	-	-	2,619,789	2,619,789
Other assets	-	-	79,887	79,887
Total	**3,720,883**	**-**	**16,207,699**	**19,928,582**
Liabilities				
Deposits and other liabilities due to banks and other financial institutions	-	-	8,349,107	8,349,107
Deposits and other liabilities due to customers	-	-	10,129,503	10,129,503
Subordinated liabilities	-	-	612,033	612,033
Other liabilities	-	-	191,806	191,806
Total	**-**	**-**	**19,282,449**	**19,282,449**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5. Fair Value of Financial Assets and Liabilities (Continued)

December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash funds held with the central bank	3,464,593	-	-	3,464,593
Loans and receivables due from customers	-	-	14,597,077	14,597,077
Loans and receivables due from banks and other financial institutions	-	-	3,299,323	3,299,323
Other assets	-	-	117,360	117,360
Total	**3,464,593**	**-**	**18,013,760**	**21,478,353**
Liabilities				
Deposits and other liabilities due to banks and other financial institutions	-	-	8,326,060	8,326,060
Deposits and other liabilities due to customers	-	-	11,062,789	11,062,789
Subordinated liabilities	-	-	605,900	605,900
Other liabilities			201,417	201,417
Total	**-**		**20,196,166**	**20,196,166**

The management believes that the fair values of financial assets and liabilities measured at other than fair value does not differ materially from their carrying values.

It is the policy of the Bank to disclose the fair value information on those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts.

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market.

The Banks's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision.

Fair values of the cash and cash equivalents, short-term deposits, other loans and receivables and other assets, transaction deposits, trade payables and other current liabilities correspond to their carrying value due to their relatively short-term maturities.

The table below presents the Bank's classification for each class of financial assets and liabilities and their fair values as of December 31, 2015:

December 31, 2015	**Held to Maturity**	**Available for Sale**	**Other Amortized Value**	**Total Current Value**	**Fair Value**
Cash and cash funds held with the central bank	3,720,883	-	-	3,720,883	3,720,883
Loans and receivables due from banks and other financial institutions	2,619,789	-	-	2,619,789	2,619,789
Loans and receivables due from customers	13,508,023	-	-	13,508,023	13,508,023
Other assets	79,887	-	-	79,887	79,887
Total assets	**19,928,582**	**-**	**-**	**19,928,582**	**19,928,582**
Deposits and other liabilities due to banks and other financial institutions	-	-	8,349,107	8,349,107	8,349,107
Deposits and other liabilities due to customers	-	-	10,129,503	10,129,503	10,129,503
Subordinated liabilities	-	-	612,033	612,033	612,033
Other liabilities	-	-	191,806	191,806	191,806
Total liabilities	**-**	**-**	**19,282,449**	**19,282,449**	**19,282,449**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5. Fair Value of Financial Assets and Liabilities (Continued)

The table below presents the Bank's classification for each class of financial assets and liabilities and their fair values as of December 31, 2014:

December 31, 2014	Held to Maturity	Available for Sale	Other Amortized Value	Total Current Value	Fair Value
Cash and cash funds held with the central bank	3,464,593	-	-	3,464,593	3,464,593
Loans and receivables due from banks and other financial institutions	3,299,323	-	-	3,299,323	3,299,323
Loans and receivables due from customers	14,597,077	-	-	14,597,077	14,597,077
Other assets	117,360	-	-	117,360	117,360
Total assets	**21,478,353**		**-**	**21,478,353**	**21,478,353**
Deposits and other liabilities due to banks and other financial institutions	-	-	8,326,060	8,326,060	8,326,060
Deposits and other liabilities due to customers	-	-	11,062,789	11,062,789	11,062,789
Subordinated liabilities			605,900	605,900	605,900
Other liabilities	-	-	201,417	201,417	201,417
Total liabilities	**-**	**-**	**20,196,166**	**20,196,166**	**20,196,166**

The following is a description of the methodology and assumptions used to determinate fair value of financial instruments that have not been recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and liabilities that are liquid or have short-term maturities (less than one year) it is assumed that the carrying value approximates fair value. This assumption also applies to demand deposits, savings accounts without a specific maturity and financial instruments with variable rate.

Financial instruments with fixed rates

The fair value of financial assets and liabilities with fixed rates recorded at amortized cost are assessed by using market interest rates as increased for current credit risk.

The estimated fair value of deposits with a fixed rate based on the discounted cash flows using prevailing interest rates on the debt on the money market with similar credit risk and maturity.

4.6. The Risk of Exposure to a Single Party or a Group of Related Parties

The Bank's exposures to a single party represents the total amount of receivables and off-balance sheet items relating to that party or a group of related parties (loans, investments in debt securities, equity shares, guarantees issued, acceptances, etc.)

The exposure risk, i.e. exposure concentration, is the Bank's exposure towards:

- one party or a group of related parties (two or more legal entities ot private individuals related by shares),
- two or more legal entities or private individuals related in the manner that deterioration or improvements of the financial position of one party affects the financial position of the other,
- a private individual who is an authorized representative of legal entity,

4. FINANCIAL RISK MANAGEMENT (Continued)

4.6. The Risk of Exposure to a Single Party or a Group of Related Parties (Continued)

- two or more private individuals or legal entities related by their membership in legal entities, managements bodies, including their respective famili memeber,
- family members of a private individuals who are members of management bodies of two legal entities at the same time,
- a related party to the Bank (member of the Banking Group the member of which is the Bank, members of the management bodies of the Bank and of the Banking Group and their respective family members, parties with share in the capital of the Bank or the Banking Group and their respective family members, legal entities in which all the above mentioned parties own a control package).

The main goal of the exposure risk management is to eliminate the risk bearing exposure of the Bank's assets to one party, group of related parties or parties related to the Bank.

This goal can be achieved by strict compliance with and the application of the Bank's credit policy in relation to acceptance and approval of clients' requests in order to identify related parties and monitor the Bank's exposure limits towards them.

The Bank's exposure

- Large Bank's exposure is an exposure to a single party or a group of related parties amounting to no less than 10% of the Bank's capital,
- Towards a single party or a group of related parties amounting to no less than 25% of the Bank's capital.

The total of all the Bank's exposure may not exceed 400% of the Bank's capital.

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management (RS Official Gazette No. 129/2007) and operate accordingly.

4.7. The Risk of Investing into Other Entities and Fixed Assets

The Bank's investment risk is the risk related to the Bank's investment in a single party private individual / legal entity operating outside the financial sector and the risk of the Bank's investment in fixed assets.

Managing this risk implies measuring, monitoring and controlling:

1. the amount of the Bank's investment (the Bank acquires the right to shares or share in capital) in any private individual/legal entity operating outside the financial sector that may not exceed 10% of the Bank's capital;
2. the amount of the Bank's investment in its own fixed assets;
3. the total amount of the Bank's investment (the total of items 1 and 2) that may not exceed 60% of the Bank's capital;
4. Management Board quarterly reporting of movements in indicators of items 1 to 3;
5. Management Board suggestions relating to corrective measures in order to maintain the investment risk within the prescribed limits.

The Bank's investment limits:

- The Bank's investments in a single entity operating outside the financial sector may not exceed 10% of the Bank's capital; the limit relates to the investment based on which the Bank acquires the right to shares or share in capital of the entity operating outside the financial sector;
- The total amount of the Bank's investments in entities operating outside the financial sector and in fixed assets may not exceed 60% of the Bank's capital.

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management (RS Official Gazette No. 45/2011, 94/2011, 119/2012, 123/2012, 23/2012 – the other Decision, 43/2013, 93/2012, 33/2015 and 61/2015) and operates accordingly.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.8. Risks relating to the client's country of origin

The risk related to the country of origin of the private individual/legal entity to which the Bank is exposed (country risk) is the risk of adverse effects on the Bank's financial results and equity that may occur due to the Bank's inability to collect its receivables from the legal entity/private individual domiciled in a foreign country due to political, economic and social conditions in that country.

The reasons that lead to country risk exposure are as follows:

- Political reasons – significant political changes in a country due to which a debtor is unable to fulfil its obligations to the Bank on a regular basis (change of government and significant political change, political turmoil, wars, catastrophes, etc)
- Economic reasons - extremely negative economic events in a country due to which foreign debt repayment is seriously questioned or completely hindered

Country risk is reflected through:

- Risk of non-payment relates to cases in which debtor is unable to fulfill its obligations to the Bank on a regular basis due to political and economic reasons
- Transfer risk represents the possibility that solvent debtor from a foreign country is unable to pay its debt to the Bank in the specified currency due to the certain irregularities in that country
- Guarantee risk – the risk that has occurred as a result of a guarantee issued to an entity in a foreign country for payment to be effected in a third country

The main goal of the country risk management is to protect the entire Bank's portfolio from possible risk bearing and uncollectible receivables from debtors from countries at risk.

4.9. Operational risk (including legal risk and risk of improper management of information and other technologies significant for the Bank's operations)

Operational risk is defined as the risk of adverse effects on the Bank's financial results and share capital arising from the employee omission, illegal acts, inadequate internal procedures and processes, inadequate management of the Bank's information and other systems and unforeseeable external actions.

The Bank is obliged to identify the existing sources of operational risk as well as the potential sources of such risk that may occur as a result of introducing new products, systems or activities.

The operational risk management methodology, in view of its identification and recording of losses arising from its effects, comprises:

I Defining the Bank's lines of service – each organization unit of the Bank needs to be clearly defined, including all activities and specific actions.

II Defining the causes that lead to operational risk and can arise from or be:

1. Human factor
2. processes
3. systems
4. external factors

4. FINANCIAL RISK MANAGEMENT (Continued)

4.9. Operational risk (including legal risk and risk of improper management of information and other technologies significant for the Bank's operations) (Continued)

III Identifying events that may cause operational risk and related losses:

1. Internal mistakes and employee abuse,
2. External breach of regulations,
3. Employing system and work protection omissions,
4. Client relation problems,
5. External factors,
6. The Bank's organization and system operation,
7. Implementation of the Bank's business procedures and decisions.

IV Loss category

1. Loss.
2. Operating income,
3. Avoided loss,
4. omitted gain.

Information risks

The information technology system architecture has two functions:

- the Bank's transactions processing and
- reporting to the Bank's management and management bodies.

One of the most significant links in risk management is an adequate information system which should meet the following criteria:

- timeliness,
- accuracy,
- cesurity and integrity,
- consistency,
- completness,
- relavancy.

The accounting systems consist of reports on business operations, financial operations, risk management and compliance which enable the Bank's management and management bodies to coordinate the Bank's operations.

The communication systems connect the information inside the Bank and external users (regulatory bodies, auditors, shareholders and clients).

4.10. Capital Risk Management

The Bank's objective when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, issue new shares or convert portion of liabilities to subordinated debt.

Under the NBS regulations, the Bank is required to:

- maintain the prescribed minimum monetary share capital of EUR 10 million in RSD counter value at the NBS middle exchange rate;

- maintain the minimum capital adequacy ratio, against the risk bearing assets, of 12%;

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.10. Capital Risk Management (Continued)

The Bank's Financial Control Department performs the control of capital based on the capital adequacy ratio:

	Dec-31, 2015	Dec -31, 2014
Core capital – Tier 1		
Nominal value of paid in shares, except for preference shares	5,671,609	5,671,608
Share premium	2,877,487	2,877,487
Reserves from profit	151,673	151,673
Losses from previous years	(5,047,450)	(4,480,410)
Current year loss	(837,332)	(571,401)
Intangible assets	(128,213)	(142,426)
Unrealized losses based on securities available for sale	(229)	(229)
Other net negative revaluation reserves	(2,324)	-
Required reserve for estimated losses Per balance sheet assets and off-balance sheet items	(2,277,782)	(2,300,892)
Core capital – Tier 1	**407,439**	**1,205,410**
Supplementary capital – Tier 2		
Portion of the Bank's revaluation reserves	228,369	232,075
Qualifying subordinated loans	203,720	602,704
The amount of capital in excess of the supplementary capital restrictions	(24,650)	-
Total qualifying Tier 2 capital	**407,439**	**834,779**
Total deductible items	**-**	**-**
Reduction in Tier 1 capital	-	-
Reduction in Tier 2 capital	-	-
Total Tier 1 capital	**407,439**	**1,205,410**
Total Tier 2 capital	**407,439**	**834,779**
Total regulatory capital as at December 31	**814,878**	**2,040,189**
Capital requirements	1,421,867	1,647,241
Credit risks	1,243,638	1,445,247
Currency risk	17,024	12,977
Operational risk	161,205	189,017
Capital adequacy ratio, at December 31	**6.88**	**14.86**

5. KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 the circumstances.

Deteriorating operating conditions of borrowers may affect the cash flows projected by the Bank's management as well as the assessment of the impairment of financial and non-financial assets. To the extent that information was available, the Bank's management properly reflected the revised estimates of the future cash flows in the impairment assessment.

The preparation of the financial statements in accordance 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.

Areas that require the **greatest degree of judgement**, which may most significantly affect the amounts stated in the Bank's financial statements are presented hereunder.

(a) Loan Impairment Losses

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified on individual loans within the portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in terms of liability settlement toward the Bank, or national or local economic conditions that correlate with defaults on assets of the Bank. The Bank’s management makes assessment based on its experience with losses incurred on loans from prior periods for all assets susceptible to credit risk and showing evidence of impairment similar to the one that existed in the credit portfolio at the time of planning future cash flows. The methodology and assumptions used in the assessment of amounts and time of future cash flows are subject to regular reviews with the aim to decrease differences between the estimated and actually incurred losses.

(b) Impairment of Equity Investments Available for Sale

The Bank determines that an equity instrument available for sale is impaired when there is a significant or prolonged decline in its fair value below cost. Determining what is significant and what is prolonged requires judgment. In making this judgment, among other factors, the Bank assesses regular movements in share prices. Impairment may occur when there is evidence of deterioration of the financial position of the borrower, industry performance, and changes in technology and cash flows from operating and financing activities.

(c) Provisions

Provisions are highly judgmental, particularly those for litigation losses or other contingent liabilities. The Bank estimates the probability of an adverse event occurring as a result of a past event. If the estimated probability of the adverse event is higher than 50%, the Bank will make a provision for the full amount of the liability.

The Bank is rather conservative in its estimates, however, due to the high degree of uncertainty, in some cases the estimate may differ from the possible outcome of a legal suit.

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

6. INTEREST INCOME AND EXPENSES

	2015	2014
Interest income per		
Loans	1,328,238	1,393,291
Deposits	54,441	52,511
Other receivables	45	10
Foreign currency loans	8,309	5,111
Foreign currency deposits	1	358
Total	**1,391,034**	**1,451,281**
Interest expenses per		
Borrowings	(47)	-
Deposits	(186,519)	(186,550)
Other liabilities	(17,680)	(46,917)
Foreign currency borrowings	(131,818)	(145,126)
Foreign currency deposits	(166,500)	(280,284)
Total	**(502,564)**	**(658,877)**
Net interest income	**888,470**	**792,404**

Interest income per RSD loans totaling RSD 1,328,238 thousand (2014: RSD 1,393,291 thousand) includes collected previously suspended interest of RSD 227,611 thousand (2014: RSD 203,765 thousand).

Interest income from

	2015	2014
Corporate customers	742,100	732,140
Retail customers	531,187	566,760
Non-residents	2,071	2,886
National Bank of Serbia	37,761	32,463
Entrepreneurs	76,440	91,470
Banks and other financial institutions	1,475	10,216
Public sector	-	15,346
Total	**1,391,034**	**1,451,281**

Interest expenses to

	2015	2014
Corporate customers	136,124	103,785
Retail customers	163,452	283,928
Entrepreneurs	127	6,273
Banks and other financial institutions	20,164	49,509
Public companies	-	5,548
Public sector	6	684
Non-residents	174,197	193,014
National Bank of Serbia	3,155	661
Other customers	5,339	15,475
Total	**502,564**	**658,877**
Net interest income	**888,470**	**792,404**

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

7. FEE AND COMMISSION INCOME AND EXPENSES

	2015	2014
Fee and commission income		
Fee and commission income	186,941	201,965
Foreign currency fee and commission income	11,466	10,258
Total	**198,407**	**212,223**
Fee and commission expenses		
Fee and commission expenses	(29,969)	(30,684)
Foreign currency fee and commission expenses	(19,348)	(15,136)
Total	**(49,317)**	**(45,820)**
Net fee and commission income	**149,090**	**166,403**

RSD fee and commission income totaling RSD 186,941 thousand (2014: RSD 201,965 thousand) mostly relate to the fees paid by corporate customers for banking services of payment operations in the amount of RSD 61,793 thousand (2014: RSD 67,172 thousand); fees paid by retail clients for other banking services of RSD 43,220 thousand (2014: RSD 54,711 thousand); fees charged to other customers for foreign currency sales and purchases in the amount of RSD 16,731 thousand (2014: RSD 18,497 thousand); fees paid by corporate customers for banking services of acceptances, guarantees, letters of intent and the like in the amount of RSD 12,493 thousand (2014: RSD 10,395 thousand).

RSD fee and commission expenses totaling RSD 29,969 thousand (2014: RSD 30,684 thousand) mostly relate to other fee and commission expenses pertaining to payment cards in the amount of RSD 13,810 thousand (2014: RSD 14,527 thousand) and fees for payment operations amounting to RSD 13,676 thousand (2014: RSD 13,302 thousand).

Foreign currency fee and commission expenses totaling RSD 19,348 thousand (2014: RSD 15,136 thousand) relate to the expenses of the foreign exchange operations in the amount of RSD 10,543 thousand (2014: RSD 8,095 thousand) and fees for international payment operations amounting to RSD 7,915 thousand (2014: RSD 6,681 thousand).

Fee and commission income per banking services

	2015	2014
- payment card transactions	27,026	30,832
- domestic payment operations (corporate, bank and retail customers)	64,045	67,378
- commissions per guarantees issued	17,184	16,130
- banking services	49,315	60,088
- foreign payment operations	8,010	6,820
- other fees and commissions	3,656	4,359
- exchange transactions	465	508
- purchases and sales of currencies	16,731	18,497
- early loan repayment	11,975	7,611
Total income	**198,407**	**212,223**
Fee and commission expenses per banking services		
- payment card transactions	24,948	23,294
- domestic payment operations	13,676	13,302
- foreign payment operations	7,916	6,681
- broker-dealer services	40	218
- other fees and commissions	1,706	1,990
- purchases and sales of currencies	1,031	335
Total expenses	**49,317**	**45,820**
Net fee and commission income	**149,090**	**166,403**

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

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

	2015	2014
Gains on the valuation of derivatives held for risk hedging	-	4,586
Losses on the valuation of derivatives held for risk hedging	(4,661)	(2,628)
Gains on the valuation of loans, receivables and securities	484	1,899
Net (losses)/gains on the hedges against risks	**(4,177)**	**3,857**

9. NET FOREIGN EXCHANGE (LOSSES)/GAINS AND (NEGATIVE)/POSITIVE CURRENCY CLAUSE EFFECTS

	2015	2014
Foreign exchange gains per:		
Foreign currency deposits and loans	891,266	283,961
Foreign currency accounts	59,703	70,578
Operations with derivatives	18,900	45,822
Cash and cash funds held with the central bank (NBS)	117,803	144,917
Payment card operations	146,443	105,180
Other	335,559	174,806
Contracted currency clause index	583,318	647,150
Total	**2,152,992**	**1,472,414**
Foreign exchange losses per:		
Foreign currency deposits and borrowings	(1,050,679)	(1,059,312)
Foreign currency accounts	(41,679)	(24,163)
Operations with derivatives	(14,057)	(11,900)
Cash and cash funds held with the central bank (NBS)	(104,001)	(14,625)
Payment card operations	(145,078)	(103,524)
Other	(336,887)	(178,074)
Contracted currency clause index	(476,042)	(60,622)
Total	**(2,168,423)**	**(1,452,220)**
Foreign exchange (losses)/gains, net	**(15,431)**	**20,194**

10. OTHER OPERATING INCOME

	2015	2014
Gains on the sale of other loans and receivables	10,522	48,640
Other income from operations	31,694	42,753
Reversal of unreleased provisions for liabilities (Note 29)	10,919	-
Gains on the sale of property, plant, equipment and intangible assets	334	1,585
Write-off of liabilities	1	216
Surpluses	18	2
Other income	16,542	4,021
Gains on the value adjustment of investment property	-	188
Total	**70,030**	**97,405**

Other operating income totaling RSD 31,694 thousand (2014: RSD 42,753 thousand) for the major part of RSD 27,685 thousand (2014: RSD 30,405 thousand) relate to the rental income.

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

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

	2015	2014
Impairment losses on loans and receivables	(1,752,269)	(1,224,232)
Reversal of impairment allowance of balance sheet assets	1,015,540	801,952
Provisions for off-balance sheet items (Note 29)	(4,354)	-
Reversal of provisions for losses per off-balance sheet items (Note 29)	1,177	-
Write-off of irrecoverable receivables	(6,584)	(3,282)
Collected receivables previously written off	51	210
Total	**(746,439)**	**(425,352)**

Movements on the accounts of impairment allowances of balance sheet assets in 2015 were as follows:

	Loans due from customers	Other loans and receivables	Interest, fee and commission receivables	Other receivables	Total
Balance, beginning of year	3,191,128	655,952	209,183	344,555	4,400,818
Charge for the year	1,229,342	193,970	77,216	251,741	1,752,269
Foreign exchange effects	1,181	-	-	-	1,181
Write-off	(336,998)	-	-	-	(336,998)
Reversal of impairment allowance	(695,765)	(62,744)	(45,883)	(211,148)	(1,015,540)
Balance, end of year	**3,388,888**	**787,178**	**240,516**	**385,148**	**4,801,730**

Movements on the accounts of impairment allowances of balance sheet assets in 2014 were as follows:

	Loans due from customers	Other loans and receivables	Interest, fee and commission receivables	Other receivables	Total
Balance, beginning of year	3,004,430	653,873	206,292	171,790	4,036,385
Charge for the year	966,910	12,353	62,789	182,180	1,224,232
Foreign exchange effects	4,529	-	-	-	4,529
Write-off	(32,123)	-	-	-	(32,123)
Reversal of impairment allowance	(722,365)	(10,274)	(59,898)	(9,415)	(801,952)
Balance, end of year	**3,191,128**	**655,952**	**209,183**	**344,555**	**4,400,818**

12. STAFF COSTS

	2015	2014
Employee salaries	286,115	307,430
Salary reimbursements	58,849	69,289
Payroll taxes	43,813	48,147
Payroll contributions	87,142	96,796
Considerations to temporary and seasonal employees	10,884	1,362
Other staff costs	866	6,063
Provisions for retirement and other employee benefits	-	3,467
Reversal of provisions for retirement and other employee benefits	(1,380)	(4,337)
Total	**486,289**	**528,217**

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

13. DPERECIATION/AMORTIZATION CHARGE

	2015	2014
Amortization of intangible assets	44,740	28,317
Depreciation of property, plant and equipment	46,756	56,095
Total	**91,496**	**84,412**

14. OTHER EXPENSES

	2015	2014
Cost of materials	35,306	31,490
Cost of production services	101,059	151,712
Non-material costs (excluding taxes and contributions payable)	249,725	246,945
Taxes payable	43,502	74,846
Contributions payable	87,816	97,633
Provisions for liabilities (Note 29)	3,809	-
Losses on the sales of property, plant, equipment and intangible assets	22	13
Losses on the retirement and write-off of property, plant, equipment and intangible assets	2,482	2,835
Shortages and damages	74	77
Other expenses	55,303	3,848
Losses on the impairment of assets acquired in lieu of debt collection	14,451	-
Total	**593,549**	**609,399**

Of the aggregate cost of production services totaling RSD 101,059 thousand (2014: RSD 151,712 thousand), RSD 61,984 thousand (2014: RSD 91,963 thousand) represents rental costs for the business premises; RSD 16,411 thousand (2014: RSD 17,962 thousand) refer to the costs of electronic communications and automatic data processing.

Non-material costs totaling RSD 249,725 thousand (2014: RSD 246,945 thousand) mostly, in the amount of RSD 57,014 thousand (2014: RSD 60,365 thousand), relate to the costs of insurance premiums for bank deposits; RSD 43,695 thousand (2014: RSD 38,574 thousand) refers to the software maintenance services; RSD 24,052 thousand (2014: RSD 24,306 thousand) refers to the maintenance of software applications; and RSD 21,116 thousand (2014: RSD 18,800 thousand) pertains to IT equipment maintenance services.

Other expenses of RSD 55,303 thousand mostly, in the amount of RSD 38,695 thousand, pertain to expenses incurred in the sales of assets acquired in lieu of debt collection.

15. CURRENT INCOME TAX

Total tax expenses are comprised of the following components:	2015	2014
Current income tax expenses	-	-
Deferred tax expenses (Note 30)	(7,541)	(4,284)
Total tax expenses	**(7,541)**	**(4,284)**

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

15. CURRENT INCOME TAX (Continued)

More detailed information on deferred taxes is provided in Note 31. Current income tax on the Bank's profit before taxes differs from the theoretical tax amount that would be obtained by applying the weighted average tax rate, as follows:

	2015	2014
Loss before taxes	(829,791)	(567,117)
Income tax at the legally prescribed tax rate of 15%	124,469	85,068
Tax effects of expenses not recognized for tax purposes	2,550	9,707
Tax effects of unrecognized tax losses	(127,019)	(94,775)
Current income tax expenses stated in the income statement	**-**	**-**

The following table presents tax losses and the amount of unused tax credit per year:

Tax period of unused tax credit inception	Tax loss	Amount of unused tax credit	The final tax period in which the unused tax credit may be utilized
2006	686,984	103,048	
Utilization of the 2010 tax loss	(246,432)	(36,965)	
Utilization of the 2012 tax loss	(172,855)	(25,928)	2016
Remaining 2006 tax loss	267,697	40,155	
2007	341,521	51,228	2017
2008	1,057,623	158,643	2018
2009	239,207	35,881	2019
2011	25,160	3,774	2016
2013	478,491	71,774	2018
2014	631,826	94,774	2019
2015	846,788	127,018	2020
TOTAL	**3,888,313**	**583,247**	

16. EARNINGS PER SHARE

Earnings per share ("EPS") represent profit per unit of capital. For this reason EPS is calculated as the ratio of net profit attributable to the Bank's shareholders and the weighted average number of shares outstanding during a specific period.

Earnings per share are provided in the table below:

Description	Movements on shares (pcs.)	Total share count	No. of days	Weighted average no. of shares
1	**2**	**3**	**4**	**5=(3x4)**
Balance at January 1, 2014	11,097,112	11,097,112	365	4,050,445,880
New shares issued in 2014	-	-	-	-
Balance at December 31, 2014	11,097,112	11,097,112	365	4,050,445,880
Balance at January 1, 2015	11,097,112	11,097,112	365	4,050,445,880
New shares issued in 2015	-	-	-	-
Balance at December 31, 2015	11,097,112	11,097,112	365	4,050,445,880

	2015	2014
Weighted average number of shares outstanding	11,097,112	11,097,112

No.	Description	2015	2014
1	Net loss attributable to the holders of ordinary shares in RSD	(837,332,101)	(571,400,370)
2	Weighted average number of shares	11,097,112	11,097,112
3	**Earnings per share (1:2)**	**(75.45)**	**(51.49)**

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

17. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

	Dec -31, 2015	Dec -31, 2014
Gyro account balance	1,226,011	1,243,622
Cash on hand in RSD	196,449	128,937
Receivables for calculated interest, fees and commissions per cash funds held with the central bank	6	9
Cash on hand in foreign currencies	328,468	206,989
Obligatory foreign currency reserve held with NBS	1,969,026	1,885,036
Prepayments per cash funds held with the central bank	923	-
Total	**3,720,883**	**3,464,593**

The Bank's obligatory RSD reserve represents the minimum RSD reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 3/11, 31/12, 57/12, 78/12, 87/12, 107/12, 62/13, 125/14, 135/14, 4/2015, 78/2015 and 102/2015).

The obligatory RSD reserve is set aside on a gyro account and is therefore not separately accounted for. As of December 31, the calculated obligatory RSD reserve amounted to RSD 1,305,810 thousand (December 31, 2014: RSD 1,348,396 thousand).

The Bank's obligatory RSD reserve represents the minimum RSD reserve set aside in accordance with the NBS Decision and may be used for liquidity maintenance, if necessary. The Bank calculates the obligatory reserve based on the liabilities per deposits, borrowings and securities as well as other RSD liabilities except for RSD deposits received as managed funds, which do not exceed the amount of loans the Bank disbursed from such deposits.

The obligatory foreign currency reserve is calculated based on the liabilities per foreign currency deposits, borrowings and securities and other foreign currency liabilities as well as deposits, borrowings and other foreign currency assets received from abroad as managed funds.

The basis for calculation of the obligatory reserve in foreign currency is the average daily book balance of the foreign currency assets from the previous month and average daily book balance of the foreign currency liabilities and liabilities with a currency clause index.

The Bank calculates the obligatory RSD reserve at the rate of 0% on the RSD base comprised of liabilities with contracted maturities of over 2 years and at the rate of 5% the RSD base comprised of liabilities with contracted maturities of up to 2 years.

The Bank calculates the obligatory foreign currency reserve at the rate of 13% on the foreign currency base comprised of liabilities with contracted maturities of over 2 years, and, exceptionally, at the rate of 100% on the portion of the base comprised of RSD liabilities with a currency clause index and maturities of over 2 years, and at the rate of 20% on the foreign currency base comprised of liabilities with contracted maturities of up to 2 years, and, exceptionally, at the rate of 100% on the portion of the base comprised of RSD liabilities with a currency clause index and maturities of up to 2 years.

The above said prescribed rates for the calculation of the obligatory foreign currency reserve are obtained by successive decrease by 1 percentage point every 5 accounting periods, as from the accounting period September 18 through October 17, 2015 up to the period from January 18 through February 17, 2016.

From the accounting period August 18 through September 17, 2011, only loans approved by the Bank before June 30, 2011 are taken into account when calculating the loan increase yet only up to their originally agreed maturity dates.

In addition to the obligatory RSD reserve, the Bank sets aside the RSD equivalent of the portion of calculated obligatory foreign currency reserve according to the percentages stipulated by paragraph 6 of the Decision on Required Reserves of Banks with the National Bank of Serbia.

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

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

	Dec -31, 2015	Dec -31, 2014
The Bank's foreign currency account	194,074	385,395
Receivables for calculated and matured interest on loans, deposits and other receivable in foreign currencies	-	43
Overnight loans in foreign currencies	-	241,917
Other foreign currency loans	-	241,917
Other general purpose foreign currency deposits	2,415,169	2,419,165
Other earmarked foreign currency deposits	10,546	10,886
Total	**2,619,789**	**3,299,323**

As of December 31, 2015, other general-purpose foreign currency deposits totaling RSD 2,415,169 thousand (December 31, 2104: RSD 2,419,165 thousand) relate to the demand deposit held with NBS in the amount of RSD 1,442,161 thousand (equivalent to EUR 11,400,000 and USD 500,000) and liquidity surpluses deposited with NBS in the amount of RSD 973,009 thousand (equivalent to EUR 8,000,000) (December 31, 2104: RSD 2,419,165 thousand (equivalent to EUR 20,000 thousand). The deposit is renewed for a period of 7 days. On deposited liquidity surpluses the Bank paid negative interest to NBS at the rates ranging from -0.03% to -0.35%.

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	Dec -31, 2015	Dec -31, 2014
RSD receivables		
Receivables for accrued interest on loans, deposits and other receivables	336,794	413,505
Receivables for accrued fees and commission per loans, deposits and other receivables	42,634	42,742
Impairment allowance of receivables for accrued interest, fees and commission per loans, deposits and other receivables	(238,060)	(207,232)
Foreign currency receivables for accrued interest on loans, deposits and other receivables	1,788	1,779
Impairment allowance of foreign currency receivables for accrued interest, fees and commission per loans, deposits and other receivables	(1,050)	(739)
Transaction account overdrafts	256,003	262,921
Consumer loans	182,207	192,653
Loans for working capital and liquidity maintenance	4,236,522	3,939,332
Export loans		44,644
Investment loans	1,160,629	1,183,660
Housing loans	2,917,495	2,891,968
Cash loans	1,846,801	1,845,337
Other loans	5,574,075	6,404,619
Impairment allowance of RSD loans due from customers	(3,386,782)	(3,191,128)
Other earmarked deposits	-	1,603
Receivables for discounted bills of exchange, acceptances and payments made for guarantees called on	1,230,916	1,319,810
Other loans and receivables	4,211	4,197
Impairment allowance of other RSD loans and receivables	(764,239)	(655,952)
Accrued interest receivables for loans, deposits and other receivables	40,066	43,489
Impairment allowance of RSD prepayments	(1,706)	-
Foreign currency loans for payment of imported goods and services	114,012	116,652
Foreign currency receivables for discounted bills of exchange, acceptances and payments made for guarantees called on	29,820	-
Impairment allowance of other foreign currency loans and receivables	(22,939)	-
Accrued foreign currency interest receivables for loans, deposits and other receivables	-	167
Deferred income from receivables stated at amortized cost using the effective interest rate	(51,174)	(56,950)
Total	**13,508,023**	**14,597,077**

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Movements on loans and receivables due from customers during the year:

	Short-term loans		Long-term loans		Total 2015	Total 2014
	RSD	FX	RSD	FX		
Balance at January 1						
Interest, fee and commission receivables	229,783	1,778	226,464	1	458,026	561,102
New receivables	105,260	75	1,040,391	8,165	1,153,891	1,253,572
Repayment	(155,490)	(65)	(1,066,980)	(8,165)	(1,230,700)	(1,356,647)
Impairment allowance of interest, fee and commission receivables	(99,269)	(1,051)	(138,792)	-	(239,112)	-
Accrued receivables for interest on loans, deposits and other receivables	18,950	-	21,116	-	40,066	43,656
Deferred income from receivables stated at amortized cost using the effective interest rate	-	-	(51,174)	-	(51,174)	(56,950)
Impairment allowance of RSD prepayments	(282)	-	(1,424)	-	(1,706)	(207,971)
Interest and fee receivables, net at December 31	**98,952**	**737**	**29,601**	**1**	**129,291**	**236,762**
Loans due from customers						
Balance at January 1	2,735,911	-	15,354,833	116,653	18,207,397	17,824,398
New loans approved	1,203,274	-	9,668,157	36,142	10,907,573	14,077,301
Foreign exchange gains				5,343	5,343	27,807
Currency clause index	37,114	-	545,670	-	582,784	647,014
Foreign exchange losses				(4,367)	(4,367)	(2,370)
Currency clause index	(32,300)	-	(439,168)	-	(471,468)	(59,542)
Write-offs	-	-	(343,442)	-	(343,442)	(35,393)
Repayment	(1,639,657)	-	(9,681,533)	(9,938)	(11,331,128)	(14,271,820)
Impairment allowance and provisions	(1,507,616)	-	(2,643,405)	(22,939)	(4,173,960)	(3,847,080)
Loans, net as of December 31	**796,726**	**-**	**12,461,112**	**120,894**	**13,378,732**	**14,360,315**
Loans and receivables due from customers at December 31, 2015	**895,678**	**737**	**12,490,713**	**120,895**	**13,508,023**	**14,597,077**

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Breakdown of loans and receivables per segments during the year was as follows:

	Corporate Custo-mers	Entreprene-urs	Retail Customers	Non-Resi-dents	Other Custo-mers	Total 2015	Total 2014
RSD interest receivables	292,996	7,105	36,444	250		**336,795**	**413,505**
RSD fee and commission receivables	18,585	92	1,880	69	22,008	**42,634**	**42,743**
Impairment allowance of RSD interest, fee and commission receivables	(195,227)	(3,550)	(26,183)	-	(13,100)	**(238,060)**	**(207,232)**
FX interest receivables	1,684	-	-	104	-	**1,788**	**1,779**
Impairment allowance of FX interest, receivables	(946)	-	-	(104)	-	**(1,050)**	**(739)**
Accrued receivables for interest on loans, deposits and other receivables	517	1,782	19,136	283	18,347	**40,065**	**43,656**
Impairment allowance of RSD prepayments	(30)	(44)	(1,384)	-	(249)	**(1,707)**	**-**
Deferred income from receivables stated at amortized cost using the effective interest rate	(39,209)	(6,389)	(5,508)	(69)	-	**(51,175)**	**(56,950)**
Short-term loans							
- in RSD	928,629	64,325	76,274	-	-	**1,069,228**	**1,411,915**
Long-term loans							
- in RSD	9,078,821	541,864	5,449,049	34,772	-	**15,104,506**	**15,353,218**
- in foreign currencies	114,012					**114,012**	**116,652**
Impairment allowance of loans	(2,520,136)	(91,763)	(774,880)	(3)	-	**(3,386,782)**	**(3,191,128)**
Deposits placed							
- in RSD	-	-	-	-	-	**-**	**1,603**
Other receivables							
- in RSD	1,234,816	64	246	-	-	**1,235,126**	**1,324,007**
- in foreign currencies	29,820	-	-	-	-	**29,820**	**-**
Impairment allowance of other receivables	(787,101)	(64)	(12)	-	-	**(787,177)**	**(655,952)**
Total, gross	**8,157,231**	**513,422**	**4,775,062**	**35,302**	**27,006**	**13,508,023**	**14,597,077**

The maturity/aging structure of loans and deposits was as follows:

	Dec -31, 2015	Dec -31, 2014
Matured loans	4,895,311	5,559,453
Maturing within 30 days	215,656	356,093
Maturing from 1 to 3 months	529,281	873,954
Maturing from 3 to 12 months	2,031,174	3,353,896
Maturing from 1 to 5 years	7,006,525	6,235,696
Maturing after 5 years	3,915,495	3,425,671
Loans and deposits, gross	**18,593,442**	**19,804,763**

Matured loans and deposits:

	Dec -31, 2015	Dec -31, 2014
Up to 2 months past due	68,494	112,167
From 2 to 6 months past due	87,538	91,902
From 6 months to a year past due	123,667	184,664
Over a year past due	4,615,612	5,170,720
Total loans matured	**4,895,311**	**5,559,453**

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Concentration of the credit risk exposure (including total loans and receivables due from customers and risk-weighted off-balance sheet items) per industry is provided in the table below:

	Dec -31, 2015	Dec -31, 2014
Accommodation and catering	944,325	1,031,587
Administrative and support services	281,166	265,915
Agriculture, forestry and fishing	1,019,479	860,917
Arts, entertainment and leisure	151,058	186,764
Construction industry	1,978,198	1,931,270
Finance and insurance sector	239,240	658,058
Information and communications	21,058	26,106
Processing industry	4,030,416	4,262,578
Professional, scientific, innovation and technical activities	456,773	298,354
Real estate	493,677	576,638
Traffic and warehousing	307,002	299,419
Wholesale and retail, motor vehicle repair and maintenance	3,950,882	4,371,010
Other	5,261,992	6,345,168
Loans due from customers, gross	**19,135,266**	**21,113,784**

The Bank approved short-term loans to retail customers for periods from 6 months to a year at annual interest rates ranging from 16% to 21% for RSD loans and from 10% to 15% for loans with the currency clause index to EUR. Interest rates on approved current account overdrafts of retail customers ranged between 21% and 24% annually. The nominal interest rates applied to the Bank's receivables from the use of credit cards ranged from 19.5% to 29.9% per annum in 2015.

Long-term RSD retail loans were approved for periods from 13 to 120 months at the interest rates from 6-month BELIBOR + 3.5% to 21% annually.

Long-term loans with the currency clause index to EUR were approved to retail customers for periods of 13 to 360 months at the annual interest rates from 6-month EURIBOR + 4% to 15%.

Short-term RSD and foreign currency loans were approved to corporate clients and entrepreneurs for periods from 1 to 12 months for financing operating activities at the interest rates in the following ranges:

- 6-month BELIBOR+5% to 20% annually for RSD loans;
- 3-month EURIBOR + 6% to 12% annually for loans with the currency clause index to EUR.

Long-term RSD and foreign currency loans were approved to corporate clients and entrepreneurs for a period of up to 8 years at the interest rates in the following ranges:

- 6-month BELIBOR+5% to 20% annually for RSD loans;
- 6-month EURIBOR +7.5% to12% annually for loans with the currency clause index to EUR.

20. RECEIVABLES PER FINANCIAL DERVIAITVES DESIGNATED AS RISK HEDGING INSTRUMENTS

	Dec -31, 2015	Dec -31, 2014
Receivables per financial instruments designated as risk hedging instruments	-	4,662
Total	**-**	**4,662**

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

21. INTANGIBLE ASSETS

Cost	
Balance at January 1, 2014	**251,941**
Additions	110,277
Transfer from investments in progress	(20,846)
Investments in progress	31,017
Balance at December 31, 2014	**372,389**
Accumulated Amortization	
Balance at January 1, 2014	**201,646**
Charge for the year	28,317
Balance at December 31, 2014	**229,963**
Net Book Value at January 1, 2014	**50,295**
Net Book Value at December 31, 2014	**142,426**
Cost	
Balance at January 1, 2015	**372,389**
Additions	27,531
Transfer from investments in progress	(10,171)
Investments in progress	13,167
Disposals	(128,552)
Balance at December 31, 2015	**274,364**
Accumulated Amortization	
Balance at January 1, 2015	**229,963**
Charge for the year	44,740
Disposals	(128,552)
Balance at December 31, 2015	**146,151**
Net Book Value at January 1, 2015	**142,426**
Net Book Value at December 31, 2015	**128,213**

Investments in intangible assets during 2015 mostly relate to the Lotus Domino Application Inteli Scape in the amount of RSD 7,421 thousand, ZPU CDS ID 338509 Software in the amount of RSD 5,862 thousand, Software MFE ESM/ELM/ERC VM MAX 12 CORES P:1 GL in the amount of RSD 3,378 thousand, cash flow software in the amount of RSD 2,749 thousand, modifications due to the change to the applicable chart of accounts in the amount of RSD 2,285 thousand, modification and upgrade to the CDS software in the amount of RSD 1,273 thousand and BASIC license in the amount of RSD 1,046 thousand.

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

22. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipment and Other Assets	Investments in Progress	Leasehold Improvements	Total
Cost					
Balance at January 1, 2014	469,609	451,150	-	65,812	**986,571**
Additions	-	35,343	495	1,989	**37,827**
Reclassification from assets acquired in lieu of debt collection	95,730	-	-	-	**95,730**
Transfers	-	495	(495)	-	**-**
Disposals (sales)	-	(27,132)	-		**(27,132)**
Retirement	-	(14,576)	-	(16,849)	**(31,425)**
Balance at December 31, 2014	**565,339**	**445,280**	**-**	**50,952**	**1,061,571**
Accumulated Depreciation					
Balance at January 1, 2014	158,552	339,838	-	53,529	**551,919**
Charge for the year	6,312	45,547	-	4,236	**56,095**
Disposals (sales)	-	(25,462)	-	-	**(25,462)**
Retirement	-	(14,490)	-	(14,471)	**(28,961)**
Balance at December 31, 2014	**164,864**	**345,433**	**-**	**43,294**	**553,591**
Net Book Value at January 1, 2014	**311,057**	**111,312**	**-**	**12,283**	**434,652**
Net Book Value at December 31, 2014	**400,475**	**99,847**	**-**	**7,658**	**507,980**

	Buildings	Equipment and Other Assets	Investments in Progress	Leasehold Improvements	Total
Cost					
Balance at January 1, 2015	565,339	445,280	-	50,952	**1,061,571**
Additions		16,974	2,445	222	**19,641**
Reclassification from assets acquired in lieu of debt collection	49,938	-	-	-	**49,938**
Transfers	-	-	(2,445)	2,445	**-**
Disposals (sales)	(6,715)	(12,768)	-	-	**(19,483)**
Retirement	-	(8,557)	-	(8,267)	**(16,824)**
Balance at December 31, 2015	**608,562**	**440,929**	**-**	**45,352**	**1,094,843**
Accumulated Depreciation					
Balance at January 1, 2015	164,864	345,433	-	43,294	**553,591**
Charge for the year	7,332	36,430	-	2,994	**46,756**
Disposals (sales)	(2,252)	(12,762)	-	-	**(15,014)**
Retirement	-	(8,529)	-	(5,813)	**(14,342)**
Balance at December 31, 2015	**169,944**	**360,572**	**-**	**40,475**	**570,991**
Net Book Value at January 1, 2014	**400,475**	**99,847**	**-**	**7,658**	**507,980**
Net Book Value at December 31, 2014	**438,618**	**80,357**	**-**	**4,877**	**523,852**

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

22. PROPERTY, PLANT AND EQUIPMENT (Continued)

Investments in property, plant and equipment during 2015 primarily relate to the purchase of computers and other data processing equipment in the amount of RSD 13,763 thousand (2014: RSD 34,812 thousand; 2013: RSD 35,627 thousand).

Reconciliation of the market value and the carrying amounts of building properties was last recorded on December 14, 2007 based on the appraisal performed by independent appraisers (valuation firm) on September 18, 2007. The appraisal was made based on the available market prices, resulting in the decrease of the cost of buildings in the amount of RSD 35,455 thousand, net while the revaluation reserves were decreased by RSD 33,611 thousand. The Bank performed a new appraisal of the building properties in December 2014. The appraised values shoed no significant departures from the carrying values of building properties stated in the Bank's books. Therefore, the management decided that there were no grounds for adjusting the values recorded in the Bank's books of account.

Fair values of the Bank's building properties as of December 31, 2015 are provided in the table below:

	Level 1	Level 2	Level 3	Total
Buildings	-	-	438,618	438,618
Total	**-**	**-**	**438,618**	**438,618**

Fair values of the Bank's building properties as of December 31, 2015 are provided in the table below:

	Level 1	Level 2	Level 3	Total
Buildings	-	-	400,475	400,475
Total	**-**	**-**	**400,475**	**400,475**

The following table presents valuation techniques and significant unobservable inputs used to measure fair value of buildings.

Valuation technique	Significant unobservable inputs	Inter-relationship between the key unobservable inputs and fair value
		The estimated fair value would increase (decrease) if:
Cost approach – based on the substitution principle, i.e. replacement as the indicator of fair value. The starting point is the value arrived at using the replacement cost method (calculation of the construction cost of a new building), from which three forms of deterioration and obsolescence are deducted – physical, functional and economic.	Cost of construction Cost of land	the cost of construction were to increase (decrease) the cost of land were to increase (decrease)
Market approach – based on the method of comparable transactions, i.e. on comparison of assets measured to other comparative assets involved in sales/purchases in the market.	Real estate prices in the local market	real estate prices in the local market were to increase (decrease)

Rental costs of RSD 61,984 thousand (2014: RSD 91,963 thousand) pertaining to the lease of property are included in the Bank's income statement.

There are no mortgages instituted over the Bank's building properties recognized in accordance with IAS 16 to securitize repayment of borrowings.

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

22. PROPERTY, PLANT AND EQUIPMENT (Continued)

On November 27, 2015 the Bank changed the purpose of business premises located in Kraljevo, at no. 55 A, Omladinska St., acquired in lieu of debt collection and started using the premises for its own purposes. Accordingly, this property of RSD 49,938 thousand was reclassified from assets acquired in lieu of debt collection to property, plant and equipment. Since the moment of change in purpose the said property has been subject to depreciation calculated in accordance with the Bank's accounting policies, at the rate of 1.3% annually. Upon transfer of the property to the building properties, the Bank performed is value appraisal in accordance with IAS 16, in order to determine the cost/purchase price of the property upon acquisition. For this purpose the Bank hired a qualified valuation firm since, in addition to the said property the Bank purchased in the execution procedure other business premises, which were not leased by the relevant borrowers, but purchased jointly as the competent court did not have individual properties appraised.

23. INVESTMENT PROPERTY

	Dec -31, 2015	Dec -31, 2014
Investment property	1,039,983	1,260,239
Total	**1,039,983**	**1,260,239**

Assets acquired in lieu of debt collection were reclassified by the Bank to the investment property in order to earn rental income. The Bank made no subsequent investments in investment property. All operating expenses are borne by the lessees. Property taxes and taxes on the transfer of absolute rights are borne by the Bank. The Bank's net rental income amounted to RSD 19,584 thousand in 2015.

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

23. INVESTMENT PROPERTY (Continued)

	Carrying Value	Lease Contract Date	Total Costs	Rental Income Earned	Net Result
Commercial building Patrijarha Dimitrija, Beograd Rakovica	65,896	13/02/2014 06/04/2015 Annex I 23/07/2015 Annex II 17/09/2015 Annex III 05/11/2015 Annex V 31/12/2015	264	2,887	2,623
Family house Petra Kočića 25, Inđija	15,000	14/02/2014 25/02/2015 18/12/215	153	307	154
Property at Kralja Petra 15, Stari grad, Beograd	234,796	24/03 /2014 Annex I 17/04/2015 17/04/2015	939	3,622	2,683
Property in Stepojevac	71,482	17/04/2014 Annex I 13/07/2015	286	1,158	872
Business premises, Svetozara Markovića 49, Beograd	72,700	10/04/2014	291	3,622	3,331
Apartment with gallery, Voždovac, Admirala Vukovića 66, Beograd	31,379	22/05/2014	126	724	598
Business premises – storage of fruit and vegetables with packing and processing facilities in Šimanovci	165,094	31/08/2014 25/09/2014	660	6,900	6,240
Business facility – a general store, Grabovica, Valjevo	6,500	27/11/2014	26	97	71
Business premises no. 1 at Milutina Milankovića 70, Belgrade	9,421	10/04/2013 03/11/2014	38	174	136
Residential premises at Zelena gora no. 9, Kraljevo	2,337	19/6/2013	9		(9)
Gas station EUROLUXPETROL Bagrdan	279,661	13/07/2015 Annex I 15/07/2013 Annex II 26/09/2013	1,119	2,898	1,779
Food and beverage processing plant in Nova Varoš	85,717	19/12/2012 14/07/2014 Annex I signed on 03/09/2015	343	1,449	1,106
Total	**1,039,983**		**4,254**	**23,838**	**19,584**

The carrying values of the Bank's investment property as of December 31, 2015:

Balance at January 1, 2014	**465,986**
Transfer from assets acquired in lieu of debt collection	794,253
Balance as of December 31, 2014	**1,260,239**
Balance at January 1, 2015	**1,260,239**
Sales	(220,256)
Balance as of December 31, 2015	**1,039,983**

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

23. INVESTMENT PROPERTY (Continued)

Fair values of the Bank's investment properties as of December 31, 2015 in accordance with the fair value hierarchy under IFRS 13 are provided in the table below:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	1,039,983	1,039,983
Total	**-**	**-**	**1,039,983**	**1,039,983**

Fair values of the Bank's investment properties as of December 31, 2014 in accordance with the fair value hierarchy under IFRS 13 are provided in the table below:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	1,260,239	1,260,239
Total	**-**	**-**	**1,260,239**	**1,260,239**

As of December 31, 2015 the Bank hired independent certified appraisers to assess the fair values of its investment properties. The following table presents valuation techniques and significant unobservable inputs used to measure fair value of investment property.

Valuation technique	Significant unobservable inputs	Inter-relationship between the key unobservable inputs and fair value
		The estimated fair value would increase (decrease) if:
Cost approach – based on the substitution principle, i.e. replacement as the indicator of fair value. The starting point is the value arrived at using the replacement cost method (calculation of the construction cost of a new building), from which three forms of deterioration and obsolescence are deducted – physical, functional and economic.	Cost of construction Cost of land	the cost of construction were to increase (decrease) the cost of land were to increase (decrease)
Market approach – based on the method of comparable transactions, i.e. on comparison of assets measured to other comparative assets involved in sales/purchases in the market.	Real estate prices in the local market	real estate prices in the local market were to increase (decrease)
Income approach – based on the present value method, where the fair value measurement is aimed at determining the present value of the future cash flows over the asset's useful life using the capitalization rate that reflects the risk of attaining the projected cash flows and the time value of money.	Capitalization rate Rental price Occupancy rate	capitalization rate were to decrease (increase) rental price were to increase (decrease) occupancy rate were to increase (decrease)

Given the fact that the real estate market in Serbia is characterized by very low activity level and limited number of real estate on offer, which are significantly different per characteristics from the appraised properties, and their location (micro location), Level 3 inputs were used in the fair value assessment. The appraisers selected the prevailing valuation techniques considering the property characteristics – micro location, real estate market current condition and the like. Having in mind the variety of properties within this line item, in the following table we provide summary of the techniques used upon appraisal of specific investment properties.

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

23. INVESTMENT PROPERTY (Continued)

Property	Valuation technique	Manner of fair value calculation applied by the appraiser
Commercial building Patrijarha Dimitrija, Beograd Rakovica	Cost approach Income approach Market approach	The appraiser weighted average result obtained by using all three valuation techniques (cost approach - 15%; income approach - 60%; and market approach - 25%)
Family house Petra Kočića 25, Inđija	Market approach	The appraiser determined the value according to the result of the market approach
Property at Kralja Petra 15, Stari grad, Beograd	Income approach Market approach	The appraiser determined the value according to the result of the market approach
Property in Stepojevac	Cost approach Market approach	The appraiser determined the value according to the result of the market approach
Business premises, Svetozara Markovića 49, Beograd	Cost approach Market approach	The appraiser determined the value according to the result of the market approach
Aparmtent with gallery, Voždovac, Admirala Vukovića 66, Beograd	Cost approach Market approach	The appraiser determined the value according to the result of the market approach
Business premises – storage of fruit and vegetables with packing and processing facilities in Šimanovci	Cost approach Income approach Market approach	The appraiser weighted average result obtained by using all three valuation techniques (cost approach - 40%; income approach - 30%; and market approach - 30%)
Business facility – a general store, Grabovica, Valjevo	Cost approach Market approach	The appraiser determined the value according to the result of the market approach
Business premises no. 1 at Milutina Milankovića 70, Belgrade	Income approach Market approach	The appraiser weighted average result obtained by using both valuation techniques (income approach - 20%; and market approach - 80%)
Residential premises at Zelena gora no. 9, Kraljevo	Market approach	The appraiser determined the value according to the result of the market approach
Gas station EUROLUXPETROL Bagrdan	Cost approach Income approach	The appraiser weighted average result obtained by using both valuation techniques (cost approach - 86%; and income approach - 14%)
Food and beverage processing plant in Nova Varoš	Cost approach	The appraiser determined the value according to the result of the cost approach

Since the appraised values of the Bank's investment properties do not show significant departures from the carrying value of these assets stated in the Bank's books, the management decided that there were no grounds for adjustment of the carrying value of investment property in the Bank's books of account.

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

24. OTHER ASSETS

	Dec -31, 2015	Dec -31, 2014
Fee and commission receivables	2,118	2,169
Impairment allowance of RSD fee and commission receivables, trade receivables and other receivables from continuing operations	(1,405)	(1,212)
Advances paid for working capital	8,569	10,872
Advances paid for permanent investments		12,211
Receivables from employees	4,222	4,290
Other receivables from operations	252,820	252,320
Temporary and suspense accounts	814	636
Receivables in settlement	5,323	6,245
Impairment allowance of other receivables	(222,572)	(180,838)
Foreign currency advances paid for working capital	10,966	11,823
Foreign currency receivables from employees	7,512	7,557
Receivables from operations in foreign currencies	155,668	173,819
Foreign currency receivables in settlement	2,423	2,252
Impairment allowance of other receivables in foreign currencies	(162,575)	(163,717)
Other investments	798	798
Deferred other expenses	18,554	9,089
Other prepayments	18,553	20,671
Other prepayments in foreign currencies	-	2,870
Assets acquired in lieu of debt collections	788,350	731,881
Total	**890,138**	**903,736**

Within other receivables from operations totaling RSD 252,820 thousand (December 31, 2014: RSD 252,320 thousand) the major portion of RSD 53,422 thousand (December 31, 2014: RSD 67,597 thousand) relates to the revaluation of short-term corporate loans, while the amount of RSD 171,685 thousand (December 31, 2014: RSD 154,892 thousand) refers to receivables from legal suits filed.

Advances paid for working capital in foreign currencies totaling RSD 10,966 thousand (December 31, 2014: RSD 11,823 thousand) pertain to the advance paid to Banca Intesa for the use of Visa and Master payment cards.

Receivables from operations in foreign currencies totaling RSD 155,668 thousand (December 31, 2014: RSD 173,819 thousand) mostly, in the amount of RSD 154,997 thousand (December 31, 2014: RSD 143,816 thousand) refer to the consideration receivable per sale of loans.

Within other prepayments totaling RSD 18,553 thousand (December 31, 2014: RSD 20,671 thousand), the largest portion relates to the insurance premiums with the National Mortgage Insurance Corporation ("NKOSK") in the amount of RSD 18,536 thousand (December 31, 2014: RSD 19,547 thousand).

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

24. OTHER ASSETS (Continued)

Breakdown of assets acquired in lieu of debt collection during 2015 is provided below:

Property	Carrying Value	Acquisition Date
Business premises – single store, no. 1, entry 8, section 5, basement, area 57m2, address: Milovana Glišića br.2, Novi Sad	4,044	21/01/2015
Commercial building – total area 13a36m2, Opovo, Šumska 27/a	1,532	21/01/2015
Property, land underlying the facility, land adjacent to the facility and 2 category 2 fields, Mionica Varoš	297	02/02/2015
Fields, pasture and orchard, CM Donje Crniljevo	1,139	23/02/2015
Property, category 3 field, house constructed on the same lot, no.1, area 178m2, ancillary facility no.2, area 270m2, land adjacent to the facility, area 271m2 and field - area 471m2, Alibunar	3,528	24/02/2015
Property, land underlying the facility, area 1a32m2, land adjacent to the facility – area 5a and category 4 field – area 3 a 81 m2, the aggregate area 10 a 13m2, land lot no. 60 – category 3 orchard –7m2 and family house at the address of Vuka Karadžića 3,Alibunar	357	02/03/2015
Fields, meadows, pastures, gardens, real estate folio no. 433, CM Skrobnica	5,943	25/03/2015
Two-room apartment, area 66 m2, in Niš, Obilićev Venac 78	5,234	20/04/2015
Family house in Valjevo, land underlying the facility, land adjacent to the facility and category 1 orchard - area 0.06.81 ha, Valjevo	3,206	25/05/2015
Family house at Sarajevska 1 , B.Topola, ancillary facility and land with the total area of 371m2	130	03/07/2015
Four-room apartment, area 107m2, at Svetozara Markovića 49, Belgrade	32,453	24/07/2015
Accommodation premises – a single-room apartment with the area of 38m2 and another studio – area not specified, at S. Markovića, Belgrade	27,885	24/07/2015
A single-room apartment with the area of 39m2 at Kneza Lazara 9, Mladenovac Varoš	1,260	25/08/2015
Four-room duplex apartment, area 88m2, at Kruševačka 33, Belgrade, Voždovac	10,347	16/09/2015
Family house, area 40m2, at Fruškogorska 1, Maradik, Inđija	2,033	01/10/2015
Family house no.1, Maksima Gorkog, Arilje	183	01/10/2015
Family house, land adjacent to the facility with the area of 5 ha, land underlying the facility with the area of 0.05 ha and category 5 field, area 0.37,71 ha, category 4 forest with the area of 0.09,30ha, Mionica	225	01/10/2015
Family house, building no. 1, at Mankileva 2, Belgrade, Čukarica	9,700	23/10/2015
Family house, building no. 1 in Valjevo, at Jovana Dučića 54	7,700	27/10/2015
Development and arable land and forest, Berkovac, Mionica	1,615	12/11/2015
Family house, Kovilj, Ribarska 4	3,769	22/12/2015
Service center building, business premises, residential premises	96,041	30/12/2015
Family house	300	31/12/2015
Total	**218,921**	

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

24. OTHER ASSETS (Continued)

Breakdown of assets acquired in lieu of debt collection in the prior periods is provided below:

Property	Carrying Value	Acquisition Date
Land, country house, plants and water well, Knjaževac	187	08/02/2000
Warehouse in Mionica	1,958	07/07/2011
Family house in Užice	2,530	01/11/2011
Family house in Grabovac	1,556	07/05/2012
Commercial building and development land, Vrbas	506	18/05/2012
Hotel ART in construction, Aranđelovac	96,085	18/06/2012
Service center building "Orahov hlad" Valjevo	6,099	28/09/2012
Agricultural facility – cold storage, area 12.86 a, Arilje	21,935	16/10/2012
Family house, land underlying the facility and adjacent to the facility, Hilandarska 1, Majur, Šabac	2,773	07/11/2012
Country house, Vrbica, and land with the area of 0,0585 ha	2,397	27/12/2012
Two-room apartment no.1, at Kosovska 4, Vrnjačka Banja, total area 66 m2, Vrnjačka Banja	3,406	01/04/2013
Family house and land underlying the facility, area 214 m2, two category 3 orchards, area 1713 m2, Čačak	1,085	10/06/2013
Business premises – no purpose specified, duplex (basement and ground floor) at Ljiljane Krstić 27f, Zemun Polje (Belgrade)	36,940	26/12/2013
Family house (ground floor + attic), Carić bb, Rabas, Valjevo	1,157	07/04/2014
Part of building no. 37business premises (store) area 81m2, Velika Plana; separate part of residential-commercial building (store), area 112 m2 Veliko Orašje, business premises – store, area 115 m2, Radovanje	21,000	27/06/2014
Land underlying the building, area 0.00.85ha, land underlying the building, area 0.01.41ha, land underlying the building, area 0.02.75 ha, land adjacent to the facility, area 0.05.00 ha and other artificially made non-arable land, area 0.10.13ha, family house (ground floor + first floor), business premises – service center - beauty salon, car servicing workshop, Mišar, Šabac	41,966	30/06/2014
Business premises – store and warehouse, ground floor of a commercial-residential building in Valjevo, at Marka Kraljevića	6,239	10/07/2014
House no. 482 with yard, area 1 a 75m2, Ripanj	6,055	19/09/2014
Apartment no. 2, area 68m2, at Suvoborska 44, Valjevo	5,590	22/09/2014
Residential building in Zaječar, at Hajduk Veljkova 132	961	15/10/2014
Residential and commercial building at Omladinska 1, Kraljevo	281,117	19/11/2014
Land in the urban development area (3 fields), Inđija	11,798	19/11/2014
A single-room apartments, area 31m2 at Karađorđeva 1/15, Kruševac	2,718	24/11/2014
Residential and commercial building at Uskočka St., Šabac	5,381	01/12/2014
Family house at Jordana Stajića, Valjevo, land underlying the facility and category 1 pasture	854	01/12/2014
Residential and commercial building – business premises, a two-room apartment, a five-room apartment and two land lots in Kostojevići, Bajina Bašta	7,136	04/12/2014
Total	**569,429**	

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

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

	Dec -31, 2015	Dec -31, 2014
Transaction deposits	55,858	95,053
Other deposits	5,567	60,000
Other financial liabilities	236	-
Interest payable on borrowings, deposits and other financial liabilities	-	150
Fee and commission payables per borrowings, deposits and other financial liabilities	960	814
Accrued interest payable on borrowings, deposits and other financial liabilities	85	-
Foreign currency transaction deposits	261	1,046
Foreign currency deposits per loans approved	1,173,755	1,259,481
Other foreign currency deposits	1,046,092	880,912
Foreign currency borrowings	6,058,393	6,019,449
Accrued interest payable on borrowings, deposits and other financial liabilities in foreign currencies	7,900	9,155
Total	**8,349,107**	**8,326,060**

Foreign currency deposits per loans approved totaling RSD 1,173,755 thousand (December 31, 2014: RSD 1,259,481 thousand) relate to the deposit of the Bank of Cyprus Public Co Ltd, amounting EUR 9,651 thousand (December 31, 2014: EUR 10,409 thousand) with the following structure:

Contract Date	Currency	FX Amount	RSD ‘000	Maturity Date	Interest Rate %
26/10/2011	EUR	1,536,185.43	186,840	11/3/2023	1.8910
26/10/2011	EUR	1,707,659.03	207,696	11/4/2023	1.8910
29/12/2011	EUR	550,000.00	66,894	25/5/2020	1.9470
29/12/2011	EUR	1,099,000.00	133,667	25/5/2020	1.9470
20/9/2012	EUR	1,583,561.00	192,602	21/5/2018	1.8450
20/9/2012	EUR	3,174,117.00	386,056	11/3/2023	1.8450
Total EUR	EUR	**9,650,522.46**			
Total RSD ‘000			**1,173,755**		

Within other foreign currency deposits the amount of RSD 1,046,092 thousand (December 31, 2014: RSD 880,912 thousand) pertains to the deposits of the Bank of Cyprus Public Co Ltd, amounting to CHF 5,965 thousand (December 31, 2014: CHF 5,965 thousand) and EUR 3,082 thousand (December 31, 2014: EUR 2,324 thousand) with the following structure:

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

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

Deposits amounting to EUR 758 thousand and CHF 4,915 thousand are renewed for periods of 7 days, while the other deposits are renewed for a month.

Contract Date	Currency	FX Amount	RSD '000	Maturity Date	Interest Rate %
31/12/2015	EUR	758,000.00	92,192	07/01/2016	1.7680
30/12/2015	CHF	4,915,000.00	553,051	06/01/2016	1.1520
16/12/2015	CHF	300,000.00	33,756	15/01/2016	1.1960
16/12/2015	CHF	250,000.00	28,131	15/01/2016	1.1960
16/12/2015	CHF	500,000.00	56,262	15/01/2016	1.1960
16/12/2015	EUR	2,324,337.65	282,700	15/01/2016	1.8090
Total EUR	**EUR**	**3,082,337.65**			
Total CHF	**CHF**	**5,965,000.00**			
Total RSD '000			**1,046,092**		

Foreign currency borrowings totaling RSD 6,058,393 thousand (December 31, 2014: RSD 6,019,449 thousand) relate to the borrowings obtained from the Bank of Cyprus Public Co Ltd, in the respective amounts of EUR 49,349 thousand (December 31, 2014: EUR 49,349 thousand) and CHF 500 thousand (December 31, 2014: CHF 500 thousand). Contractual terms governing the borrowings are provided in the table below:

Contract Date	Currency	FX Amount	RSD '000	Maturity Date	Interest Rate %
14/08/2009	EUR	39,081,632.60	4,753,347	22/02/2017	1.8010
28/12/2012	EUR	6,000,000.00	729,757	29/07/2016	1.8910
28/12/2012	EUR	4,267,401.00	519,027	31/10/2016	1.8910
07/12/2011	CHF	500,000.00	56,262	09/12/2016	1.3240
Total EUR	**EUR**	**49,349,033.60**			
Total CHF	**CHF**	**500,000.00**			
Total RSD '000			**6,058,393**		

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

26. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

	Dec -31, 2015	Dec -31, 2014
Transaction deposits	1,616,000	1,693,636
Savings deposits	675,814	536,337
Deposits per loans approved	8,138	37,718
Earmarked deposits	3,230	29,192
Other deposits	957,185	1,101,357
Other financial liabilities	1,235	2,916
Interest payable on borrowings, deposits and other financial liabilities	73	985
Fee and commission payables per borrowings, deposits and other financial liabilities	-	267
Accrued interest payable on borrowings, deposits and other financial liabilities	2,547	11,654
Transaction deposits in foreign currencies	849,287	982,066
Savings deposits in foreign currencies	5,489,425	6,218,387
Deposits per loans approved in foreign currencies	162,778	224,268
Earmarked deposits in foreign currencies	12,869	3,871
Other deposits in foreign currencies	310,409	166,935
Other financial liabilities in foreign currencies	5,248	7,291
Interest payable on borrowings, deposits and other financial liabilities in foreign currencies	-	16
Accrued interest payable on borrowings, deposits and other financial liabilities in foreign currencies	35,265	45,893
Total	**10,129,503**	**11,062,789**

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

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

	Corporate Customers	Retail Customers	Public Sector	Retail Customers	Non-Residents	Others	Total 2015	Total 2014
Transaction deposits								
- in RSD	1,296,668	102,808	831	150,021	5,397	60,275	**1,616,000**	**1,693,636**
- in foreign currency	248,287	10,544		543,618	46,524	314	**849,287**	**982,066**
Savings deposits								
Short-term deposits								
- in RSD	-	-	-	658,090	-	-	**658,090**	**536,087**
- in foreign currency	-	-	-	3,860,988	138,515	-	**3,999,503**	**5,908,720**
Long-term deposits								
- in RSD	-	-	-	17,723	-	-	**17,723**	**250**
- in foreign currency	-	-	-	1,489,923	-	-	**1,489,923**	**309,667**
Deposits per loans approved								
Short-term deposits								
- in RSD	136	-	-	-	-	-	**136**	**136**
- in foreign currency	-	-	-	44,970	-	-	**44,970**	**17,152**
Long-term deposits							**-**	
- in RSD	-	-	-	8,002	-	-	**8,002**	**37,582**
- in foreign currency	21,808	-	-	95,970	30	-	**117,808**	**207,116**
Earmarked deposits								
Short-term deposits								
- in RSD	380	-	-	-	-	-	**380**	**1,158**
- in foreign currency	6,667	-	-	-	223	657	**7,547**	**2,208**
Long-term deposits								
- in RSD	2,850	-	-	-	-	-	**2,850**	**28,034**
- in foreign currency	4,591	730	-	-	-	-	**5,321**	**1,663**
Other deposits								
Short-term deposits								
- in RSD	938,745	3,747	1	-	-	8,692	**951,185**	**1,101,357**
- in foreign currency	74,450	-	-	-	214,259	11,666	**300,375**	**165,423**
Long-term deposits								
- in RSD	6,000	-	-	-	-	-	**6,000**	**-**
- in foreign currency	10,034	-	-	-	-	-	**10,034**	**1,512**
Total	**2,610,616**	**117,829**	**832**	**6,869,305**	**404,948**	**81,604**	**10,085,134**	**10,993,767**
Other financial liabilities								
- in RSD	-	-	-	1,235	-	-	**1,235**	**2,916**
- in foreign currency	5,248	-	-	-	-	-	**5,248**	**7,291**
Interest payable								
- in RSD	66	-	-	-	-	7	73	**985**
- in foreign currency	-	-	-	-	-		**-**	**16**
Fee and commissions payable								
- in RSD	-	-	-	-	-	-	**-**	**267**
Accrued interest payable on loans, deposits and other financial liabilities								
- in RSD	866	17	-	1,541	-	124	**2,548**	**11,654**
- in foreign currency	499	-	-	34,617	105	44	**35,265**	**45,893**
Total	**6,679**	**17**		**37,393**	**105**	**175**	**44,369**	**69,022**
Total deposits and other liabilities	**2,617,295**	**117,846**	**832**	**6,906,698**	**405,053**	**81,779**	**10,129,503**	**11,062,789**

Interest rate applied to RSD transaction deposits equaled 1% annually, while foreign currency transaction deposits accrued no interest.

Interest rates applied to short-term RSD deposits were ranging from 3% to 6.5% p.a.

Interest rates applied to short-term EUR deposits were ranging from 0.25% to 1.5% p.a.

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

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

Short-term savings deposits of retail customers in foreign currency relate to demand retail deposits of RSD 177,064 thousand (December 31, 2014: RSD 158,749 thousand), deposits placed up to a month of RSD 704 thousand (December 31, 2014: RSD 8,927 thousand), deposits placed up to three months of RSD 53,044 thousand (December 31, 2014: RSD 74,647 thousand), deposits placed up to four months of RSD 10,735 thousand (December 31, 2014: RSD 12,789 thousand;), deposits placed up to six months of RSD 198,986 thousand (December 31, 2014: RSD 332,174 thousand), deposits placed up to nine months of RSD 24,689 thousand (December 31, 2014: RSD 55,969 thousand) and deposits placed up to year of RSD 3,395,766 thousand (December 31, 2014: RSD 5,106,006 thousand).

Long-term savings deposits of retail customers in foreign currency placed for a period up to 13 months amounted to RSD 109,477 thousand (December 31, 2014: RSD 847 thousand), deposits placed up to 15 months amounted to RSD 364,743 thousand (December 31, 2014: RSD 308,821 thousand) and deposits placed up to 25 months amounted to RSD 1,015,703 thousand (December 31, 2014: RSD 0 thousand).

Interest rates on long-term RSD deposits were ranging from 5.5% to 6.5%, while long-term EUR and USD deposits accrued interest at the rates between 1.25% and 2.25% and between 0.1% and 1.25%, respectively.

Short-term savings deposits of non-residents in foreign currencies relate to demand deposits of RSD 12,250 thousand (December 31, 2014: RSD 14,425 thousand), deposits placed up to three months of RSD 2,640 thousand (December 31, 2014: RSD 2,601 thousand), deposits placed up to six months of RSD 28,315 thousand (December 31, 2014: RSD 302 thousand), deposits placed up to nine months of RSD 89,837 thousand (December 31, 2014: RSD 136,688 thousand) and deposits placed up to year of RSD 5,473 thousand (December 31, 2014: RSD 5,443 thousand).

27. TREASURY SHARES AND OTHER BORROWED FUNDS

	Dec -31, 2015	Dec -31, 2014
Non-cumulative preference shares in RSD	123,053	123,052
Total	**123,053**	**123,052**

In 2007 the Bank reclassified non-cumulative preference shares from equity to other liabilities and 2014, they were reclassified from other liabilities to the item of treasury shares and other borrowed funds. Due to different accounting and legal treatments of these items. As these shares bear fixed dividend, they do not meet the criteria of IAS 32 for recognition within equity but the criteria for recognition as financial liabilities. Accordingly, preference shares were reclassified to the item of treasury shares and other borrowed funds. However, since from the legal standpoint these shares have all the elements of share capital, they are included in the core capital upon capital adequacy ratio calculation.

28. SUBORDINATED LIABILITIES

	Dec -31, 2015	Dec -31, 2014
Foreign currency subordinated liabilities	608,131	604,791
Accruals per interest payable and other accrued expenses per foreign currency subordinated liabilities	3,902	1,109
Total	**612,033**	**605,900**

Foreign currency subordinated liabilities totaling RSD 608,131 thousand (December 31, 2014: RSD 604,791 thousand) related to the borrowings obtained from the Bank of Cyprus Public Co Ltd. Contractually defined terms governing these borrowings are summarized in the table below:

Contract Date	Currency	FX Amount	RSD '000	Maturity Date	Interest Rate %
28/11/2014	EUR	5,000,000.00	608,131	29/11/2021	3.0000 p.a.
Total EUR	**EUR**	**5,000,000.00**			
Total RSD '000			**608,131**		

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

29. PROVISIONS

	Dec -31, 2015	Dec -31, 2014
Provisions for liabilities	3,809	10,919
Provisions for other long-term employee benefits	-	67
Provisions for losses per off-balance sheet items	3,177	-
Provisions for retirement benefits	7,801	4,804
Other provisions	25,782	28,102
Total	**40,569**	**43,892**

Provisions for liabilities of RSD 3,809 thousand (December 31, 2014: RSD 10,919 thousand) relate to the provisioning for contingent liabilities. Movements on these changes in the year ended December 31, 2015 relate to the reversal of provisions for contingent liabilities for the robbery of the Bank's branch in Aranđelovac in the amount of RSD 10,919 thousand and formation of provisions for litigations in the amount of RSD 3,809 thousand.

The two most significant legal suits relate to the claims of one legal entity (the "Plaintiff") and a private individual related to this entity, which claims pertain to damage compensation and determining the Agreement on Subrogation against the Bank, Cyprus Popular Bank, Cyprus and the Bank of Cyprus, Cyprus null and void. The lawsuit for compensation of damages incurred through the instigation of the bankruptcy procedure over the Plaintiff by the Bank of Cyprus, Cyprus, is in the stage of preliminary hearing scheduling. With regard to the process for determining the Agreement on the Bank filed a lawsuit against the said entity for recognition of the creditor status in the bankruptcy procedure.

As of December 31, 2015 provisions for litigation losses of RSD 3,809 thousand were formed based on the litigation outcome estimates of the Bank's Legal Department and external attorneys engaged. The amount of the provision represents the best possible estimate of the Bank's management of the expected outflows in respect of the legal suits in progress with an anticipated adverse or uncertain outcome for the Bank.

As of December 31, 2015 provisions for retirement benefits of RSD 7,801 thousand (December 31, 2014: RSD 4,804 thousand) were made in accordance with IAS 19.

Other provisions totaling RSD 25,782 thousand (December 31, 2014: RSD 28,102 thousand) relate to the provisions for unused annual leaves (vacations) in the amount of RSD 10,782 thousand (December 31, 2014: RSD 13,102 thousand) and provisions for unidentified shareholders in the amount of RSD 15,000 thousand (December 31, 2014: RSD 15,000 thousand).

Movements on the accounts pf provisions in 2015

	Retirement benefits	Other long-term employee benefits	Unused annual leaves	Other liabilities	Unidentified shareholders	Losses per off-balance sheet items
Balance at January 1, 2015	4,804	67	13,102	10,919	15,000	-
Charge for the year	3,190	-	-	3,809	-	4,354
Reversal of provisions	-	-	(1,380)	(10,919)	-	
Release of provisions	(193)	(67)	(940)		-	(1,177)
Balance at December 31, 2015	**7,801**	**-**	**10,782**	**3,809**	**15,000**	**3,177**

Movements on the accounts pf provisions in 2014

	Retirement benefits	Other long-term employee benefits	Unused annual leaves	Other liabilities	Unidentified shareholders
Balance at January 1, 2014	8,323	67	17,439	10,919	15,000
Charge for the year	3,467	-	-	-	-
Reversal of provisions	-	-	(4,337)	-	-
Release of provisions	(6,986)	-	-	-	-
Balance at December 31, 2014	**4,804**	**67**	**13,102**	**10,919**	**15,000**

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

30. DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes were calculated for all temporary differences under the liability method, using the effective tax rate of 15% (December 31, 2014: 15%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and when deferred taxes relate to the same fiscal authority. The Bank applied this method of presentation in its statement of financial position and presented net deferred tax liabilities as of December 31, 2015 and 2014.

	Dec -31, 2015	Dec -31, 2014
Deferred tax assets	1,170	817
Deferred tax liabilities	(28,255)	(20,361)
Deferred tax liabilities, net	**(27,085)**	**(19,544)**

Movements on deferred tax assets and liabilities are presented in the table below:

	Tax credits - IAS 19	Tax depreciation	Total
Balance at January 1, 2014	**817**	**(16,077)**	**(15,260)**
Credited/(charged) to the income statement	-	(4,284)	(4,284)
Balance at December 31, 2014	**817**	**(20,361)**	**(19,544)**
Credited/(charged) to the income statement	353	(7,894)	(7,541)
Balance at December 31, 2015	**1,170**	**(28,255)**	**(27,085)**

31. OTHER LIABILITIES

	Dec -31, 2015	Dec -31, 2014
Other RSD liabilities		
Trade payables	50,987	16,896
Advances received	73	342
Liabilities from profit	5,009	5,009
Other operating liabilities	27,120	30,804
Liabilities in settlement	28,383	24,805
Liabilities to temporary and seasonal employees	911	1,817
Other liabilities to employees	756	816
Value added tax payable	2,711	5,679
Other taxes and contributions payable	9,124	17,781
Accrued liabilities for other expenses	38,097	60,988
Deferred interest income	3,508	3,609
Deferred other income	5,309	5,187
Other accruals	-	4,711
Foreign currency trade payables	1,249	1,380
Other operating liabilities in foreign currencies	17,921	17,890
Liabilities in settlement in foreign currencies	648	790
Other accruals in foreign currencies	-	2,913
Total	**191,806**	**201,417**

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

31. OTHER LIABILITIES (Continued)

Other operating liabilities totaling RSD 27,120 thousand (December 31, 2014: RSD 30,804 thousand) mostly, mainly relate to the transfer of the retail customers' funds from the closed accounts in the amount of RSD 10,918 thousand (December 31, 2014: RSD 11,141 thousand) and to the costs incurred for which invoices had not been received until the reporting date in the amount of RSD 10,187 thousand (December 31, 2014: RSD 17,042 thousand).

Liabilities in settlement of RSD 28,383 thousand (December 31, 2014: RSD 24,805 thousand) for the major part refer to the down payments per retail loans in the amount of RSD 18,148 thousand (December 31, 2014: RSD 12,419 thousand) and liabilities in settlement per VISA payment cards of RSD 5,534 thousand (December 31, 2014: RSD 9,651 thousand).

Accrued liabilities for other expenses amounting to RSD 38,097 thousand (December 31, 2014: RSD 60,988 thousand) refer to the use of a Microsoft license paid for every three years under the relevant agreement.

Other operating liabilities in foreign currencies totaling RSD 17,921 thousand (December 31, 2014: 17,890 thousand) mostly, in the amount of RSD 16,563 thousand (December 31, 2014: RSD 16,505 thousand) pertain to the transfer of funds from the closed foreign currency accounts.

32. EQUITY

Within equity the Bank presents its share capital, share premium, profit/loss for the current year, prior years' profits/losses, reserves from profit, other reserves, revaluation reserves, actuarial gains/losses per defined benefit plans and unrealized losses on securities available for sale.

As of December 31, 2015, the Bank's equity comprised:

	Dec -31, 2015	**Dec -31, 2014**
Share capital – ordinary shares (Note 32a)	5,548,557	5,548,557
Share premium (Note 32a)	2,877,486	2,877,486
Current year's loss	(837,332)	(571,399)
Prior years' losses	(5,047,450)	(4,480,410)
Reserves from profit (Note 32c)	103,228	103,228
Other reserves	48,445	48,445
Revaluation reserves from valuation of property, plant, equipment and intangible assets	268,118	272,478
Actuarial losses per defined benefit plans	(2,324)	-
Revaluation reserves from valuation of securities available for sale (equity investments)	551	551
Unrealized losses on securities available for sale	(229)	(229)
Total	**2,959,050**	**3,798,707**

	Dec -31, 2015		**Dec -31, 2014**	
	Share Capital	**Ownership %**	**Share Capital**	**Ownership %**
Cyprus Popular Bank	5,497,130	99.07	5,492,833	99.00
Total	**5,497,130**	**99.07**	**5,492,833**	**99.00**
Other shareholders	51,427	0.93	55,724	1.00
Total share capital	**5,548,557**	**100.00**	**5,548,557**	**100.00**

32. EQUITY (Continued)

a) *Share Capital and Share Premium*

Cyprus Popular Bank is the owner of 99.07% of the Bank's capital. The total value of the Bank's share capital with the share premium amounted to RSD 8,426,043 thousand as of December 31, 2015 (December 31, 2014: RSD 8,426,043 thousand.

b) *Revaluation Reserves*

Revaluation reserves comprise the effects of fair value adjustments of the property, plant, equipment and intangible assets, equity investments and other financial instruments carried at fair value through other comprehensive income.

c) *Reserves from Profit*

Reserves from profit were formed as reserves for estimated losses, general banking risks and other reserves from profit distribution in accordance with the Bank's Statute and other internal rules and bylaws.

The difference between the provisions calculated in accordance with NBS regulation and provisions calculated under the Bank's internal methodology is stated as the shortfall reserve in accordance with Article 4, paragraph 3, item 2 of the Decision on the Capital Adequacy of Banks.

The total special reserve for estimated losses per balance sheet assets and off-balance sheet items amounted to RSD 7,082,689 thousand (December 31, 2014: RSD 6,701,859 thousand; impairment allowances of the balance sheet assets and off-balance sheet items subject to classification under the Bank's internal rules amounted to RSD 4,804,908 thousand (December 31, 2014: 4,400,818 thousand); total special reserve from profit for estimated per balance sheet assets and off-balance sheet items amounted to RSD 2,277,782 thousand (December 31, 2014: 2,300,894 thousand), of which RSD 2,177,282 thousand (December 31, 2014: RSD 2,269,074 thousand) relates to the balance sheet assets and RSD 100,499 thousand (December 31, 2014: RSD 31,820 thousand) to the off-balance sheet items.

d) *Current Year's Loss*

The Bank's current year loss of RSD 837,332 thousand (2014: RSD 571,401 thousand) represents a negative difference between the income and expenses for the year, plus loss on the increase in deferred tax liabilities RSD 7,894 thousand (2014: RSD 4,284 thousand) less created gains on the increase in deferred tax assets of RSD 353 thousand (2014: RSD 0 thousand). Absorption of prior years' losses is made in accordance with the prevailing regulations, the Bank's Statute and Article of Association, stipulating the following order of operating loss absorption:

1. from the current operating income;
2. from the bank's reserves; and
3. from the Bank's share capital, (shareholder interests) where funds from items 1 and 2 above are insufficient.

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

33. COMPLIANCE WITH THE INDICATORS PRESCRIBED BY THE NATIONAL BANK OF SERBIA

The Bank is obligated to operate in compliance with the provisions of the Law on Banks and other NBS regulations. According to the annual accounts for 2015, the Bank achieved the following performance/adequacy ratios:

Performance/adequacy ratios	Prescribed	Achieved 2015	Achieved 2014
Capital	Min. EUR 10.000.000	6,699,855	16,866,880
Capital adequacy ratio	Min. 12%	6.88%	14.86%
The sum of the Bank's investments	Max. 60%	191.91%	24.90%
The sum of all large Bank's exposures, of which	Max. 400%	349.91%	67.41%
Large exposure to a single entity or a group of related entities	Max. 25%	344.91%	66.15%
Exposure to entities related to the Bank		5.00%	1.26%
Average monthly liquidity ratio:			
- u in the first month of the period	Min. 1,00	2.35	2.52
- u in the second month of the period	Min. 1,00	2.38	2.42
- in the third month of the period	Min. 1,00	2.18	2.22
Foreign exchange risk ratio	Max 20%	17.41	5.30

As of December 31, 2015, the Bank did not comply with the prescribed capital adequacy ratio and the minimum amount of capital as per regulatory requirements. In addition, due to capital decrease, as of December 31, 2015 the Bank's exposure to a single entity or a group of related entities was above the prescribed limit in case of two customers - Coka Doo with its related parties, with the achieved ratio equal to 28.5% and Lučić Prigrevica ad, – with the achieved ratio equal to 26.85% (the prescribed maximum is 25%).

34. RELATED PARTY TRANSACTIONS

	Dec -31, 2015		Dec -31, 2014	
Assets	Parent - Cyprus Popular	Other related parties	Parent - Cyprus Popular	Other related parties
Foreign currency accounts	-	2,429	-	1,523
Interest receivables	-	2	-	2,282
Fee receivables per loans and deposits	-	9	-	-
Foreign currency interest receivables	-	-	-	104
Other foreign currency operating receivables	154,997	-	143,612	204
Transaction account loans - overdrafts	-	-	-	5,372
Consumer loans	-	-	-	340
Investment loans	-	-	-	6,577
Housing loans	-	36,819	-	39,842
Cash loans	-	401	-	1,120
Other loans	-	944	-	605
Accrued interest receivables on loans, deposits, and other receivables	-	55	-	86
Other foreign currency prepayments	-	-	2,870	-
Total assets	**154,997**	**40,659**	**146,482**	**58,055**

Other foreign currency operating receivables of RSD 154,997 thousand (December 31, 2014: RSD 143,612 thousand) relate to the consideration receivable for loans sold to Cyprus Popular Bank Public Co LTD in the amount of RSD 154,313 thousand (December 31, 2014: RSD 142,882 thousand). The Bank fully provided for the entire amount. The remaining RSD 684 thousand (December 31, 2014: RSD 730 thousand) refers to the lawyer fees reinvoiced.

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

34. RELATED PARTY TRANSACTIONS (Continued)

Housing loans of RSD 36,819 thousand (December 31, 2014: RSD 39,842 thousand) were approved to employee who are treated as the Bank's related parties under the effective Law on Banks. These loans were approved under market terms. No impairment allowance was made for these loans.

	Dec -31, 2015		Dec -31, 2014	
	Parent - Cyprus Popular	**Other related parties**	**Parent - Cyprus Popular**	**Other related parties**
Liabilities				
RSD transaction deposits	52,009	4,233	-	4,653
FX transaction deposits	261	1,552	-	221,098
RSD savings deposits	-	-	-	2,272
Other RSD deposits	-	2	-	2
FX savings deposits	-	-	-	21,529
FX deposits per loans approved	-	1,173,755	-	1,259,480
Other FX deposits	-	1,260,352	-	880,912
FX borrowings	-	6,058,392	-	6,019,448
FX subordinated liabilities	-	608,131	-	604,792
FX interest liabilities	-	-	-	16
Accrued liabilities for interest and other expenses per FX subordinated liabilities	-	3,902	-	1,109
FX Accruals per IRS	-	-	2,913	-
Total liabilities	**52,270**	**9,110,319**	**2,913**	**9,015,311**

RSD transaction deposits of RSD 52,009 thousand refer to the deposit of Cyprus Popular Bank Public Co LTD, which is non-interest bearing.

Income and expenses arising from related party transactions:

	Dec -31, 2015		Dec -31, 2014	
	Parent - Cyprus Popular	**Other related parties**	**Parent - Cyprus Popular**	**Other related parties**
Expenses				
Interest expenses per FX borrowings from foreign banks	-	132,690	-	144,009
Interest expenses per FX deposits	-	26,113	-	27,607
Interest expenses per FX subordinated liabilities	-	15,144	-	1,117
		173,947		**172,733**

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

34. RELATED PARTY TRANSACTIONS (Continued)

Foreign exchange losses	**Dec -31, 2015**		**Dec -31, 2014**	
	Parent - Cyprus Popular	**Other related parties**	**Parent - Cyprus Popular**	**Other related parties**
Foreign exchange losses per IRS	-	229	-	180
Foreign exchange losses per FX Spot	-		-	64
Foreign exchange losses per FX deposits of foreign banks	-	55,414	-	1,968
Foreign exchange losses per FX borrowings from foreign banks	-	284,480	-	386,287
Foreign exchange losses per FX loans approved to the Parent	-	370	-	74,003
	-	**340,493**	**-**	**462,502**

	Dec -31, 2015		**Dec -31, 2014**	
	Parent - Cyprus Popular	**Other related parties**	**Parent - Cyprus Popular**	**Other related parties**
Income				
Interest income on FX deposits of foreign banks	-	-	-	48
Gains on the sale of loans and receivables	-	10,522	-	48,640
	-	**10,522**		**48,688**

Foreign exchange gains	**Dec -31, 2015**		**Dec -31, 2014**	
	Parent - Cyprus Popular	**Other related parties**	**Parent - Cyprus Popular**	**Other related parties**
Foreign exchange gains per IRS	-	228	-	177
Foreign exchange gains per FX Spot	-		-	3
Foreign exchange gains per FX deposits of foreign banks	-	47,603	-	39,918
Foreign exchange gains per FX borrowings from foreign banks	-	241,942	-	-
Foreign exchange gains per FX loans approved to foreign banks	-	316	-	2,400
	-	**290,089**	**-**	**42,498**

In the above tables the Bank presented the balances of the asset accounts and liability accounts arising from the transactions with the following related parties: Cyprus Popular Bank Public Co LTD, Laiki Factors & Forfaiters Branch Office, Laiki Factors & Forfaiters SA. Greece, Bank of Cyprus LTD, including the related private individuals.

The above table also present the income and expenses related to the Bank of Cyprus LTD. Deposits of Laiki Factors & Forfaiters Branch Office, Laiki Factors & Forfaiters SA are non-interest bearing.

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

34. RELATED PARTY TRANSACTIONS (Continued)

As of December 31, 2015 the Bank had loans approved to the Directors and members of the Board of Directors and Executive Board:

	Dec -31, 2015	Dec -31, 2014
Loans approved to the Directors and management		
Balance, beginning of year	79,964	56,307
Loans approved during the year	1,151	20,874
Repayment during the year and value adjustment of loans	(9,991)	(6,538)
Interest income	3,431	2,126
Collected interest	(3,431)	(2,126)
Balance, end of year	**71,124**	**70,643**

In 2015 and 2014 there was no need for the Bank to make provisions per loans approved to the Directors.

Information on the Management Remuneration

In 2015 the Executive Board members' gross salaries amounted to RSD 30,966 thousand (2014: RSD 23,332 thousand).

35. RECONCILIATION OF RECEIVABLES AND PAYABLES

Provisions of Article 18 of the Law on Accounting (Official Gazette of RS, no. 62/13stipulate the obligation of reconciling mutual balances of receivable and payables with customers. Balance reconciliation is to be performed at least annually, before preparation of the annual financial statements. In accordance with the Bank's internal procedures, October 31, of the current year was set as the date of reconciliation of receivables and payables with the Bank's customers.

Of the aggregate amount of receivables subject to balance reconciliation, the unreconciled receivables mounted to RSD 60,758 thousand, while unreconciled payables amounted to RSD 3 thousand as of October 31, 2015.

As of December 31, 2015, unreconciled receivables amounting to RSD 60,143 thousand relate to two borrowers subject to the PPRP procedure. In the balance reconciliation process it was determined for one of the borrowers that the difference between the balance reported in the Bank's books and the balance stated in the independent balance confirmation of RSD 42,337 thousand relates to the legally prescribed penalty interest that the borrower failed to present in the independent balance confirmation, which penalty interest the Bank was entitled to calculate as from the date of claim registration up to PPRP adoption date, in accordance with the terms of PPRP.

36. PERFORMANCE ANALYSIS PER OPERATING SEGMENTS

The Bank supervises the movements on assets and liabilities and generates income and expenses through the following operating segments:

- Corporate banking - operations with business companies and government agencies,
- Retail banking – operations with private individuals and entrepreneurs,
- Interbanking operations – operations with banks, and
- Other – activities relating to the services and operations that do not represent a separate operating segment for reporting purposes (all other segments that are not branches, corporate and interbanking operations).

The basis of segmentation is the Bank's internal structure per the above listed cash generating units.
There were no income and expense transfers among the segments.

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

36. PERFORMANCE ANALYSIS PER OPERATING SEGMENTS (Continued)

The segment results for the year ended December 31, 2015 are presented below:

	Corporate banking	Retail banking	Interbanking operations	Other	Total
Total segment revenue/(expenses)	**575,514**	**632,278**	**(148,888)**	**29,078**	**1,087,982**
External client revenue	458,736	532,800	(148,888)	-	842,648
Other segments' revenue	116,778	99,478	-	29,078	245,334
Impairment allowance	(666,453)	(78,771)	-	(1,214)	(746,438)
Administrative costs	(26,998)	(443,424)	(17,677)	(591,740)	(1,079,839)
Depreciation/amortization	(46)	(15,173)	(73)	(76,204)	(91,496)
(Loss)/profit before taxes	**(117,983)**	**94,910**	**(166,638)**	**(640,080)**	**(829,791)**
Income taxes	-	-	-	-	
Gains on the created deferred tax assets	-	-	-	353	353
Losses on created deferred tax liabilities	-	-	-	(7,894)	(7,894)
Net (loss)/income for the year	**(117,983)**	**94,910**	**(166,638)**	**(647,621)**	**(837,332)**
Assets	6,139,773	7,368,250	2,619,789	6,304,394	22,432,206
Liabilities	569,433	9,560,070	8,349,108	994,545	19,473,156

The segment results for the year ended December 31, 2014 are presented below:

	Corporate banking	Retail banking	Interbanking operations	Other	Total
Total segment revenue/(expenses)	**561,726**	**631,133**	**(147,320)**	**34,724**	**1,080,263**
External client revenue	386,600	481,951	(147,320)	-	**721,231**
Other segments' revenue	175,126	149,182	-	34,724	**359,032**
Impairment allowance	(349,640)	(75,711)	-	-	**(425,351)**
Administrative costs	(24,930)	(481,749)	(18,547)	(612,391)	**(1,137,617)**
Depreciation/amortization	(57)	(23,433)	(1,428)	(59,494)	**(84,412)**
Profit/(loss) before taxes	**187,099**	**50,240**	**(167,295)**	**(637,161)**	**(567,117)**
Income taxes				-	**-**
Gains on the created deferred tax assets	-	**-**	-	(4,284)	**(4,284)**
Net income/(loss) for the year	**187,099**	**50,240**	**(167,295)**	**(641,445)**	**(571,401)**
Assets	**6,941,480**	**7,660,851**	**3,299,323**	**6,279,707**	**24,181,361**
Liabilities	**1,217,188**	**9,879,208**	**8,326,060**	**960,198**	**20,382,654**

37. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of the statement of financial position components denominated in foreign currencies into dinars (RSD) were as follows:

	Dec -31, 2015	Dec -31, 2014
EUR	121.6261	120.9583
USD	111.2468	99.4641
CHF	112.5230	100.5472

38. EVENTS AFTER THE REPORTING PERIOD

On February 18, 2016 the Bank received from NBS Decision defining the minimum capital requirement and eligible liabilities requirement. As of June 30, 2015, the Bank did not comply with t with the minimum capital and eligible liabilities requirements prescribed by NBS. The Bank is required to ensure compliance with 75% of the prescribed requirement until December 31, 2018.

On March 3, 2016 the Bank received the ruling of the Appellate Court passed on January 29, 2016, which confirmed the adjudication of the High Court of Belgrade dated June 25, 2015, whereby the Bank was required to pay the plaintiff, a resident individual, RSD 17,774 thousand claimed. The said amount does not include litigation costs, legally prescribed penalty and enforcement officer fees. The Bank will resume the legal proceedings in order to recover the amount paid.

Except for the above described, three have been no other events after the reporting period that would require adjustments to or disclosures in the notes to the financial statements of the Bank as of and for the year ended December 31, 2015.

Signed on behalf of Marfin bank A.D., Beograd by:

Mirjana Dragojlović
Finance Controlling and Risk Management Manager

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD 1

Borislav Strugarević
Executive Board Chairman

In accordance with Article 29 of the Law on Accounting (Official Gazette of RS no. 62/2013), and Article 50, paragraph 3 of the Capital Market Law (Official Gazette of RS nos. 31/2011 and 112/2015) and the provisions of the Rules on the Content, Form and Manner of Publishing Annual, Semi-Annual and Quarterly Reports of the Public Companies (Official Gazette of RS nos. 14/2012 and 5/2015),

MARFIN BANK AD, BEOGRAD

publishes

THE ANNUAL REPORT FOR 2015

I. General Information

1.	Business Name:	**Marfin Bank a.d., Beograd**	
	Head office address:	**Beograd, Dalmatinska 22**	
	Corporate identification number:	**07534183**	
	Tax identification number:	**100003148**	
2.	Website:	**http://www.marfinbank.rs/**	
	E-mail address:	**office@marfinbank.rs**	
3.	Number and date of Decision on registration with the Company Register:	**BD 498 dated February 14, 2005**	
4.	Business activity:	**6419 - Other monetary intermediation**	
5.	Number of employees:	**289**	
6.	Number of shareholders:	**838 shareholders**	
7.	10 largest shareholders (full name, business name of the legal entity with no. of shares and equity interest held):		
No	Name	Number of shares	The percentage share
1	CYPRUS POPULAR BANK CO LTD	11,172,597	98.50
2	ANDRAX NK DOO	14,634	0.13
3	Eurolion DOO	14,478	0.13
4	DEKADATRADE COMPANY, LLC	10,240	0.09
5	IM TOPOLA DOO BAČKA TOPOLA	3,952	0.03
6	GODOMIN DP PK IN BANKRUPTCY	3,088	0.03
7	PLANA INDUSTRIJA MESA	3,015	0.03
8	FAM AD KRUŠEVAC	2,954	0.03
9	ŠUMADIJA OSIGURANJE IN LIQIDATION	2,304	0.02
10	AD BIP BELGRADE IN BANKRUPTCY	2,210	0.02
8	The value of core capital (in RSD '000):	**8,426,043**	
9.	Number of issued shares (ordinary and preference, with ISIN number and CFI code):	**1) Ordinary shares: ISIN: RSCEBAE31481 CFI: ESVUFR, 11,097,112 pieces;** **2) Preferred shares: ISIN RSCEBAE16649, CFI: EPNXFR, 246,105 pieces**	
10.	Data on subsidiaries (up to five most important entities subject to consolidation) -business name, registered office and business address:	/	
11.	Business name, registered office and business address of the audit company that audited the last financial statements:	**Deloitte doo, Terazije 8; 11000 Belgrade, Republic of Serbia**	
12.	Business name of the organized market in which shares are included:	**Belgrade Stock Exchange**	

II Data on Management of the Bank

1) Chairperson and members of the Board of Directors

•	Name, surname and address:	**Christakis Pavlou, Chairman of the Board of Directors, Republic of Cyprus**
•	Education:	**Business studies**
•	Current employment (name of company and position):	**Special Administrator - Cyprus Popular Bank / Central Bank of Cyprus**
•	Membership in the Management and Supervisory Boards of other companies:	**/**
•	The number and percentage of shares held in the company:	**No shares in the company**
•	Name surname and address:	**Dragiša Lekić, Republic of Serbia**
•	Education:	**Bachelor of Economics**
•	Current employment (name of company and position):	**Company for Engineering, Design and Consulting "REPS" doo Beograd, a member and representative**
•	Membership in the Management and Supervisory Boards of other companies:	**/**
•	The number and percentage of shares held in the company:	**No shares in the company**
•	Name surname and address:	**Theodoros Theodorou**
•	Education:	**Master of International Banking and Finance**
•	Current employment (name of company and position):	**Investment Bank of Greece SA, CEO**
•	Membership in the Management and Supervisory Boards of other companies:	**/**
•	The number and percentage of shares held in the company:	**No shares in the company**
•	Name, surname and address:	**Milovan Popović, Republic of Serbia**
•	Education:	**Master of Economics**
•	Current employment (name of company and position):	**Auditing Firm "BDO" doo Beograd, a member and representative**
•	Membership in the Management and Supervisory Boards of other companies:	**/**
•	The number and percentage of shares held in the company:	**No shares in the company**
•	Name, surname and address:	**Polydoros Ktorides, Republic of Cyprus and Romania**
•	Education:	**Master of Business Administration**
•	Current employment (name of company and position):	**Marfin Bank, 90-92 Emanoil Porumbaru Str., 1st District, Bucharest, CEO**
•	Membership of the Management and Supervisory Boards of the other companies:	**/**
•	The number and percentage of shares in the company:	**No shares in the company**

II Data on Management of the Bank (Continued)

2) Chairperson and members of the Executive Board:

•	Name, surname and address:	**Borislav Strugarević, Republic of Serbia**
•	Education:	**Bachelor of Economics**
•	Current employment (company name and position):	**Chairman of the Executive Board of Marfin bank ad Beograd**
•	Membership in the Management and Supervisory Boards of other companies:	/
•	The number and percentage of shares held in the company:	**No shares in the company**
•	Name, surname and address:	**Georgios Phiniotis, Republic of Serbia**
•	Education:	**New York University** **Master of Business Administration**
•	Current employment (name of company and position):	**Deputy Chairman of the Executive Board of Marfin bank ad Beograd**
•	Membership in the Management and Supervisory Boards of other companies:	/
•	The number and percentage of shares held in the company:	**No shares in the company**

3) Indicate whether the Management of the Company has adopted a written Code of Conduct and Code of Corporate Governance and whether they are published on the Web site:

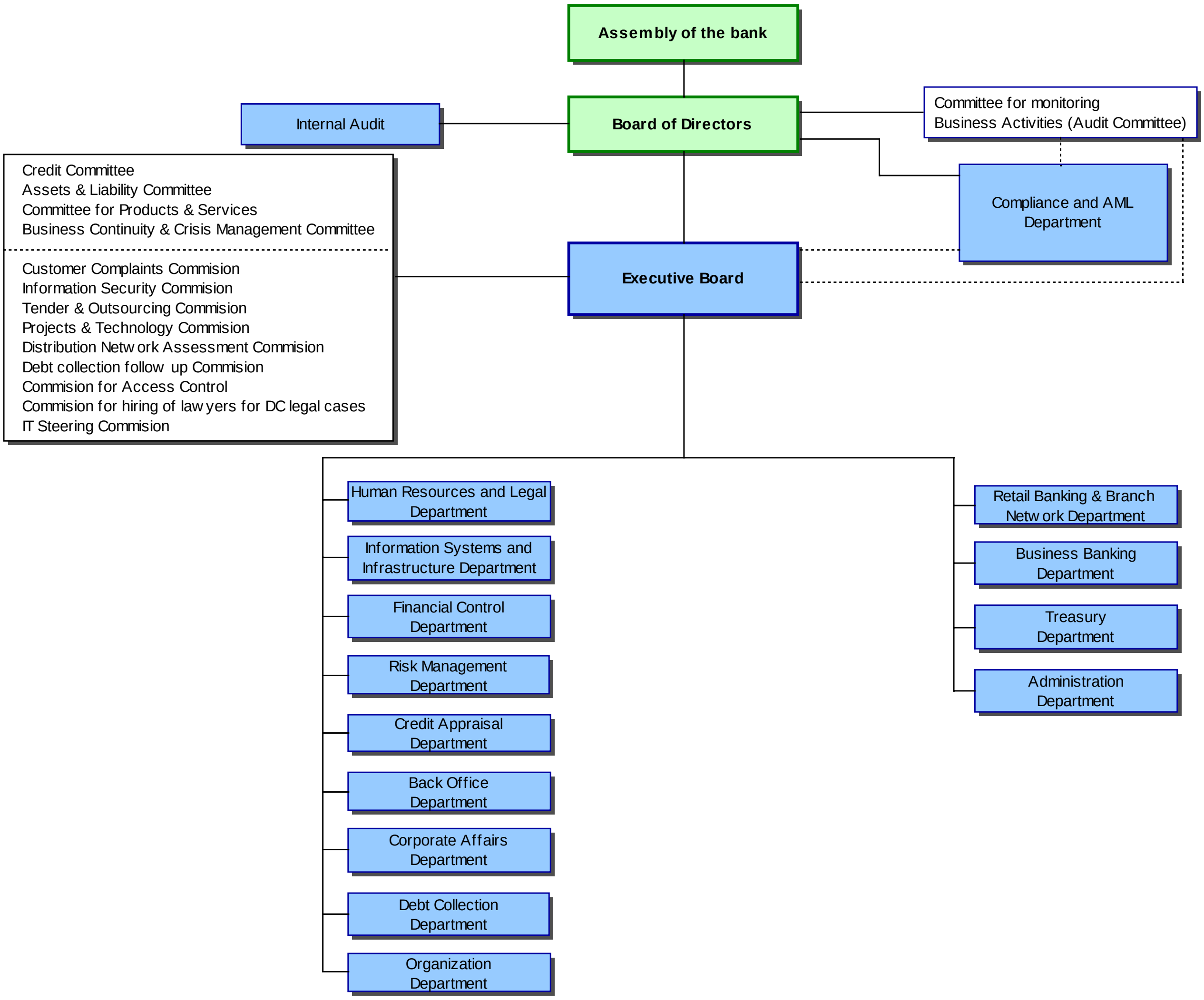
The Bank's management has adopted a Code of Business Conduct, which is published on the internal web portal of Marfin bank ad Beograd.

Marfin Bank a.d., Beograd applies its Code of Corporate Governance, which is publicly available on the website of Marfin Bank a.d., Beograd at www.marfinbank.rs.

4) As of December 31, 2015, the Bank has the following Branches:

Name	Address	Number of employees
Dalmatinska 22, Beograd – Head Office	Dalmatinska 22	126
Dalmatinska 17. Beograd - Head Office	Dalmatinska 17	27
Dalmatinska 22, Beograd	Dalmatinska 22	12
Obilićev venac, Beograd	Obilićev venac 18-20	6
Vidikovac, Beograd	Vidikovački venac 80b	7
RK Sava, Beograd	Jurija Gagarina 155	8
Zemun, Beograd	Mihaila Pupina 16 D	8
Bul.Kralja Aleksandra, Beograd	Bulevar kralja Aleksandra 332	6
Novi Sad	Petra Drapšina 56	10
Valjevo	Doktora Pantića 91	8
Bor	Moše Pijade 82	7
Niš	Generala Bože Jankovića 2	9
Pančevo	Štrosmajerova 6	10
Kraljevo	Omladinska 55A	7
Kruševac	Gazimestanska 26	6
Čačak	Gradsko šetalište bb	7
Užice	Dimitrija Tucovića 44	8
Vrbas	Maršala Tita 52	5
Šabac	Masarikova 9	7
Subotica	Štrosmajerova 4	5

5) The organizational structure of the Bank as at December 31, 2015:



III Information on the Bank's Operation

1) Report of the Management on implementation of the business policy and strategy, stating the cases and reasons for the deviation and other issues of principle relating to the conduct of business:

Management has established that the Bank's operations were carried out in accordance with the adopted business policy.

2) Performance Indicators:

Analysis of the revenues, expenses, operating results, income per activities, description of the basic products and services, with special emphasis on solvency, liquidity, profitability, profitability of the Bank and its market value, as well as the effects of changes in the legal position (status changes).

1.	Net return on equity (net profit / total capital):	**/**
2.	Operating net loss after taxes:	**RSD (837,332) thousand**
3.	Total equity / total liabilities:	**15.20%**
4.	Liquidity (average monthly liquidity ratios; min 1%)	**2.35 (in the first month of the reporting period)** **2.38 (in the second month of the reporting period)** **2.18 (in the third month of the reporting period)**
5.	Capital adequacy ratio (min 12%):	**6.88%**
6.	Investments in the fixed assets and investments properties (max 60%)	**191.91%**
7.	Exposure to related parties	**5.00%**
8.	Large exposures (max 400%)	**349.91%**
9.	Foreign exchange risk ratio (max 20%)	**17.41%**
10.	Share price - highest and lowest in the reporting period, if traded (separately for ordinary and preference shares):	**Ordinary shares:** min. 100.00; max 410.00; **Priority shares:** min. 70.00; max 70.00
11.	Market capitalization (as at 31 December 2015.):	RSD 1,570,823,030
12.	Earnings per share:	(75.45)
13.	Dividends paid per ordinary and preferred share, for the last 3 years, respectively per year:	According to Decision 528/11 of 05/05/2011 the Bank paid a dividend for preference shares for 2010 in the amount of 30 RSD per share (gross). According to Decision No. 608/13 of 28/06/2013 the Bank paid dividends for preferred shares for 2012 in the amount of 30 RSD per share (gross)

3) Information on the Bank's performance by operating segments, in accordance with the requirements of IFRS 8

The segment results for the year ended December 31, 2015 are presented below:

	Corporate banking	**Retail banking**	**Interbanking operations**	**Other**	**Total**
Total segment revenue/(expenses)	**575,514**	**632,278**	**(148,888)**	**29,078**	**1,087,982**
External client revenue	458,736	532,800	(148,888)	-	842,648
Other segments' revenue	116,778	99,478	-	29,078	245,334
Impairment allowance	(666,453)	(78,771)	-	(1,214)	(746,438)
Administrative costs	(26,998)	(443,424)	(17,677)	(591,740)	(1,079,839)
Depreciation/amortization	(46)	(15,173)	(73)	(76,204)	(91,496)
(Loss)/profit before taxes	**(117,983)**	**94,910**	**(166,638)**	**(640,080)**	**(829,791)**
Income taxes	-	-	-	-	-
Gains on the created deferred tax assets	-	-	-	353	353
Losses on created deferred tax liabilities	-	-	-	(7,894)	(7,894)
Net (loss)/income for the year	**(117,983)**	**94,910**	**(166,638)**	**(647,621)**	**(837,332)**
Assets	6,139,773	7,368,250	2,619,789	6,304,394	22,432,206
Liabilities	569,433	9,560,070	8,349,108	994,545	19,473,156

4) Analysis of the Bank's Statement of Financial Position:

ASSETS	Dec -31, 2015	Share in the total assets / liabilities	Dec -31, 2014	Share in the total assets / liabilities	Changes year on year
Cash and balances with central banks	3,720,883	16.59%	3,464,593	14.33%	7.40%
Loans and receivables due from banks and other financial institutions	2,619,789	11.68%	3,299,323	13.64%	-20.60%
Loans and receivables due from customers	13,508,023	60.22%	14,597,077	60.36%	-7.46%
Receivables per financial derivatives held as risk hedges	-	-	4,662	0.02%	
Intangible assets	128,213	0.57%	142,426	0.59%	-9.98%
Property, plant and equipment	523,852	234%	507,980	2,10%	3,12%
Investment property	1,039,983	4.64%	1,260,239	**5,21%**	-17.48%
Current tax assets	1,325	0.01%	1,325	0.01%	0,00%
Deferred tax assets					
Other assets	890,138	3.97%	903,736	3.74%	-1.50%
Total assets	**22,432,206**	**100.00%**	**24,181,361**	**100.00%**	**-7.23%**
LIABILITIES					
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	8,349,107	42.87%	8,326,060	40.85%	0.28%
Deposits and other liabilities due to other customers	10,129,503	52.02%	11,062,789	54.28%	-8.44%
Treasury shares and other borrowed funds	123,053	0.63%	123,052	0.60%	0,00%
Subordinated liabilities	612,033	3,14%	605,900	2,97%	1,01%
Provisions	40,569	0.21%	43,892	0.22%	-7.57%
Current tax liabilities					
Taxes					
Deferred tax liabilities	27,085	0.14%	19,544	0.10%	38.58%
Other liabilities	191,806	0.98%	201,417	0.99%	-4.77%
Total liabilities	**19,473,156**	**100.00%**	**20,382,654**	**100.00%**	**-4.46%**

CAPITAL	Dec -31, 2015	Share in the total equity	Dec -31, 2014	Share in the total equity	Changes year on year
Share capital	8,426,043	284.76%	8,426,043	221.82%	0,00%
Loss	(5,884,782)	198.87%	(5,051,809)	(132.99)%	16.49%
Reserves	417,789	1412%	424,473	11.17%	-1.57%
Total equity	**2,959,050**	100.00%	**3,798,707**	100.00%	
otal liabilities and equity	**22,432,206**		**24,181,361**		**-7.23%**

The most evident changes in 2015 in comparison to 2014 are: increase in cash and balances held with the central bank for 7.40%, decrease in loans and receivables due from banks and other financial institutions for 20.60%, decrease in loans and receivables due from customers for 7.46%, decrease in intangible assets of 9.98%, in investment property by 17.48% and in deposits and other liabilities due to other customers of 8.44%.

5) Cases where there is uncertainty in collection or potential costs that could significantly affect the financial position of the company:

For all cases that may significantly affect the financial position of the Bank, provisions were made in the previous period, in accordance with the International Accounting Standards so that in the future such contingencies are not expected.

6) Investment in research and development of core activity, information technology and human resources:

During 2015 the Bank made investments in fixed assets in accordance with the business policy and the Bank's projected budget.

7) The amount, mode of formation and use of reserves in the last two years:

Reserves from profit were formed for potential losses in accordance with the legal requirements, as well as reserves for general banking risks and other reserves were made from profit distribution, in accordance with the Statute and other Bank's procedures.

The total amount of calculated special reserve for estimated losses on balance sheet assets and off-balance sheet items amounted to RSD 7,082,689 thousand. Allowance for impairment of balance sheet assets and off balance sheet items according to internal rules of the Bank amounted to RSD 4,804,908 thousand, of which RSD 4,801,730 thousand relates to the balance sheet assets, and RSD 3,177 thousand to the off-balance sheet items. The total special reserve from profit for estimated losses on balance sheet assets and off-balance sheet items amounted to RSD 2,277,782 thousand, of which RSD 2,177,282 thousand pertains to the balance sheet assets and RSD 100,499 thousand to the off-balance sheet items.

8) Related Party Transactions

	Dec - 31, 2015	
Assets	**Parent - Cyprus Popular**	**Other related parties**
Foreign currency accounts	-	2,429
Interest receivables	-	2
Fee receivables per loans and deposits	-	9
Other foreign currency operating receivables	154,997	-
Housing loans	-	36,819
Cash loans	-	401
Other loans	-	944
Accrued interest receivables on loans, deposits, and other receivables	-	55
Total assets	**154,997**	**40,659**

	Dec -31, 2015	
	Parent - Cyprus Popular	**Other related parties**
Liabilities		
RSD transaction deposits	52,009	4,233
FX transaction deposits	261	1,552
Other RSD deposits	-	2
FX deposits per loans approved	-	1,173,755
Other FX deposits	-	1,260,352
FX borrowings	-	6,058,392
FX subordinated liabilities	-	608,131
Accrued liabilities for interest and other expenses per FX subordinated liabilities	-	3,902
Total liabilities	**52,270**	**9,110,319**

9) Which financial instruments are used if it is important for the assessment of the financial position and operating performance:

During 2015 the Bank had only currency swaps used as hedges against foreign exchange risk.

10) The objectives and policies for managing financial risks, along with the policy of protection of any significant types of planned transactions for which protection is used:

The Bank's activities are exposed to a variety of financial risks and these activities require identifying, estimating, monitoring, mitigating and control of managing those risks, as well as establishing an adequate risk management reporting system. The Bank manages its risks through a special risk management unit. The Bank prescribes procedures for identifying, measuring, estimating and managing risks in compliance with professional regulations, standards and professional business practice.

Through its risk management policies, the Bank establishes a unique system for managing risks to which the operations are exposed.

11) The exposure to price risk, credit risk, liquidity risk and cash flow risk, the strategy for managing these risks and evaluation of their effectiveness:

The Bank is exposed to credit risk and the possibility of debtors failing to settle their contractual obligations towards the Bank when these fall due. The Bank's credit risk exposure arises mainly from its credit operations.

To maintain credit risk within acceptable parameters, the Bank:

- Reviews the debtors' creditworthiness per loans, guarantees and other products,
- Determines the credit limits based on the risk assessment, and
- Enters into business relations with solvent clients and acquires relevant collaterals.

Clients are under continuous supervision and the exposure level limits are adjusted as required. Risk exposure limits are determined based on the different types of collateral.

Additionally, the risk concentration by industry is continuously monitored, although limits are not set.

Risk exposure to a single debtor, including banks, is subject to limitations and includes both balance sheet and off balance sheet risk exposures. The total risk exposure per client relative to the limits set is considered before the transaction occurs.

The Bank's management made provisions for any potential loan losses based on all known and anticipated risks.

Liquidity risk is the risk that the Bank may encounter difficulty in servicing its financial liabilities matured, which may adversely affect the Bank's financial performance and equity.

The Bank manages liquidity risk in accordance with the Policy on liquidity risk management defining the liquidity risk management system, the competencies and responsibilities of the participants in the system, the controls that are taken for the efficient functioning of the system, the methods used to monitor this risk, as well as the liquidity management plan in times of crisis.

Liquidity risk management implies managing all assets and liabilities of the Bank, which may impact the Bank's ability to meet the liabilities as they fall due.

In its operations, the Bank adheres to the key principles of liquidity risk management:

a) liquidity management by major currencies (currencies with a share of over 5% in the Bank's total portfolio, including, along with the local currency (RSD) the following currencies: EUR, USD, CHF);
b) stability and diversification of funding by determining the concentration limits of different sources and regular monitoring of data relating to major depositors;
c) creating a stock of liquid assets and a liquidity reserve;
d) addressing temporary and long-term liquidity crises;
e) developing a Contingency Funding Plan; and
f) conducting stress tests.

The Bank defines the individual and cumulative limits of liquidity gaps considered both at the aggregate level (consolidated presentation), and per individual major currencies. The Liquidity Gap Report is prepared in accordance with the adopted methodology for liquidity gap reporting.

12) Other important changes of data:

Based on Decision of the Serbian Business Registers Agency no. BD 75207/2014 dated September 9, 2014, Mr. Georgios Phiniotis was appointed member of the Executive Board.

Based on Decision of the Serbian Business Registers Agency no. BD 821 47/2014 dated October 2, 2014, Mr. Borislav Strugarević was appointed Chairman of the Executive Board.

13) Significant business events that occurred after the reporting period:

On February 18, 2016 the Bank received from NBS Decision defining the minimum capital requirement and eligible liabilities requirement. As of June 30, 2015, the Bank did not comply with the minimum capital and eligible liabilities requirements prescribed by NBS. The Bank is required to ensure compliance with 75% of the prescribed requirement until December 31, 2018.

On March 3, 2016 the Bank received the ruling of the Appellate Court passed on January 29, 2016, which confirmed the adjudication of the High Court of Belgrade dated June 25, 2015, whereby the Bank was required to pay the plaintiff, a resident individual, RSD 17,774 thousand claimed. The said amount does not include litigation costs, legally prescribed penalty and enforcement officer fees. The Bank will resume the legal proceedings in order to recover the amount paid.

Except for the above described, three have been no other events after the reporting period that would require adjustments to or disclosures in the notes to the financial statements of the Bank as of and for the year ended December 31, 2015.

14) Description of the expected development and risks to which the business is exposed

For the year 2016 the Bank is planning to expand its business portfolio, to ensure high liquidity and improve capital.

Despite the problems associated with the parent bank and the way the Cypriot economy has been threatened by the international credit crisis and instability in financial markets in recent years, the Bank has been able to properly direct the business and to maintain the required liquidity.

In addition, the Bank's management expects that the current problems regarding its capital will be overcome in the near term and that the Bank will be able to obtain resources to resume its business as usual. Finally, the Bank has entered into negotiations for the restructuring of its liabilities due for payment in order to ensure liquidity and the ability to increase its portfolio and thus achieve a better result.

In Belgrade, March 30, 2016

Legal Representative of the Bank