MARFIN BANK A.D. BELGRADE

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
AND INDEPENDENT AUDITOR'S REPORT

MARFIN BANK A.D. BELGRADE

Financial statements for the year ended 31 December 2016

Content

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Marfin bank a.d. Beograd

We have audited the accompanying financial statements of Marfin bank a.d. Beograd (the "Bank") which comprise the balance sheet as of 31 December 2016 and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement 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 International Financial Reporting Standards and 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.

Auditor's 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 Auditing and auditing regulation effective in the Republic of Serbia. This regulation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 21 to the financial statements, the Bank's investment properties are measured at fair value and are stated at 877,550 thousand Serbian Dinars ("RSD") as at 31 December 2016 and RSD 1,039,983 thousand as at 31 December 2015. Based on the audit procedures performed, we believe the carrying amount of these investment properties is overstated by RSD 216,130 thousand as at 31 December 2016. We were unable to determine the appropriateness of the carrying value of investment properties as at 31 December 2015 and as a result, the impact on loss before tax for the years ended 31 December 2016 and 31 December 2015.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Marfin bank a.d. Beograd as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Saša Todorović

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o. Beograd

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 4 April 2017

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INCOME STATEMENT
For the year ending 31 December 2016
(In thousands of dinars)

	Note	2016	2015
Interest income	6	1,005,816	1,391,034
Interest expenses	6	(371,794)	(502,564)
Net interest income		**634,022**	**888,470**
Fees and commissions income	7	199,627	198,407
Fees and commissions expense	7	(49,699)	(49,317)
Net fees and commissions income		**149,928**	**149,090**
Net gains/(losses) on protection against risk		172	(4,177)
Net foreign exchange losses and negative currency clause effects	8	(4,778)	(15,431)
Other operating income	9	81,868	70,030
Net gains / (losses) from impairment of financial assets and credit risk-weighted off-balance sheet items	10	109,331	(746,439)
TOTAL NET BUSINESS INCOME		**970,543**	**341,543**
Salaries, wages and other personal expenses	11	(469,003)	(486,289)
Depreciation	12	(88,394)	(91,496)
Other expenses	13	(1,373,351)	(593,549)
LOSS BEFORE TAXATION		**(960,205)**	**(829,791)**
Income tax /(expense)	14	3,030	(7,541)
LOSS FOR THE YEAR, NET OF TAXES		**(957,175)**	**(837,332)**
NET LOSS FOR THE YEAR		**(957,175)**	**(837,332)**
Loss per share (in dinars without paras)	15	(86)	(75)

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

These financial statements were approved by the Board of Directors of Marfin Bank A.D., Belgrade on 3 April 2017.

Signed on behalf of Marfin bank A.D., Belgrade:

Dragana Radaković
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

OTHER COMPREHENSIVE INCOME STATEMENT
For the year ending on 31 December 2016
(In thousands of dinars)

	2016	2015
PERIOD LOSS	(957,175)	(837,332)
Components of other comprehensive income that cannot be reclassified to profit or loss:		
Unrealized losses on the basis of equty interest in other financial organizations	(322)	-
Reduction of revaluation reserves based on selling fixed assets	-	(4,360)
Actuarial gains / (losses)	93	(2,324)
Total negative comprehensive income for the year	(229)	(6,684)
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE YEAR	(957.404)	(844,016)

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of these financial statements

These financial statements were approved by the Board of Directors of Marfin Bank A.D., Belgrade on 3 April 2017.

Signed on behalf of Marfin bank A.D., Belgrade:

Dragana Radaković
Financial Control Manager

MARFIN BANK AKCIONARSKO DRUŠTVO BEOGRAD 1

Borislav Strugarević
Chairman of the Executive Board

BALANCE SHEET
On 31 December 2016
(in thousands of dinars)

	Note	2016	2015
ASSETS			
Cash and cash funds held with the central bank	16	4,020,579	3,720,883
Loans and receivables due from banks and other financial institutions	17	3,778,752	2,619,789
Loans and receivables due from customers	18	10,071,784	13,508,023
Intangible assets	19	89,574	128,213
Property, plant and equipment	20	393,019	523,852
Investment property	21	877,550	1,039,983
Current tax assets		1,325	1,325
Other assets	22	463,821	890,138
TOTAL ASSETS		**19,696,404**	**22,432,206**
LIABILITIES			
Deposits and other liabilities due to banks, other financial institutions and the central bank	23	7,188,174	8,349,107
Deposits and other liabilities due to customers	24	9,552,137	10,129,503
Treasury shares and other borrowed funds	25	123,053	123,053
Subordinated liabilities	26	622,506	612,033
Provisions	27	30,121	40,569
Deferred tax liabilities	28	24,055	27,085
Other liabilities	29	154,712	191,806
TOTAL LIABILITIES		**17,694,758**	**19,473,156**
EQUITY			
Share capital	30a	8,426,043	8,426,043
Loss	30	(6,841,957)	(5,884,782)
Reserves	30	417,560	417,789
TOTAL CAPITAL		**2,001,646**	**2,959,050**
TOTAL LIABILITIES		**19,696,404**	**22,432,206**

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

These financial statements were approved by the Board of Directors of Marfin Bank A.D., Belgrade on 3 April 2017.

Signed on behalf of Marfin bank A.D., Belgrade:

Dragana Radaković
Financial Control Manager

MARFIN BANK AKCIONARSKO DRUŠTVO BEOGRAD

Borislav Strugarević
Chairman of the Executive Board

STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 2016
(In thousands of dinars)

	Share and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves and unrealized losses	Loss	Total
Opening balance at 1 January 2015	5,548,556	2,877,487	151,673	272,800	(5,051,809)	3,798,707
Total negative other comprehensive income for the year	-	-	-	(6,684)	-	(6,684)
Loss in the current year	-	-	-	-	(837,332)	(837,332)
Transfer from revaluation reserves based on selling						
Buildings	-	-	-	-	4,360	4,360
Other	-	-	-	-	(1)	(1)
Balance on 31 December 2015	5,548,556	2,877,487	151,673	266,116	(5,884,782)	2,959,050
Opening balance at 1 January 2016	5,548,556	2,877,487	151,673	266,116	(5,884,782)	2,959,050
Total negative other comprehensive income for the year	-	-	-	(229)	-	(229)
Loss in the current year	-	-	-	-	(957,175)	(957,175)
Balance on 31 December 2016	5,548,556	2,877,487	151,673	265,887	(6,841,957)	2,001,646

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

These financial statements were approved by the Board of Directors of Marfin Bank A.D., Belgrade on 3 April 2017.

Signed on behalf of Marfin bank A.D., Belgrade.

Dragana Radaković
Financial Control Manager

"MARFIN BANK" AKCIONARSKO DRUŠTVO BEOGRAD

Borislav Strugarević
Chairman of the Executive Board

CASH FLOW STATEMENTS
For the periof from 1 January to 31 December 2016
(In thousands of dinars)

	2016	2015
OPERATING ACTIVITIES		
Cash inflows from operating activities	**2,253,061**	**1,723,741**
Inflows from interests	1,267,764	1,467,445
Inflows from fees and commissions	235,594	198,689
Inflows from other operating activities	749,703	57,607
Cash outflows from operating activities	**(1,387,514)**	**(1,859,557)**
Outflows from interests	(358,221)	(532,171)
Outflows from fees and commissions	(49,820)	(49,438)
Outflows from gross salaries, wages and other personal expenses	(505,896)	(519,379)
Outflows from taxes, contributions and other duties charged	(155,490)	(141,982)
Outflows from other operating expenses	(318,087)	(616,587)
Net cash inflow / (outflow) from operating activities before increase or decrease in loans and deposits	**865,547**	**(135,816)**
Decrease in loans and increase in deposits and other liabilities	**1,283,766**	**1,166,245**
Decrease in loans and receivables from banks and other financial institutions, the central bank and customers	1,283,766	1,166,245
Increase in loans and decrease in deposits and other liabilities	**(969,694)**	**(923,591)**
Decrease in deposits and other liabilities due to banks, other financial institutions, central banks and customers	(969,694)	(923,591)
Net cash inflow from operating activities before income tax	**1,179,619**	**106,838**
Paid income tax	-	-
Net cash inflow from operating activities	**1,179,619**	**106,838**
INVESTMENT ACTIVITIES		
Inflows/(outflows) from the sale/(purchase) of intangible assets, property, plant and equipment	(25,659)	225,712
Other outflows from investment activities	(59,691)	(268,579)
Net cash outflow from investment activities	**(85,350)**	**(42,867)**
FINANCING ACTIVITIES		
Inflows/(outflows) from borrowings, net	(781,933)	35,456
Net cash inflow/(outflow) from financing activities	**(781,933)**	**35,456**
TOTAL CASH INFLOWS	**3,536,827**	**3,151,154**
TOTAL CASH OUTFLOWS	**3,224,491**	**3,051,727**
NET CASH INCREASE	**312,336**	**99,427**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,945,001	1,964,943
FOREIGN EXCHANGE LOSSES, NET	(151,422)	(119,369)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**2,105,915**	**1,945,001**

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

These financial statements were approved by the Board of Directors of Marfin Bank A.D., Belgrade on 3 April 2017.

Signed on behalf of Marfin bank A.D., Belgrade:

Dragana Radaković
Financial Control Manager

MARFIN BANK AKCIONARSKO DRUŠTVO
BEOGRAD
1

Borislav Strugarević
Chairman of the Executive Board

1. GENERAL BANK INFORMATION

Marfin Bank A.D. Belgrade was founded on 28 December 1990. The Bank was registered according to the Law on Banks for performing payment transactions in the country and abroad and credit and deposit transactions in the country.

The Bank's headquarter is located in Belgrade, at 22 Dalmatinska Street, where the Main Office of the Bank is also located. The business network of branch offices, business units and cash desks as at 31 December 2016 is comprised of 18 organization units (31 December 2015: 18 organization units).

As at 31 December 2016, the Bank had 288 employees (31 December 2015: 289 employees), while the average number of employees in 2016 was 287 (in 2015: 293).

The Bank's company ID no. is 07534183, and the tax identification number 100003148.

With the Decision of the Business Registers Agency BD 75207/2014 dated 09 September 2014, Georgios Phiniotis was appointed as the member of the Bank's Executive Board.

With the Decision of the Business Registers Agency BD 82147/2014 dated 02 October 2014, Borislav Strugarević was appointed as the Chairman of the Executive Board instead of Eleftherios Papaeracleous, who had been the Chairman until then.

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

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank prepares its financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia, and with the National Bank of Serbia Regulations. Pursuant to the Law on Accounting, banks are required to maintain their books of account and to prepare financial statements in accordance with International Financial Reporting Standards (IFRS). The accompanying financial statements are presented in the format prescribed by the "Decision on the Form and Content of the Financial Statements of Banks".

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities at fair value through profit or loss.

2.2. New and amended standards and interpretations

The following amended standards became effective for the Bank from 1 January 2016, but did not have any material impact on the Bank.

- **IFRS 14, Regulatory Deferral Accounts** (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11** (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- **Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38** (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- **Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41** (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- **Equity Method in Separate Financial Statements - Amendments to IAS 27** (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- **Annual Improvements to IFRSs 2014** (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Disclosure Initiative Amendments to IAS 1** (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- **Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28** (issued in December 2014 and effective for annual periods on or after 1 January 2016).

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

2.3. Standards and interpretations in issue not yet in effect

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and that the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Bank is currently assessing the impact of the new standard on its financial statements.

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

2.3. Standards and interpretations in issue not yet in effect (continued)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's Financial Statements.

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

2.4. Comparative information

Comparative information in these financial statements represents information from the Bank's financial statements for 2015.

2.5. Use of estimates

Preparation of financial statements in accordance with IFRS requires the management to use the best possible estimates and reasonable assumptions, which have an effect on the implementation of accounting policies and on the presented amounts of assets and liabilities, as well as income and expense. The actual value of assets and liabilities may deviate from the value assessed in such a manner. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

2.6. Statement of compliance

The Bank's financial statements are compiled in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

In preparing these financial statements the Bank applied the accounting policies disclosed in Note 3.

2.7. Going concern

The Bank's financial statements have been prepared on a going concern basis, which means that the Bank will continue to operate in the foreseeable future, subject to the matters disclosed below and in Note 36, Events after the date of reporting period.

2.7.1 The Bank's position and environmental influence

During the reporting period, the Bank experienced a dynamic changes in business and the effects of the inherited influences of the Cyprus economic crisis, which above all refer to the concentration of financing sources with a third party, i.e. Bank of Cyprus established by implementing the decree of the Central Bank of Cyprus (Official Gazette of the Republic of Cyprus no. 4645, dated 29 March 2013), where the Cyprus Popular Bank, as the parent company, transferred to the Bank of Cyprus as a third party, all its assets, property and rights, except, among others, investments into shares of subsidiaries of Cyprus Popular Bank which are not under the jurisdiction of the Republic of Cyprus.

With such inheritance, the primary focus of the Bank is liquidity and adequacy of capital and overcoming the mentioned concentration of financing sources corresponded with temporary measures of the National Bank of Serbia from the Decision dated 28 March 2013 including:

a) the previous consent of the National Bank of Serbia for all significant payments towards Cyprus Popular Group or the Bank of Cyprus;
b) taking all necessary steps for the possible payment of debts towards Cyprus Popular Group or the Bank Of Cyprus;
c) improving the Bank's liquidity plan and conducting liquidity stress tests at least on a monthly level.

The beginning of the reporting period marked the reduction of the Bank's capital as the correlation of the increase of the reserve amount for estimated losses, due to adjustment with recommendations of NBS stated in the procedure of direct control, as well as due to the designation of the reserve for real estate foreclosed on 18 November 2014, which the Bank failed to alienate within the period stipulated in the Decision on Classification of Balance sheet Assets. The increase of the amount of the reserve for estimated losses led to a decrease of the Bank's regulatory Tier I capital, which simultaneously caused the decrease of Tier II capital and the reaction of the management in taking measures prescribed by the Bank's Recovery Plan, which all included:

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

2.7. Going concern (continued)

2.7.1 The Bank's position and environmental influence (continued)

- ✓ limiting loan disbursment to the level of collection and limiting the exposure increase with clients with high exposure and limiting loan activities only to clients with the A and B rating,
- ✓ the change of the assets structure through intensifying collection of non-performing loans and selling the NPL portfolio,
- ✓ the Bank's management together with the Special Administrator of the Cyprus Popular Bank intensified negotiations with the Bank of Cyprus regarding restructuring the Bank's borrowings with potential write off of a part of the debt.

Engaging all available resources as well as the operative support of the regulator resulted in the increase of the capital adequacy ratio of the Bank to 21.3% on 31 July 2016, supported by positive effects of selling NPL and a part of foreclosed assets, with simultaneous payment of a part of liabilities towards the Bank of Cyprus. Accordingly, the liquidity ratio of the Bank has increased to 3.12 compared to the prescribed minimum of 1, as at 31 July 2016, and with liquid assets in total amount of EUR 62.04 million, the coverage ratio of retail and corporate deposits, including public companies, with the value of 82% was determined (the minimum coverage coefficient is 75%, according to the Decision of NBS dated 1 July 2016, no. 5205).

Simultaneously with continued activities on improving the Bank's business indicators, comprehensive activites were also undertaken in cooperation with potential buyers, and in accordance with the measures of NBS, which at 29 July 2016 resulted in signing the "Memorandum of Understanding" between the majority share owner of the Bank and the potential buyer.

Based on the Memorandum, an Agreement for the Sale and Purchase of Shares in Marfin Bank A.D. Belgrade was concluded on 30 September 2016 between Cyprus Popular Bank Public CO LTD as the seller and the buyer Expobank CZ A.S. At the same time, texts of accompanying contracts which meet the prerequisites for execution of the general agreement were arranged, and through the realization of which, a significant change of the assets structure by selling NPLs and foreclosed assets with repayment and writing off a part of the claim of the Bank of Cyprus.

As part of preparations for execution of this Agreement, the Bank's Assembly reached a decision on conducting a compulsory purchase of the share of minority shareholders in accordance with the Company Law, for the purpose of claiming 100% of ownership.

On 31 December 2016, the Bank had a total of EUR 55.04 million of liquid assets at its disposal and the coverage of the retail and corporate deposits of 78%. The capital adequacy ratio of the Bank as at 31 December 2016 was 16.22% (Note 31).

Having in mind the expected effects of realization of the Purchase and Sale Agreement for the Bank's shares on the structure of assets after executing the accompanying agreement, the management of the Bank is certain that it will successfully maintain and improve the necessary liquidity for continuing its business on the going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Foreign currency translation

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

Transactions in foreign currency are translated into dinars according at official exchange rate on the date of transaction. Net positive or negative exchange rate differences arising upon the translation of transactions in foreign currency and during translation of the balance sheet positions in foreign currency are credited or charged to the income statement as foreign exchange gains or losses.

3.2. Interest income and expenses

Interest income and expenses for all financial instruments bearing interest are recognized in the income statement as part of "interest income" and "interest expenses" by using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written off as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees are accrued and amortised as interest income on a straight-line basis over the loan period. The accrual of fees on a straight-line basis does not significantly differ from the effective interest approach.

3.3. Fee and commission income and expense

Fee income and expenses is recognised at the time when the invoice is paid or at the time when the service is provided. Fee and commission mainly comprise fees for payment operations services, issued guarantees and other banking services.

3.4. Income from dividends

Dividends are recognized in the income statement when the right to receive the dividend is established.

3.5. Financial assets

The Bank has classified its financial assets in 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. The Management determines the classification of its financial assets at initial recognition.

Regular purchase and sale of financial assets is recognized on the date of transaction, which is the day when the Bank undertook to purchase or sell the asset. Financial assets are initially recognized at fair value increased by transaction costs, except for financial assets intended for trade, whose initial measurment 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 measured at fair value after initial recognition.

(a) Financial at fair value through profit and loss

This category comprises financial assets held for trading and other financial assets classified in this category at initial recognition; including derivatives other than those used for hedging.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short-term, or for which there is a recent pattern of short-term profit taking. A derivative is also classified as held for trading where it is not designated to be used for hedging purposes.

(b) Loans and receivables

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

All loans and borrowings are initially recognized at fair value when assets are transferred to the borrower. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

(c) Financial assets held to maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Held-to-maturity securities are carried at amortised cost using the effective interest method. Amortized cost is calculated by taking into consideration all purchase discounts or premium.

(d) Financial assets available for sale

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and unlisted for securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Derivatives

For the purpose of protection against risk, the Bank uses financial derivatives. The change in the market value of derivatives is recognised through profit and loss. At 31 December 2016 the Bank has no open positions of financial derivatives.

3.7. Sale and repurchase agreements

Sale-repurchase agreements ('Repos'), are securities sold subject to repurchase agreements (reverse repo) and as such are recorded as loans and advances to other banks. The difference between the sale and the repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

3.8. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term government securities.

3.9. Impairment of financial assets

Assets carried at amortised cost

Individual assessment

At every balance sheet date, the Bank identifies financial assets for which the calculation of the impairment shall be performed individually (individual assessment – individually significant exposures).

The criteria for the identification of receivables that have to be assessed at individual level are:
1. The classification of debtors
2. The amount receivables by the debtor

In accordance with these criteria, receivables that have to be assessed at individual level are those for debtors:

a) banks classified in categories V, G and D with the total exposure higher than EUR 200,000 on the day of assessment, which are always review and amounts of impairment and probable loss obtained on an individual basis,
b) legal entities and entrepreneurs classified into categories A, B and V with the total exposure by debtor higher than 40,000 EUR, on the day of calculation,
c) legal entities and entrepreneurs classified into categories G and D with the total exposure by debtor higher than 20,000 EUR, on the day of calculation,
d) Individuals with exposure over 30,000 EUR, on the day of calculation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Impairment of financial assets (continued)

Individually significant credit exposures - the Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred 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.

The criteria that the Bank uses to determine whether there is objective evidence of an impairment loss include:

1. *The borrower's financial position indicating significant operational problems, such as change of debtor classification*; the debtor is late with settling obligations towards the state, other creditors or employees or settls its obligations irregularely for tax and contributions for social insurance of employees, in a significant amount, according to the Bank's assessment; significant and continuous reduction of operating income in the previous two years; the debtor's capital has been significantly reduced (more than 50%) due to losses during the previous two reporting periods; the current indicator of the debt servicing capacity is below the satisfactory level, i.e. <1.1; there is significant reduction (more than 50%) of property value, if the repayment depends on selling the property; or if there is a request of the debtor to change conditions for paying and/or for urgent financing;

2. *There is an evidence of non-settled obligations, of frequent delays in paying interests and/or the principle or failing to meet other contractual obligations*; at the latest when the debtor is late for 90 days based on any contract; the loan is non-performing in accordance with the Decision on classification of the balance sheet and off-balance sheet items.

3. *The Bank has significantly changed the terms of payment of loans due to financial problems of the debtor compared to those agreed initially*, i.e. clients with the NPE/RES status, in accordance with items 35a through 35đ of the Decision on classification of the balance sheet and off-balance sheet items for non-performing receivables of the bank;

4. *Initiation of bankruptcy proceedings over the debtor or initiation of another kind of financial reorganization is evident*, which may be identified based on the following: the debtor has been blocked for more than 60 days on the date of assessment; the debtor is undergoing liquidation proceedings; a court procedure (order for court procedure) has been initiated against the debtor; pre-bankruptcy proceedings have been initiated against the debtor or bankruptcy proceedings have been initiated against any strategically significant member of the group which the debtor belongs to; reasons for initiating bankruptcy proceedings against the debtor defined by the law regulating bankruptcy have been met; the debtor is undergoing the procedure of preparing the reorganization plan / the creditors have accepted the proposed reorganization plan / the debtor is conducting business according to the adopted reorganization plan; or the debtor is undergoing the procedure of financial restructure by mutual consent in accordance with the relevant regulation.

5. *Other objective evidence of impairment which classify receivables from clients into the category of suspicious and disputable receivables*

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

The expected cash flows are calculated by using the accepted mortgage value, and/or the amounts of deposits used as collateral for receivables and the expected period of their collection. The expected cash flows are discounted to their present value.

Depending on the type of collateral, its location, as well as the date of last valuation, the Bank is using the haircuts in the process of calculating impairment, as follows:

All amounts are expressed in thousands of RSD except if indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Impairment of financial assets (continued)

Residential property

Territory	Haircuts	Year of collection
Belgrade	20%	1-5
Novi Sad	20%	1-5
Other cities with a population over 50,000	30%	1-5
Cities with a population below 50,000	40%	1-5
Villages and small towns	45%	1-5

Business property

Territory	Haircuts	Year of collection
Belgrade	30%	1-5
Novi Sad	30%	1-5
Other cities with a population over 50,000	40%	1-5
Cities with a population below 50,000	45%	1-5

Industrial property

Type	Haircuts	Year of collection
Factories	35%	1-5
Warehouses	35%	1-5

Land

Type	Haircuts	Year of collection
Land Vojvodina	25%	1-5
Land other	30%	1-5

Other

Type	Haircuts	Year of collection
Equipment	80%	1-5
Vehicles	50%	1-3

In cases where the date of the valuation of collateral is older than 3 years, the above defined haircut is increased by 10%.

The expected cash flows must be discounted to their present value. As the Discount Factor, the Bank is using the effective interest rate (effective interest rate calculated on the date of concluding the credit agreement) in cases when the fixed interest rate has been agreed with the client or, it uses the current effective interest rate determined under the contract, in cases where the client has contracted on a variable interest rate. Where the debtor is in financial difficulties and where the Bank has approved renegotiated repayment terms, the discount factor used is the initially agreed effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Impairment of financial assets (continued)

For the purpose of determining the expected collateral collection period, the Sector for Network Management Operations and the Sector for Collection of Receivables take into consideration the following factors:

- Mortgage type (depending on the law under which the mortgage was established, i.e. whether it was established according to the Law on Mortgage or the Law on Execution);
- The validity of mortgage documentation (quality, i.e. completeness of the documentation in the Bank's possession);
- Type, intention, functionality and size of the real estate which is the subject of mortgage and its location;
- Offer and demand for real estate which is subject of collateral;
- The current phase of the mortgage collection process, i.e. whether collection was initiated via court or extra-judicial settlement proceedings or the collection is expected by acquiring rights from the bankruptcy proceedings;
- The client's cooperation with the Bank.

The minimum, i.e. maximum expected time for collection from collateral ranges from one to five years, and depending on prescribed legal deadlines, court practice and regulations of the Republic of Serbia which are complied with in processes of realization of each individual mortgage.

To that end, the estimated collection time is mostly influenced by the type of procedure through which execution is conducted (Law on Execution and Security, Law on Mortgage, Civil Procedure Code, bankruptcy proceedings, etc.).

The minimum expected period of collection in the procedure of mortgage realization is one year, and only if it was activated according to the extra-judicial manner of settlement of the currently valid Law on Mortgage, if the Real Estate Cadastre of the Republic of Serbia is complying with all legally prescribed deadlines for registering records on the right of sale and if the debtor is cooperating with the Bank.

In cases when payment is expected by realization of collateral by implementing any other court proceedings (Law on Execution and Security, Civil Procedure Code, bankruptcy proceedings, etc.), which cannot be influenced by the Bank, and which primarily depends on the actions of the court and court administrators, the expected collection period ranges from one to five years, and depends on the specificity of each individual security instrument. The maximum expected collection period of five years is implemented in cases when existence of an objective risk of impairment has just been identified and the Bank still has not started negotiations with the client and/or initiated a lawsuit against the client.

Collective impairment assessment

The Bank will assess the following receivables on collective basis:

- receivables for which individual assessment has shown that there is no objective evidence of impairment;
- receivables for which individual assessment determined that there is objective evidence of impairment, but by discounting expected future cash flows it was estimated that there is no allowance for impairment;
- receivables belonging to the group of small receivables and which are not assessed individually.

For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Impairment of financial assets (continued)

Assessment of impairment of group balance assets

Portfolio categorization is done by categorizing clients with similar characteristics in terms of credit risk into groups, based on the matrix, i.e. the following characteristics may be used:

a) Type of credit product in use
b) Age of portfolio
c) Delay
d) Client's credit rating
e) Type of collateral
f) Industry branch
g) Client type

The calculation of impairment for each category is done based on historial information, and it is calculated in the following manner:

Collective impairment = Non-secured exposure x PD*

*PD specially calculated for each client segment

- Loans with a delay of less than 90 days are considered to be in regular payment.
- For non-performing loans; for a delay longer than 90 days (default) PD of 100% applies.
- PD percentages apply to the non-secured part of exposure.
- The collectible part of the security is calculated by considering financial securities (guarantee deposits, guarantees, etc.) one hundred percent collectible, while market values after haircut are used with mortgages, identical to individual assessment.

In the process of calculation, the Bank is using different ways of calculating PD percentages for different types of clients, i.e. the manner of calculating PD percentage depends on the client groups for which it is calculated. Client groups are categorized as: Retail, Entrepreneurs and Legal Entities (client type). The "Retail" client group is categorized according to product, days of delay and age of portfolio.

3.10. Special reserve for estimated losses on financial assets in accordance with the National Bank of Serbia requirements

The special provision for estimated losses under the NBS requirements is calculated in accordance with the provisions of the Decision on the Classifications of Balance Sheet Assets and Off-balance sheet Items ("Official Gazette of RS", no. 94/11, 57/12, 123/12, 43/13, 113/13, 135/14, 25/15, 38/15, 61/2016, 69/2016 and 91/2016). The provisions of this decision prescribe the conditions under which the Bank is obligated to set up a special reserve fund from profit for estimated losses which is calculated as a sum of:

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

The Bank is required to classify all receivables, which are under the above Decision considered as balance sheet assets, and off balance sheet items into categories A, B, C, D, E based on the debtors financial position and creditworthiness, his timeliness in settling obligations towards the Bank and the quality of instruments used as collateral.

The Bank is required to determine the level of required reserves for estimated losses which stands as the sum of the differences between the reserve for estimated losses calculated in accordance with the NBS Decision and the provision for balance sheet assets and off-balance sheet losses on debtor's level.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Intangible assets

Licences

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

3.12. Property, plant and equipment

Initial measurement of fixed assets is performed at cost or purchase price. The purchase price is the value according to the supplier's invoice, increased by acquisition related expenses and the costs directly attributable to bringing the asset into the state of functional readiness.

For subsequent measurement of the land and buildings, after initial recognition, the Bank is using the revaluation model in accordance with IAS 16 "Property, plant and equipment".

The Bank's equipment is measured at cost less accumulated depreciation and impairment losses, if any.

The buildings are subject to regular revaluation. The frequency of revaluation depends on the fair value movements of the assets subject to revaluation. The increase in the carrying values of buildings based on revaluation is credited to the revaluation reserve. Decrease that offsets previous increases of the same assets is charged against revaluation reserves directly, while all other decreases are charged to the income statement.

The revaluation reserve is transferred directly to retained earnings when the surplus is realized either on the retirement or disposal of the asset or when the asset is not used by the Bank. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost (optional).

Subsequent costs are included in the asset's carrying amount or recognised 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 are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

• buildings	1.3%
• computer equipment	20.0%
• vehicles	20.0%
• furniture and equipment	12.5%-20.0%
• leashold improvements	20.0%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within Other (expenses)/income, in the income statement.

The assets' residual value is the estimated amount that the Bank could obtain through disposal of asset, less any cost of sale, if the asset is old and in a condition expected at the end of its useful life. The assets' residual value is equal to zero if the Bank expects to use the asset until the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Impairment of non-financial assets

Assets with indefinite useful lifes are not subject to depreciation but are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.14. Investment properties

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property is held for long-term rental yields and is not occupied by the Bank.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are recognized as asset if and only if: it is probable that the Bank will realise future economic benefit from the properties and if the costs may be measured reliably. The investment property is initially measured at purchase price/cost. The costs of transaction are included in the initial measurement. The cost of the purchased investment property includes its purchase price and all costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value. The fair value of investment property reflects market conditions at the end of the reporting period. Gains or loss arising from the change of fair value of the investment property is recognized in the income statement of the period when realised.

Subsequent expenditure is capitalized only when it is probable that future economic benefits related to it will belong to the Bank and its cost may be measured reliably. All other current maintenance expenses 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 value on the date of reclassification becomes its deemed cost which will be further depreciated.

3.15 Inventories

Upon acquisition, inventories are measured at the lower of the historical cost and net realizable value. The historical cost means 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 requirements of IAS 2.

3.16. Leasing

The Bank as the lessee

Leases entered into by the Bank are primarily operating leases in which the Bank is the lessee. The total payments made under operating leases are charged to expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

The Bank as the lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income statement over the period of the borrowings using the straight-line method.

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

3.18. Provisions

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

Where there is a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments 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 taxes and contributions for social insurance. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to pay taxes and social security contributions in accordance with applicable regulations. The Bank is not obliged to pay reimbursements to employees after retirement, which is the responsibility of the National Fund. The taxes and contributions on defined benefit obligations are expensed as incurred.

(b) Retirement benefits

Under the current regulations, the Bank is obliged to pay retirement benefits or termination benefits to employees in the event of loss of working ability amounting to three average salaries in the business sector in the Republic of Serbia, according to the latest information published by a competent statistical body. These payments are recognized in the balance sheet as liabilities (discounted) in accordance with the certified actuary's valuation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement over the employees' expected average remaining working lives.

The actuarial assumptions used when calculating retirement benefits were as follows:

- employee data,
- total years of service as at 31 December 2016,
- year of birth and gender,
- number of years of remaining working lives,
- demographic assumptions of the Republic of Serbia – mortality and fluctuation and invalidity rate,
- discount rate 5.25%,
- average gross salary in the Republic of Serbia for November 2016,
- assumed annual salary growth of 2% during the entire period for which assets are reserved.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19. Employee benefits (continued)

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

3.20. Current and deferred taxes

a) Current income tax

The current income tax charge is calculated and paid in accordance with the tax regulations applicable in the Republic of Serbia, based on the profit presented in the regulatory tax balance sheet. The Bank itself calculates its income tax, annual tax liability and tax prepayment for an upcoming year.

The 15 % income tax is paid based on the Bank's profit disclosed in the tax balance sheet, less certain investments during the year, as presented in the annual tax balance sheet - PDP form. In order to arrive at taxable profits, various adjustments to accounting profit are made. The Tax Balance Sheet is filed with tax authorities within 180 days after the end of the tax period for which the tax liability has been established.

b) Deferred taxes

Deferred taxes are calculated on all taxable temporary differences between tax base of assets and liabilities and their carrying amounts in the Bank's financial statements. Deferred tax liabilities are recognized for all taxable temporary differences arising between the tax base of assets and liabilities as at the balance sheet date and the amounts presented for reporting purposes, which will result in future period taxable amounts.

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

Current and deferred taxes are recognized as income and expense and are included in the net profit for the period.

3.21. Share capital

Shares are classified as equity.

(a) Cost of the issue of shares

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

(b) Dividends on shares

Dividends from shares are recognized as liabilities in the period in which a decision on dividend distribution was made. Dividends for the year following the balance sheet date are disclosed in the note on the events after the balance sheet date.

3.22. Earnings per share

Basic earnings per share is calculated by dividing the net profit (loss) attributable to shareholders of the Bank, with the weighted average number of issued ordinary shares during the report period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with contractual terms and conditions. The Bank issues such financial guarantees to banks, financial institutions and other organisations on behalf of customers as collateral for loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value at the date when they have been issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amount initially recognised less cumulative amortization, and the best estimate of the expenditure required to settle any financial obligation as of the balance sheet date. These estimates are determined based on experience with similar transactions and history of past losses, as well as the management's best estimate. Any increase in the liability relating to guarantees is recorded in the Income statement.

3.24. Segment reporting

An operating segment is a component of an entity:

(a) Involved in business activities by which it may earn income or make expenses (including income and expense related to transactions with other components of the same entity,
(b) Whose performance is regularly inspected by the main governing body in order to reach decisions on resources which are assigned to that segment and in order to assess their performaces, and
(c) For which separate financial information is available.

The Bank monitors activities and operations per operating segments, which include: the retail segment and the corporate segment.

The operating segments of the Bank are doing business in the Republic of Serbia, and accordingly, segmentation based on geographic area is irrelevant for the Bank.

4. FINANCIAL RISK MANAGEMENT

4.1 Introduction

The Bank's business is exposed to different financial risks and it requires identification, assessment, monitoring, mitigation and control of risk management, as well as placing an adequate system for risk management reporting. The Bank achieves risk management via a special organization unit for risk management. With its acts, the Bank prescribes procedures for identification, measurement, risk assessment, as well as risk management in accordance with regulations, standards and rules of profession.

With its risk management policy, the Bank defines a unique risk management system for risks to which the Bank is exposed in its business.

According to the nature of its activity, the Bank is exposed to various types of risk, such as:

1. liquidity risk;
2. credit risk;
3. market risk;
4. risks of the Bank's exposure towards an entity or a group of affiliated entities;
5. risks of the Bank's investments into other legal entities and fixed assets;
6. risks referring to the country of origin of the entity towards which the Bank is exposed;
7. operating risk (including legal risk).

4.2 Liquidity risk

The liquidity risk arises due to the Bank's inability to meet its due obligations, which may have a negative effect on the financial result and the Bank's capital.

The Bank manages the liquidity risk in accordance with the Policy on Liquidity Risk Management defining the liquidity risk management system, competence and responsibility of the participants of the system, controls taken for the purpose of as efficient functioning of the system as possible, the methodology used for monitoring this risk, but also the liquidity management plan in crisis situations.

Liquidity risk management includes managing all assets and liabilities positions of the Bank, which may influence the Bank's inability to meet its due obligations.

In its operations, the Bank complies with the basic principles of liquidity risk management:

a) liquidity management by major currencies (currencies participating in the total portfolio of the Bank with over 5%, and which include, apart from the domestic (RSD) currency, EUR, USD, and CHF as well);
b) providing stability and diversification of financing sources by determining different limits of source concentration, by regular monitoring of information on the largest depositors;
c) forming a stock of liquid assets and certain level of liquidity reserve;
d) solving temporary and long-term liquidity crises;
e) creating a Contingency Funding Plan;
f) conducting stress tests.

The Bank defines individual and commulative GAP limits of liquidity, which it views both on an aggregate level (consolidated view), and by the major currencies. The GAP liquidity report is prepared in accordance with the adopted Methodology for creation of GAP liquidity reports.

The following table presents assets and liabilities grouped into categories according to the remaining agreed maturity date on the balance sheet date.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk

As of 31/12/2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total ('000 RSD)
ASSETS						
Cash and cash funds held with the Central Bank	4,020,579	0	0	0	0	**4,020,579**
Loans and receivables due from banks and other financial institutions	3,772,578	6,174	0	0	0	**3,778,752**
Loans and receivables due from customers	496,373	364,959	1,662,004	4,243,903	3,304,545	**10,071,784**
Other assets	7.856	25,107	1,202	5,492	0	**39,657**
TOTAL ASSETS	**8,297,386**	**396,240**	**1,663,206**	**4,249,395**	**3,304,545**	**17,910,772**
LIABILITIES						
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	716,773	4,825,546	392,564	460,269	793,022	**7,188,174**
Deposits and other liabilities due to customers	3,809,808	679,995	4,008,140	1,031,979	22,215	**9,552,137**
Treassury shares and other borrowed funds	0	0	0	0	123,053	**123,053**
Subordinated liabilities	5,144	0	0	617,362	0	**622,506**
Other liabilities	152,520	570	710	865	47	**154,712**
Total liabilities	**4,684,245**	**5,506,111**	**4,401,414**	**2,110,475**	**938,337**	**17,640,582**
Net Gap (Total Assets - Total Liabilities)	**3,613,141**	**(5,109,871)**	**(2,738,208)**	**2,138,920**	**2,366,208**	**270,190**

As of 31/12/2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total ('000 RSD)
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			0		**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**
Treassury 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 are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk (continued)

Liquidity is also monitored on the basis of liquidity ratios defined by NBS regulation.

The Bank conducted testing of the Liquidity Management Plan in crisis situations on 31 December 2016, where a stress test of a "hypothetical" scenario of the Bank's liquidity crisis with the following assumptions:

- worsening of warning indicators of a potential liquidity disorder monitored by the Treasury to medium risk level,
- drop of total deposits by over 20% and less than 40%,
- drop of liquidity indicators below 1,
- the Bank is having difficulties in obtaining funding

The effect of the conducted scenario anticipates withdrawal of 30% of the deposit in the amount of RSD 3.838 million (EUR 31.08 million), which the Bank may recover from:

- available funds (cash on hand and in the vault),
- available funds on the Bank's nostro account
- withdrawal of funds placed to other banks and with NBS.

The Bank may pay the withdrawn deposits in the amount of EUR 31.08 million within one month from the following available sources:

- cash on hand and balance on the bank's nostro account in the amount of EUR 5.25 million,
- funds placed with other banks and NBS in the amount of EUR 25.83 million.

Non-discounted cash flows

Amounts presented in the following table represent non-discounted cash flows of financial liabilities with the balance on 31 December 2016.

As of 31/12/2016	**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	723,551	4,838,188	412,946	530,747	811,107	**7,316,539**
Deposits and other liabilities due to customers	3,813,388	683,545	4,047,568	1,063,963	23,904	**9,632,368**
Subordinated liabilities	6,310	-	18,727	723,323	-	**748,360**
Total liabilities (contracted maturity dates)	**4,543,249**	**5,521,733**	**4,479,241**	**2,318,033**	**835,011**	**17,697,267**

As of 31/12/2015	**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 (contracted maturity dates)	**4,615,790**	**1,212,156**	**5,754,301**	**6,594,021**	**1,475,778**	**19,652,046**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk

The Bank is exposed to credit risk and the possibility that the debtor fails to perform its obligations towards the Bank in the agreed amount and on the due date. Credit risk exposure primarily stems from crediting operations.

In order to maintain the credit risk on an acceptable level, the Bank:
- reviews the debtor's creditworthiness according to credits, guarantees and other products,
- determines limits of credit debt on the basis of risk assessment,
- does business with creditworthy clients and acquires appropriate security instruments.

Customers are under continuous supervision, and risk exposure limits are adjusted if necessary. Risk limits are determined depending on various types of security instruments.

Risk concentration according to economic activities is also constantly monitored, even though the limits have not been set.

Risk exposure towards one debtor, including banks, is under limits and it includes both the balance and the off-balance sheet risk exposure. Total risk exposure per individual client in terms of limits is considered before the occurrence of the transaction.

Total maximum credit exposure before reduction for collateral amounts:

	31/12/2016	31/12/2015
Loans and recevables due from banks – net	1,335,324	217,256
Allowance for impairment of loans and advances to banks	160,405	158,052
Total gross loans and advances to banks	**1,495,729**	**375,308**
Loans and advances to customers		
Loans and other retail placements	4,906,137	5,334,144
Loans and other corporate placements		
- Large enterprises	3,594,073	6,093,303
- Small and medium enterprises	1,613,813	2,147,012
Total net loans and advances to clients	**10,114,023**	**13,574,459**
Allowance for impairment of loans and advances to clients	1,363,263	4,643,675
Total gross loans and advances to clients	**11,477,286**	**18,218,134**
Total risk bearing assets - gross	**12,973,015**	**18,593,442**

Amounts of total risk bearing assets of RSD 12,973,015 thousand (31 December 2015: RSD 18,593,442 thousand) represent positions of the balance sheet assets subject to classification in accordance with the regulation of the National Bank of Serbia, except for foreclosed assets (RSD 251,353 thousand).

Financial assets (instruments), which, according to the Decision on Classification, represent the balance sheet assets which are not classified, and they refer to cash, the bank's current account and funds with NBS, in the amount of RSD 6,485,513 thousand (31 December 2015: RSD 6,136,867 thousand).

The position "Loans and advances to customers" includes repo loans, advances to customers, receivables on the basis of interests and fees, securities held to maturity, as well as the part of the remaining risk bearing assets (other risk assets).

Entrepreneurs are included in retail loans.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Off-balance sheet commitments

Guarantees and letters of credit represent irrevocable commitments of the Bank to make payments in case the client is unable to settle its liability towards a third party and they bear the same risk as loans.

Risk bearing off-balance assets – Off-balance sheet items subject to classification	**31/12/2016**	**31/12/2015**
Payable guarantees	23,240	120,420
Performance bonds	249,452	287,660
Avals and acceptances of bills of exchange	334	334
Unused commitments	610,156	804,053
Total	**883,182**	**1,212,467**

Retail loans by type of facility:

	31/12/2016			**31/12/2015**		
	Advances to customers	**Allowances for impairment**	**Net**	**Advances to customers**	**Allowances for impairment**	**Net**
Cards	80,271	41,999	38,272	99,863	43,676	56,187
Consumer loans	2,455,401	737,847	1,717,554	2,572,276	680,969	1,891,307
Housing loans	2,807,398	106,972	2,700,426	2,931,354	115,699	2,815,655
Current accounts overdrafts	59,533	22,727	36,806	73,603	23,448	50,155
	5,402,603	**909,545**	**4,493,058**	**5,677,096**	**863,792**	**4,813,304**
Entrepreneurs	523,071	109,992	413,079	629,387	108,547	520,840
Total retail placements:	**5,925,674**	**1,019,537**	**4,906,137**	**6,306,483**	**972,339**	**5,334,144**

The policy of determining allowances for impairment in accordance with the internal Bank methodology is described in Note 3.9, as well as the methodology prescribed by the National Bank of Serbia. The management is using the classification in accordance with the regulations of the National Bank of Serbia for determining and monitoring the internal rating of client loans and other financial assets, i.e. for monitoring the credit quality of the receivables.

Advances to clients and other risk bearing assets in the following table include total risk bearing assets, with the exception of advances to banks.

	31/12/2016		**31/12/2015**	
	Gross loans to clients	**Allowances for impairment**	**Gross loans to clients**	**Allowances for impairment**
Ranking:				
A	6,982,374	43,678	9,277,682	55,675
B	1,390,377	23,521	1,345,439	27,105
V	790,369	17,852	838,182	25,532
G	733,655	49,815	1,118,183	119,265
D	1,580,511	1,228,397	5,638,648	4,416,098
	11,477,286	**1,363,263**	**18,218,134**	**4,643,675**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Banks ranking:

	31/12/2016		31/12/2015	
	Gross loans to banks	Allowances for impairment	Gross loans to banks	Allowances for impairment
Ranking:				
A	1,087,111	-	214,827	-
B	248,213	-	2,429	-
V	-	-	-	-
G	-	-	-	-
D	160,405	160,405	158,052	158,052
	1,495,729	**160,405**	**375,308**	**158,052**

Credit quality of the portfolio (total balance sheet risk assets) – share in percentages:

	31/12/2016		31/12/2015	
	Share in the total portfolio	Actual provision rate	Share in the total portfolio	Actual provision rate
Ranking:				
A	62.2%	0.54%	51.1%	0.6%
B	12.6%	1.44%	7.2%	2.0%
V	6.1%	2.26%	4.5%	3.0%
G	5.7%	6.79%	6.0%	10.7%
D	13.4%	79.77%	31.2%	78.9%
	100.0%		**100.0%**	

Loans and advances:

	31/12/2016		31/12/2015	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Loans nether past due nor impaired **(1)**	3,506,714	1,314,845	5,500,314	217,256
Loans past due but not impaired **(2)**	2,318,841	20,479	1,164,224	-
Loans past due or not past due, collectively impaired **(3)**	4,863,596	-	4,555,784	-
Individually impaired loans **(4)**	788,135	160,405	6,997,812	158,052
Gross loans	**11,477,286**	**1,495,729**	**18,218,134**	**375,308**
Allowances for Impairment	(1,363,263)	(160,405)	(4,643,675)	(158,052)
Net loans	**10,114,023**	**1,335,324**	**13,574,459**	**217,256**

*** Category explanation:**
1) Loans that are not past due
2) Loans 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 loan
4) Loans considered uncollectible, i.e. impaired loans (loans that are more than 90 days past due and individually impaired loans)

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Loans neither past due nor impaired:

	31/12/2016				31/12/2015			
	Retail	Corporate	Total loans to clients	Banks	Retail	Corporate	Total loans to clients	Banks
Ranking								
A	1,324,861	1,280,373	2,605,234	1,066,632	2,001,400	2,919,813	4,921,213	214,827
B	71,784	304,003	375,787	248,213	83,300	413,465	496,765	2,429
V	56,791	203,564	260,355	-	18,188	45,932	64,120	-
G	2,462	262,729	265,191	-	8,863	5,624	14,487	-
D	-	147	147	-	1,310	2,419	3,729	-
Total	**1,455,898**	**2,050,816**	**3,506,714**	**1,314,845**	**2,113,061**	**3,387,253**	**5,500,314**	**217,256**

Loans past due but not impaired (100% secured loans):

	31/12/2016				31/12/2015			
	Retail	Corporate	Total loans to clients	Banks	Retail	Corporate	Total loans to clients	Banks
Days of delay up to 30 days	96,741	759,801	**856,542**	-	106,790	783,056	**889,846**	-
Days of delay 30-60 days	97,398	145,155	**242,553**	-	109,171	34,742	**143,913**	-
Days of delay 60-90 days	50,744	1,062,983	**1,113,727**	-	56,151	4,077	**60,228**	-
Days of delay over 90 days	30,687	75,332	**106,019**	20,479	36,164	34,073	**70,237**	-
Total	**275,570**	**2,043,271**	**2,318,841**	**20,479**	**308,276**	**855,948**	**1,164,224**	-
Fair value of collateral	**283,450**	**4,330,272**	**4,613,722**		**826,818**	**3,849,379**	**4,676,197**	-

Impaired loans subject to individual assessment:

	31/12/2016				31/12/2015		
	Retail	Corporate	Banks	Total	Retail	Corporate	Total
Loans subject to individual assessment	208,078	580,057	160,405	**948,540**	230,466	6,767,346	**6,997,812**
Fair value of collateral	101,705	4,294,961	-	**4,396,666**	188,117	21,838,065	**22,026,182**

The amounts shown in the table above represent individually impaired loans 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.

Loans subject to individual assessment and impairment had the following structure of collaterals in 2016 and 2015:

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

	31/12/2016			31/12/2015		
	Retail	Corporate	Total	Retail	Corporate	Total
Deposits	-	-	-	-	789,212	**789,212**
Mortgage	101,705	4,294,961	**4,396,666**	188,117	21,048,853	**21,236,970**
Fair collateral value	**101,705**	**4,294,961**	**4,396,666**	**188,117**	**21,838,065**	**22,026,182**
Impairment	114,297	305,514	**419,811**	101,496	3,456,894	**3,558,390**
Unsecured loans	70,117	102,610	**172,727**	75,554	2,310,290	**2,385,844**
Secured loans	137,961	477,447	**615,408**	154,913	4,457,055	**4,611,968**
Total loans	**208,078**	**580,057**	**788,135**	**230,467**	**6,767,345**	**6,997,812**

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 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 loans subject to collective assessment:

	31/12/2016			31/12/2015		
	Retail	Corporate	Total	Retail	Corporate	Total
Loans subject to collective assessment:	3,986,328	877,268	4,863,596	3,665,729	890,055	4,555,784
Fair value of collaterals	3,337,934	678,748	4,016,682	1,332,975	555,037	1,888,012

For loans subject to collective assessment and impairment, the collateral structure was as follows:

	31/12/2016			31/12/2015		
	Retail	Corporate	Total	Retail	Corporate	Total
Deposits	41,484	54,487	95,971	10,888	7,857	18,745
Mortgage	3,296,450	624,261	3,920,711	1,322,087	547,181	1,869,268
Fair collateral value	**3,337,934**	**678,748**	**4,016,682**	**1,332,975**	**555,038**	**1,888,013**
Impairment	905,440	42,112	947,552	881,892	203,393	1,085,285
Unsecured loans	2,834,801	555,352	3,390,153	2,779,772	480,488	3,260,260
Secured loans	1,151,527	321,916	1,473,443	885,957	409,567	1,295,524
Total loans	**3,986,328**	**877,268**	**4,863,596**	**3,665,729**	**890,055**	**4,555,784**

The sector concentration in the Bank's loan portfolio is presented in Note 18.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Restructured loans

Loans that change the initially agreed terms are loans which are reprogrammed or restructured due to deterioration of the debtor's financial position, i.e. due to difficulties in settlement of liabilities within the initially agreed maturity dates.

The Bank performs financial analysis of debtors with difficulties in the settlement of liabilities, and if it estimates that the debtor will be able to settle its liabilities upon changed terms, the Bank decides to reschedule or restructure such loans.

Amount of loans that are restructured due to deterioration of the financial capability of the client, whereby such receivables would be past due or impaired, on 31 December 2016 amounts to RSD 1,842,694.68 (31 December 2015; RSD 2,400,900 thousand).

Collection of past due and impaired receivables by foreclosure of collateral

In accordance with the Bank's policies, foreclosed collateral is disposed in the regular course of the business. Amounts of uncollected receivables from clients are thus reduced or settled. Usually, the Bank does not use foreclosed property 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 changes in market variables such as interest rates and foreign exchange rates. Except for the concentration of foreign exchange risk, the Bank has no significant concentration of market risk for other items.

Risk of interest rate changes

The Bank is exposed to changes in the prevailing level of market interest rates that influence its financial position and cash flows. As a result of such changes, the interest margin may increase, decrease, and cause losses in the event of unexpected changes. Interest rates are based on market interest rates and they are constantly adjusted by the Bank.

Risk management activity is aimed at optimization of net interest income, maintenance of the market interest rate at a consistent level in accordance with the Bank's business strategy. Bank's management manages maturity compliance of assets and liabilities on the basis of macroeconomic and microeconomic projections, projection of requirements for reaching liquidity and projection of interest rate trends.

The Bank manages the interest rate risk in accordance with the Interest Rate Risk Management Policy, which defines the system and methodologies for the interest rate risk management, competencies and responsibilities of system participants, as well as controls carried out with the aim of creating the most efficient system possible.

The subject of interest rate risk management is represented by all those items contained in the banking book, which may cause a negative effect on the Bank's result and capital due to an interest rate change.

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

- Risk of time lags between the maturity and repricing, i.e. the repricing risk. This risk results from the discrepancy in the maturity date (for fixed rates) and the date of price change (for variable rates) for assets, liabilities and off-balance items of the Bank;

- Yield curve risk - risk which arises due to change of forms and slope of the yield curve, when unexpected movements of the curve negatively affect the income or the basic economic value.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

- Basis risk - due to different reference interest rates in interest-sensitive items with similar characteristics in terms of maturity, i.e. due to repricing.
- Optionality risk - due to options embedded in interest-sensitive items (loans with the possibility of early withdrawal, different types of securities or records containing options to buy or sell, different types of deposit instruments without maturity that allow depositors to withdraw funds at any moment, often without paying any penalties).

With the aim of managing the interest risk exposure, the Bank uses the GAP methodology for interest rates.

Analysis of interest risk exposures implies analysis of condition and changes of balance sheet assets, liabilities and off-balance items, and position of derivatives. The Bank identifies the interest risk exposure by establishing incompatibility of values in the relevant currencies (RSD, EUR, USD, CHF) and overall (on a consolidated basis) for all currencies with which it operates.

Analysis of items of balance sheet assets and liabilities involves establishment of interest-sensitive items classified according to the period of interest rate reformation, i.e. determining the expected schedule of future cash flows.

Analysis of off-balance items (swaps, forwards) implies determining potential item changes, resulting from interest rate changes on the market.

Interest rate analysis implies continuous monitoring and adjustment of affairs to the conditions of interest rate changes on the market.

As of 31/12/2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest-insensitive positions	Total
ASSETS							
Cash and cash funds held with the Central Bank	1,325,765	-	-	-	-	2,694,814	**4,020,579**
Loans and receivables due from banks and other financial institutions	3,458,995	-	-	-	-	319,757	**3,778,752**
Loans and receivables due from customers	3,348,740	2,692,696	3,238,479	430,767	86,000	275,102	**10,071,784**
Other assets	-	-	-	-	-	39,657	**39,657**
TOTAL ASSETS	**8,133,500**	**2,692,696**	**3,238,479**	**430,767**	**86,000**	**3,329,330**	**17,910,772**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	6,302,236	846,719	2,000	3,659	-	33,560	**7,188,174**
Deposits and other liabilities due to customers	2,507,696	592,772	3,696,325	915,786	9,597	1,829,960	**9,552,137**
Treassury shares and other borrowed funds	-	-	-	-	-	123,053	**123,053**
Subordinated liabilities	617,362	-	-	-	-	5,144	**622,506**
Other liabilities	-	-	-	-	-	154,712	**154,712**
Total liabilities	**9,427,294**	**1,439,491**	**3,698,325**	**919,445**	**9,597**	**2,146,429**	**17,640,582**
Gap (Assets - Liabilities)	**(1,293,794)**	**1,253,205**	**(459,846)**	**(488,678)**	**76,403**	**1,182,901**	**270,190**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

As of 31/12/2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest-insensitive positions	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**
Treassury 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**

Interest rate GAP limits are defined by the Board of Directors Decision and are monitored and analysed 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 IR changes on the financial result of the Bank (income statement), but also effects on the economic value of Bank 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%).

In the existing IR GAP structure (observed on consolidated level which includes major currencies i.e. currencies EUR, RSD, CHF and USD) interest rate increase by 200bp would change the economic value of the Bank capital by -1.2% (2015: 1.08%), i.e. the value of capital would be reduced by RSD 18,263 thousand (2015: there was an increase of RSD 8,776 thousand).

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

As of 31/12/2016

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 Assets	8,197,735	2,693,662	3,099,665	150,738	235,408	104,839	91,555	43,872	59,146	26,274	580	0	0	14,703,473
Sensitive Liabilities	-9,427,293	-1,439,491	-741,488	-2,956,836	-851,698	-62,552	-3,872	-1,323	-1,489	-8,108	0	0	0	-15,494,152
GAP	-1,229,558	1,254,171	2,358,177	-2,806,099	-616,291	42,287	87,683	42,549	57,657	18,165	580	0	0	-790,679
Basel II Sensitivity Coefficient (200 bp changes in interest rates)	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)	-984	4,013	16,979	-40,127	-17,071	1,899	5,384	3,281	5,852	2,409	103	0	0	**-18,263**
Regulatory capital														1,488,547
Total effects/ Regulatory capital (max 20%)														-1,23%

As of 31/12/2015

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 Assets	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 II Sensitivity Coefficient (200 bp changes in interest rates)	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	-40,493	-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%

Foreign exchange 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.

On 31 December 2016 the Bank is in compliance with the requirements of the National Bank of Serbia in terms of foreign exchange risk.

Table in the text below shows summarized exposure to foreign exchange risk on 31 December 2016. The table also includes assets and liabilities according to their carrying values denominated in relevant currencies.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

As of 31/12/2016	USD	EUR	CHF	Other currencies	TOTAL	RSD	TOTAL
ASSETS							
Cash and cash funds held with the Central Bank	40,827	2,413,958	29,767	30,969	**2,515,521**	1,505,058	**4,020,579**
Loans and receivables due from banks and other financial institutions	71,185	3,425,937	236,488	45,142	**3,778,752**	-	**3,778,752**
Loans and receivables due from customers	-	7,134,165	572,439	-	**7,706,604**	2,365,180	**10,071,784**
Other assets	-	4,202	-	-	**4,202**	35,455	**39,657**
TOTAL ASSETS	**112,012**	**12,978,262**	**838,694**	**76,111**	**14,005,079**	**3,905,693**	**17,910,772**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	6,414,286	742,616	-	**7,156,902**	31,272	**7,188,174**
Deposits and other liabilities due to customers	129,908	6,207,551	106,542	46,165	**6,490,166**	3,061,971	**9,552,137**
Treassury shares and other borrowed funds	-	-	-	-	-	123,053	**123,053**
Subordinated liabilities	-	622,506	-	-	**622,506**	-	**622,506**
Other liabilities	803	19,104	160	78	**20,145**	134,567	**154,712**
Total liabilities	**130,711**	**13,263,447**	**849,318**	**46,243**	**14,289,719**	**3,350,863**	**17,640,582**
Net foreign currency position	**(18,699)**	**(285,185)**	**(10,624)**	**29,868**	**(284,640)**	**(554,830)**	**270,190**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Foreign exchange risk (continued)

As of 31/12/2015	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**
TOTAL ASSETS	**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	**6,866,281**	3,264,222	**10,129,503**
Treassury 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 foreign currency position	**430**	**(135,470)**	**(6,059)**	**5,188**	**(135,911)**	**658,991**	**523,080**

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

	Balance of open foreign currency position as of 31/12		RSD Depreciation effect of 10%	
	2016	2015	2016	2015
EUR	(270,881)	(135,470)	(23,025)	(11,515)
CHF	(10,625)	(6,059)	(903)	(515)
USD	(18,699)	430	(1,589)	37
Other currencies	29,868	5,188	2,539	441

4.5. Fair value of financial assets and liabilities

Fair value specified in financial statements is the amount for which an asset may be exchanged, or for which a liability may be settled, between informed, willing parties in an independent transaction.

Fair value is calculated by using market information available on the enforcement date, as well as individual method of Bank's assessment.

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities (continued)

The fair value of a financial instrument is shown at its nominal value 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 rate agreed for most financial assets and liabilities of the Bank, changes in prevailing interest rates lead 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.

Assessment of financial instruments

The Bank measures the fair value using the following fair value hierarchy that reflects the significance of the inputs 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 (ie, as prices) or indirectly (ie, 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 are 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 valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value of financial assets and financial liabilities traded in active markets is based on quoted market prices or prices 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, comparing to similar instruments for which there is no observable market price and other evaluation models. Assumptions and inputs 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 uses 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 estimates 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 reduces the uncertainty associated with the determination of fair value. 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.

At the end of 2015 and 2016 the Bank does not have financial instruments measured at fair value at the end of the reporting period.

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:

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities (continued)

Assessment of financial instruments (continued)

	31/12/2016		31/12/2015	
Financial (monetary) assets	**Bookkeeping value**	**Fair value**	**Bookkeeping value**	**Fair value**
Cash and cash funds held with the Central Bank	4,020,579	4,020,579	3,720,883	3,720,883
Loans and receivables due from banks and other financial institutions	3,778,752	3,778,752	2,619,789	2,619,789
Loans and receivables due from customers	10,071,784	10,071,784	13,508,023	13,508,023
Other assets	39,657	39,657	79,887	79,887
TOTAL	**17,910,772**	**17,910,772**	**19,928,582**	**19,928,582**
Financial (monetary) liabilities				
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	7,188,174	7,188,174	8,349,107	8,349,107
Deposits and other liabilities due to customers	9,552,137	9,552,137	10,129,503	10,129,503
Subordinated liabilities	622,506	622,506	612,033	612,033
Other liabilities	154,712	154,712	191,806	191,806
TOTAL	**17,517,529**	**17,517,529**	**19,282,449**	**19,282,449**

	FAIR VALUE			
31/12/2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash funds held with the Central Bank	4,020,579	-	-	4,020,579
Loans and receivables due from banks and other financial institutions	-	-	3,778,752	3,778,752
Loans and receivables due from customers		-	10,071,784	10,071,784
Other assets		-	39,657	39,657
TOTAL	**4,020,579**	-	**13,890,193**	**17,910,772**
Liabilities				
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	7,188,174	7,188,174
Deposits and other liabilities due to customers	-	-	9,552,137	9,552,137
Subordinated liabilities	-	-	622,506	622,506
Other liabilities	-	-	154,712	154,712
TOTAL	-	-	**17,517,529**	**17,517,529**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities (continued)

Assessment of financial instruments (continued)

	FAIR VALUE			
31/12/2015	**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 banks and other financial institutions	-	-	2,619,789	2,619,789
Loans and receivables due from customers	-	-	13,508,023	13,508,023
Other assets	-	-	79,887	79,887
TOTAL	**3,720,883**	**-**	**16,207,699**	**19,928,582**
Liabilities				
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	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**

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

It is the policy of the Bank to disclose information on fair value of assets and liabilities for which there is official market information and when the fair value is significantly different from the carrying value.

There is no sufficient market experience in the Republic of Serbia, and there is also a lack of stability and liquidity in buying and selling receivables and other financial assets and liabilities, since official market information is not available at all times. Therefore, the fair value cannot be reliably determined in the absence of active market.

The Bank's management also assesses its overall risk exposure and in events when it is evaluated that the value at which a property is kept in books will not be realized, it corrects the value.

Fair value of cash and cash equivalents, short-term deposits, other loans and other receivables, transaction deposits, trade payables and other short-term liabilities correspond to their carrying value, primarily due to short-term maturity of these financial instruments.

The table below shows Bank's classification for each class of financial assets and liabilities and their fair value on 31 December 2016:

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities (continued)

Assessment of financial instruments (continued)

2016	Held to maturity	Available for sale	Other at amortised cost	Total value	Fair value
Cash and cash funds held with the Central Bank	4,020,579	-	-	4,020,579	4,020,579
Loans and receivables due from banks and other financial institutions	3,778,752	-	-	3,778,752	3,778,752
Loans and receivables due from customers	10,071,784	-	-	10,071,784	10,071,784
Other assets	39,657	-	-	39,657	39,657
Total assets	**17,910,772**	-	-	**17,910,772**	**17,910,772**
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	7,188,174	7,188,174	7,188,174
Deposits and other liabilities due to customers	-	-	9,552,137	9,552,137	9,552,137
Subordinated liabilities	-	-	622,506	622,506	622,506
Other liabilities	-	-	154,712	154,712	154,712
Total liabilities	-	-	**17,517,529**	**17,517,529**	**17,517,529**

The table below shows the Bank's classification for each class of financial assets and liabilities and their fair value on 31 December 2015.

2015	Held to maturity	Available for sale	Other at amortised cost	Total 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, other financial institutions and the Central Bank	-	-	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**

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities (continued)

Assessment of financial instruments (continued)

The following is a description of the methodology and assumptions used to determine fair values 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 deposits on demand deposits, savings accounts without a specific maturity and financial instruments with variable rate.

Fixed-rate financial instruments

The fair value of financial assets and liabilities with fixed rates recorded at amortized cost are estimated by comparing market interest rates when they were initially recognized at current market rates offered for similar financial instruments.

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 risks of exposure to a single party or a group of related parties

The Bank's exposure 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, avals, 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 natural persons or legal entities related by shares);
- Two or more natural persons or legal entities related in the manner that deterioration or improvement of the financial position of one party affects the financial position of the other;
- A natural person who is an authorised representative of a legal entity;
- Two or more natural persons or legal entities related by their membership in legal entities' management bodies, including their respective family members;
- Family members of a natural person who are members of management bodies of two legal entities at the same time;
- A party related to the Bank (members 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.

<u>The Bank's exposure:</u>

- 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 may not exceed 25% of the capital of the Bank

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

4. FINANCIAL RISK MANAGEMENT (continued)

4.6. The risks of exposure to a single party or a group of related parties (continued)

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management and operates accordingly.

4.7. The risks 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 natural person / 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 natural person/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

Limits of Bank's investments:

- 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 and operates accordingly.

4. FINANCIAL RISK MANAGEMENT (continued)

4.8. Risks related to the country of origin of the entity towards which the Bank is exposed

The risk related to the country of origin of the natural person/legal entity to which the Bank is exposed (country risk) is the risk of adverse effects on the Bank's financial results that may occur due to the Bank's inability to collect its receivables from natural person/legal entity 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, 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 fulfil 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 certain irregularities in that country
- Guarantee risk – the risk that have 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 (also including the legal risk, and the risk of inadequate management of information and other technologies significant for the Bank's business)

Operational risk is defined as the risk of negative 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 events.

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 business lines in the Bank where each organization part of the Bank must be clearly defined including all activities and specific actions.

II Defining causes leading to operational risk, which may include:

1. human factor
2. processes
3. system factor
4. external factor

III Identification of events which may cause operational risks and losses arising from such risk

1. internal errors and misuse of employees
2. external violation of regulations,
3. omission in the system for employment and protection at work,
4. customer relation problems,
5. external factors,
6. Bank organization and operation of its system,
7. implementation of business procedures and Decision in the Bank.

4. FINANCIAL RISK MANAGEMENT (continued)

4.9. Operational risk (also including legal risk, and the risk of inadequate management of information and other technologies significant for Bank's business) (continued)

IV Loss category

1. loss,
2. potential loss,
3. avoided loss.

Information risks

Information system architecture has two functions:

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

One of the most important links in risk management is the adequacy of the information system which should fulfil the following requirements:

- ✓ timeliness,
- ✓ accuracy,
- ✓ security and integrity,
- ✓ consistency,
- ✓ completeness,
- ✓ relevance.

Accounting systems contain reports of business operations, financing, risk management and approvals, which allows the management and its bodies to manage the Bank.

Communication systems connect information within the Bank and external users (legislatures, auditors, shareholders and clients).

4.10. Capital risk management

The Bank's objectives 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 for 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 are expressed in thousands of RSD except if indicated otherwise

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.

	31.12.2016	31/12/2015
Basic capital		
Nominal value of paid shares, other than preferential cumulative shares	5,671,609	5,671,609
Share premium	2,877,487	2,877,487
Reserves from profit	151,673	151,673
Losses from previous years	(5,884,782)	(5,047,450)
Loss in the current year	(957,175)	(837,332)
Intangible assets	(89,574)	(128,213)
Unrealized losses on the basis of securities available for sale	-	(229)
Other net negative revaluation reserves	(2,231)	(2,324)
Required reserve for estimated losses for balance sheet assets and off-balance items of the Bank	(926,576)	(2,277,782)
Total basic capital	**840,431**	**407,439**
Supplementary capital		
Part of the Bank's revaluation reserves	227,901	228,369
Subordinated liabilities that meet the requirements for inclusion into capital	420,215	203,720
Amount of capital exceeding limitations for the supplementary capital	-	(24,650)
Total supplementary capital	**648,116**	**407,439**
Total deductible items	-	-
Basic capital reduction	-	-
Supplementary capital reduction	-	-
Total basic capital	**840,431**	**407,439**
Total supplementary capital	**648,116**	**407,439**
Total regulatory capital as at 31 December	**1,488,547**	**814,878**
Capital requests	1,101,456	1,421,867
Credit risk	956,419	1,243,638
Foreign exchange risk	9,331	17,024
Operational risk	135,706	161,205
Capital adequacy ratio, as at 31 December	**16.22**	**6.88**

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated 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 for borrowers may have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

The preparation of financial statements in accordance with IFRS requires management to use the best estimates and reasonable assumptions that affect the application of accounting policies, the presented amounts of assets and liabilities, as well as income and expenses.

Areas that demand the greatest degree of reasoning, which may significantly affect the amounts presented in the Bank's financial statements, are presented below.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with negative effects on the Bank's assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio that existed at the time when future cash flows were projected. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of available for sale equity investments

The Bank determines whether an available for sale equity instrument is impaired when there is a significant or prolonged decline of its fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates, among other factors, regular movement in share price. The impairment may occur when there is an evidence of deterioration of the financial position of the borrower, industry performance, changes in technology and operational and financing cash flows.

(c) Provisions

Provisions are, to a large extent, a matter of judgement, particularly in terms of legal claims or other contingencies. The Bank estimates the probability of adverse events occurring as a result of past events. If the estimated probability of the event is more than 50%, the Bank makes 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 might not coincide with the possible outcome of the legal claims.

All amounts are expressed in thousands of RSD except if indicated otherwise

6. INTEREST INCOME AND EXPENSES

	2016	2015
Interest income		
Loans	963,193	1,328,238
Deposits	37,283	54,441
Securities	37	45
Foreign currency loans and advances	5,294	8,309
Foreign currency deposits	9	1
Total:	**1,005,816**	**1,391,034**
Interest expense		
Loans	(83)	(47)
Deposits	(118,831)	(186,519)
Other liabilities	(694)	(17,680)
Foreign currency loans and advances	(118,055)	(131,818)
Foreign currency deposits	(134,131)	(166,500)
Total:	**(371,794)**	**(502,564)**
Net interest income	**634,022**	**888,470**

Interest income from loans in dinars in the amount of RSD 963,193 thousand (in 2015: RSD 1,328,238 thousand), includes the income from collected suspended interest in the amount of RSD 108,808 thousand (2015: RSD 227,611 thousand).

Interest income

	2016	2015
Corporate	504,039	742,100
Retail	409,457	531,187
Foreign entities	1,970	2,071
National Bank of Serbia	25,619	37,761
Entrepreneurs	63,282	76,440
Banks and other financial institutions	1,449	1,475
Total	**1,005,816**	**1,391,034**

Interest expense

	2016	2015
Corporate	80,496	136,124
Retail	128,067	163,452
Entrepreneurs	24	127
Banks and other financial institutions	1,023	20,164
Public sector	3	6
Foreign entities	154,636	174,197
National Bank of Serbia	6,748	3,155
Other clients	797	5,339
Total	**371,794**	**502,564**
Net interest income	**634,022**	**888,470**

All amounts are expressed in thousands of RSD except if indicated otherwise

7. FEES AND COMMISSIONS INCOME AND EXPENSE

	2016	2015
Fees and commissions income		
Fees and commissions income	186,606	186,941
Fees and commissions income in foreign currency	13,021	11,466
Total:	**199,627**	**198,407**
Fees and commissions expense		
Fees and commissions expense	(27,608)	(29,969)
Fees and commissions expenses in foreign currency	(22,091)	(19,348)
Total:	**(49,699)**	**(49,317)**
Net fees and commissions income:	**149,928**	**149,090**

Fees and commissions income amounting to RSD 186,606 thousand (2015: RSD 186,941 thousand) are primarily related to corporate banking services relating to payment operations amounting to RSD 49,282 thousand (2015: RSD 61,793 thousand); retail banking services amounting to RSD 44,494 thousand (2015: RSD 43,220 thousand); foreign currencies purchases from other clients amounting to RSD 18,542 thousand (2015: RSD 16,731 thousand); fees for credit card operations in the amount of RSD 9,960 (2015: RSD 12,493).

Fees and commissions expense amounting to RSD 27,608 thousand (2015: RSD 29,969 thousand) are mostly related to payment card operations fee and commission expense amounting to RSD 13,110 thousand (2015: RSD 13,810 thousand) and payment operation charges totalling RSD 11,582 thousand (2015: RSD 13,676 thousand).

FX fees and commissions expense equivalent to RSD 22,091 thousand (2015: RSD 19,348 thousand) are related to foreign currency operations expense with payment cards amounting to RSD 13,199 thousand (2015: RSD 10,543 thousand) as well as foreign payment operations fees of 8,633 thousand (2015: RSD 7,916 thousand).

Income from bank charges

	2016	2015
- payment cards	27,302	27,026
- domestic payment operations (companies, banks, citizens)	65,907	64,045
- commissions for issued guarantees	11,978	17,184
- banking services	51,164	49,315
- foreign currency payment operations	8,915	8,010
- other fees and commissions	2,368	3,656
- exchange operations	437	465
- buying and selling of foreign currency	18,542	16,731
- early repayment	13,014	11,975
Total income	**199,627**	**198,407**

Expenses from bank charges		
- payment cards	27,768	24,948
- domestic payment operations	12,428	13,676
- foreign currency payment operations	8,633	7,916
- brokerage services	-	40
- other fees and commissions	611	1,706
- buying and selling of foreign currency	259	1,031
Total expenses:	**49,699**	**49,317**
Net fees and commissions income	**149,928**	**149,090**

All amounts are expressed in thousands of RSD except if indicated otherwise

8. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

	2016	2015
Foreign exchange gains on:		
Foreign currency deposits and loans	315,202	891,266
Foreign currency accounts	70,826	59,703
Transactions with derivatives	4,959	18,900
Cash and deposits held with NBS	74,942	117,803
Payment card transactions	74,186	146,443
Other	185,303	335,559
Currency clause	279,820	583,318
Total	**1,005,238**	**2,152,992**
Foreign exchange losses on:		
Foreign currency deposits and loans	(551,287)	(1,050,679)
Foreign currency accounts	(29,328)	(41,679)
Transactions with derivatives	(6,515)	(14,057)
Cash and deposits held NBS	(39,736)	(104,001)
Payment card transactions	(72,696)	(145,078)
Other	(186,509)	(336,887)
Currency clause	(123,945)	(476,042)
Total	**(1,010,016)**	**(2,168,423)**
Foreign exchange losses, net	**(4,778)**	**(15,431)**

9. OTHER OPERATING INCOME

	2016	2015
Gains on sale of other loans	-	10,522
Other income from operations	36,793	31,694
Reversal of unrealised provisions for liabilities (Note 27)	15,000	10,919
Gains on sale of fixed and intangible assets	-	334
Write-off of liabilities	24,708	1
Surplus	-	18
Other income	5,367	16,542
Total	**81,868**	**70,030**

Other income from operations in the amount of RSD 36,793 thousand (2015: RSD 31,694 thousand) is mostly related to rental income in the amount of RSD 22,726 thousand (2015: RSD 27,685 thousand), while the rest in amount of RSD 14,066 thousand relates to sale of foreclosed assets (2015: RSD 4,009 thousand).

Write-off of liabilities in the amount of RSD 24,708 thousand is related to a partial write-off of liabilities based on short-term deposits of Bank Of Cyprus in the amount of EUR 201,096.

All amounts are expressed in thousands of RSD except if indicated otherwise

10. NET GAINS/(LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ITEMS

	2016	2015
Impairment losses on loans and receivables	(984,688)	(1,752,269)
Reversal of impairment allowance of balance sheet assets	1,102,206	1,015,540
Provision for off-balance sheet items (Note 27)	(2,596)	(4,354)
Reversal of provisions for off-balance sheet items (Note 27)	3,945	1,177
Write-off on uncollectible receivables	(9,606)	(6,584)
Collected receivables previously written-off	70	51
Total	**109,331**	**(746,439)**

Movements on the accounts of impairment allowances of balance assets during 2016 were as follows:

	Loans to clients	Other placements	Receivables for interest and fees	Other receivables	Total
Balance at the beginning of the year	3,388,888	787,178	240,516	385,148	4,801,730
Charge for the year	733,951	15,304	173,447	61,986	984,688
Currency differences	2,295	-	-	-	2,295
Sale of NPL	(2,150,329)	(600,243)	(260,543)	(110,510)	(3,121,625)
Write-offs	(41,215)	-	-	-	(41,215)
Reversal of impairment allowances	(759,409)	(201,976)	(116,834)	(23,987)	(1,102,206)
Balance at the end of the year	**1,174,181**	**263**	**36,586**	**312,637**	**1,523,667**

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

	Loans to clients	Other placements	Receivables for interest and fees	Other receivables	Total
Balance at the beginning of the 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
Currency differences	1,181	-	-	-	1,181
Write-offs	(336,998)	-	-	-	(336,998)
Reversal of impairment allowances	(695,765)	(62,744)	(45,883)	(211,148)	(1,015,540)
Balance at the end of the year	**3,388,888**	**787,178**	**240,516**	**385,148**	**4,801,730**

11. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

	2016	2015
Employee salaries	277,976	286,115
Employee wages	53,887	58,849
Taxes for salaries and wages	42,191	43,813
Contributions for salaries and wages	84,519	87,142
Fees for temporary and seasonal employment	-	10,884
Other personal expenses	8,959	866
Provisions for retirement and other employee benefits	1,471	-
Reversal of provisions for retirement and other employee benefits	-	(1,380)
Total	**469,003**	**486,289**

All amounts are expressed in thousands of RSD except if indicated otherwise

12. DEPRECIATION

	2016	2015
Intangible assets	50,644	44,740
Fixed assets	37,750	46,756
Total	**88,394**	**91,496**

13. OTHER EXPENSES

	2016	2015
Costs of materials	31,637	35,306
Costs of production services	93,503	101,059
Non-material costs (without taxes and contributions)	267,136	249,725
Taxes	47,383	43,502
Contributions	85,359	87,816
Provision for liabilities (Note 27)	4,523	3,809
Losses on sale of fixed assets and intangible assets	-	22
Losses on write-off of fixed assets and intangible assets	328	2,482
Shortages and damages	12	74
Losses on sale of other placements	790,854	-
Other expenses	36,316	55,303
Losses on the impairment of foreclosed assets	16,300	14,451
Total	**1,373,351**	**593,549**

Out of total cost of production services of RSD 93,503 thousand (2015: RSD 101,059 thousand), amount of RSD 62,015 thousand (2015: RSD 61,984 thousand) represents rental cost for the business premises; the amount of RSD 17,040 thousand (2015: RSD 16,411 thousand) are the costs of electronic communications and automatic data processing.

Non-material costs in the amount of RSD 267,135 thousand (2015: RSD 249,725 thousand) primarily consist of the amount of RSD 53,899 thousand (2015: RSD 57,014) which is related to the costs of insurance premium for banks deposit; the amount of RSD 47,338 thousand (2015: RSD 43,695 thousand) which is related to software maintenance services; the amount of RSD 22,110 thousand (2015: RSD 24,052 thousand) which is related to maintenance of programme applications; the amount of RSD 21,980 thousand (2015: RSD 21,116 thousand) related to IT equipment maintenance services.

Losses on sale of other placements in the amount of RSD 790,854 thousand fully relate to losses incurred on the sale of part of NPL portfolio from July 2016.

All amounts are expressed in thousands of RSD except if indicated otherwise

14. CURRENT INCOME TAX

Total tax expense/income consists of the following taxes:

	2016	2015
Current income tax	-	-
Movement in deferred taxes (Note 28)	3,030	(7,541)
Total tax income/expense	**3,030**	**(7,541)**

Detailed data on deferred taxes is given in Note 28. Current income tax on the Bank's profit before tax differs from the theoretical amount that would result from the use of weighted average tax rate and would be as follows:

	2016	2015
Loss prior to taxation	(960,205)	(829,791)
Income tax credit per rate of 15%	144,031	124,469
Tax effects of income and expenses not recognized for tax purposes	(10,125)	2,550
Tax effect of unrecognised tax losses carried forward	(133,906)	(127,019)
Income tax presented in the income statement	-	-

The table below shows 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	Last tax period in which unused tax credit may be used
2007	341,521	51,228	2017
2008	1,057,623	158,643	2018
2009	239,207	35,881	2019
2013	478,491	71,774	2018
2014	631,826	94,774	2019
2015	846,788	127,019	2020
2016	892,708	133,906	2021
TOTAL:	4,488,164	673,225	

All amounts are expressed in thousands of RSD except if indicated otherwise

15. EARNINGS PER SHARE

Earnings per share represent profit per unit of capital. For this reason, the earnings per share are determined from the ratio of net profit attribuatable to the Bank's shareholders and the weighted average number of shares outstanding during the period.

Earnings per share are given in the following table:

	2016	2015
Average weighted number of shares	11,097,112	11,097,112

Number	Description	2016	2015
1	Net loss pertaining to owners of regular shares in RSD	(957,174,944)	(837,332,101)
2	Average weighted number of shares	11,097,112	11,097,112
3	**Income per share in RSD (1:2)**	**(86.25)**	**(75.45)**

16. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

	31/12/2016	31/12/2015
Gyro account	1,325,765	1,226,011
Cash on hand in RSD	178,526	196,449
Receivables for calculated interest, fee and commission per cash funds held with the Central Bank	6	6
Cash on hand in foreign currency	287,961	328,468
Obligatory foreign currency reserve held with NBS	2,227,560	1,969,026
Prepayments per cash funds held with the Central Bank	761	923
Total	**4,020,579**	**3,720,883**

The Bank calculates and sets aside the mandatory reserve held with the National Bank of Serbia in the amount and in the manner prescribed by the NBS Decision on Banks' Required Reserves Held with the National Bank of Serbia (Official Gazette of RS No. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013), 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015).

The RSD mandatory reserve is set aside and placed on the Bank's gyro account and, therefore, it is accounted for separately. On 31 December 2016, the calculated required reserve in dinars amounted to RSD 1,094,540 thousand (31 December 2015: RSD 1,305,810 thousand).

The required reserve with the National Bank of Serbia represents the minimum reserve of dinar assets allocated in accordance with the Decision of the National Bank of Serbia and it may be used for liquidity if necessary. The Bank calculates the required reserve to the liabilities on dinar deposits, loans and securities, not including dinar deposits received for activities performed by the Bank on the behalf of third parties, and which do not exceed the amounts of placements provided by the Bank from those deposits.

The required reserve in the foreign currency is calculated by the Bank for the liabilities on foreign currency deposits, loans, securities and other foreign currency liabilities, as well as deposits, loans and other foreign currency assets received from abroad for activities performed by the Bank on the behalf of third parties.

Foreign currency basis for calculation of the required reserve is constituted by the daily balance of foreign currency funds in the previous month and the average daily balance of foreign currency liabilities and liabilities indexed by the foreign currency clause.

The Bank calculates the required reserve at a rate of 0% on the dinar base consisting of liabilities with the agreed maturity of over two years, i.e. 5% on the dinar base consisting of liabilities with the agreed maturity up to two years.

All amounts are expressed in thousands of RSD except if indicated otherwise

16. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK (continued)

The Bank calculates the mandatory reserve at a rate of 13% of the foreign currency base comprising of liabilities with the agreed maturity of over two years, and exceptionally at a rate of 100% of the part of the foreign currency base consisting of dinar liabilities indexed by foreign currency clause with the agreed maturity of over two years, i.e. 20% of the foreign currency base containing liabilities with the agreed maturity of up to two years, and exceptionally at a rate of 100% on the part of foreign currency base comprising of dinar liabilities indexed by foreign currency clause with the agreed maturity of up to two years.

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

	31/12/2016	31/12/2015
Bank's foreign currency account	313,662	194,074
Receivable for accrued interest on loans, deposits and other foreign currency placements	17	-
Other short-term loans given to domestic banks in foreign currency and overnight loans in foreign currency	987,778	-
Other general purpose foreign currency deposits	2,466,278	2,415,169
Other specific-purpose foreign currency deposits	11,017	10,546
Total	**3,778,752**	**2,619,789**

As of 31 December 2016, other general purpose deposits in foreign currency in the amount of RSD 2,466,278 thousand (31 December 2015: RSD 2,415,169 thousand) are related to the demand deposit held with the National Bank of Serbia in the equivalent of EUR 19,500,000 and USD 500,000.

All amounts are expressed in thousands of RSD except if indicated otherwise

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	31/12/2016	31/12/2015
Receivables in dinars		
Receivables for accrued interest on loans, deposits, and other receivables	80,973	336,794
Receivables for accrued fee and commission on loans, deposits and other receivables	4,689	42,634
Impairment allowance of receivables for accrued interest, fee and commission on loans, deposits and other receivables	(35,268)	(238,060)
Receivables for accrued interest on loans, deposits, and other foreign currency receivables	227	1,788
Impairment allowance of receivables for accrued interest, fee and commission on loans, deposits and other foreign currency receivables	-	(1,050)
Transaction accounts overdrafts	196,784	256,003
Consumer loans	175,812	182,207
Loans for liquidity and working capital	2,672,082	4,236,522
Investment loans	733,489	1,160,629
Housing loans	2,806,160	2,917,495
Cash loans	1,813,843	1,846,801
Other loans	2,769,207	5,574,075
Impairment allowance of loans in RSD	(1,172,920)	(3,386,782)
Receivables for discounted bills of exchange, acceptances and payments made for guarantees called on	254	1,230,916
Other loans and receivables	165	4,211
Impairment allowance of other loans and receivables in RSD	(262)	(764,239)
Accrued interest receivables on loans, deposits and other receivables	26,823	40,066
Impairment allowance of accrued receivables in Dinars	(1,167)	(1,706)
Loans for payment of import of goods and services from abroad in foreign currency	41,174	114,012
Receivables for discounted bills of exchange, acceptances and payments made for guarantees called on in foreign currency	-	29,820
Impairment allowance of other loans in foreign currency	-	(22,939)
Accrued interest receivables on loans, deposits and other foreign currency receivables	22	-
Deferred income from receivables measured at amortised cost using effective interest rate	(40,303)	(51,174)
Total	**10,071,784**	**13,508,023**

All amounts are expressed in thousands of RSD except if indicated otherwise

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

Changes in loans and receivables from customers during the year are as follows:

	Short-term loans		Long-term loans		Total 2016	Total 2015
	In RSD	In foreign currency	In RSD	In foreign currency		
On 1 January						
Receivables for interest and fees	179,553	1,788	199,875	1	381,217	458,026
Interest receivables for the year	146,645	38	817,722	4,792	969,197	1,153,891
Repayments	(317,667)	(1,826)	(940,466)	(4,566)	(1,264,525)	(1,230,700)
Impairment allowance of receivables for interest and fees	(5,864)	-	(29,404)		(35,268)	(239,112)
Accrued receivables for interest on loans, deposits and other receivables	9,700	-	17,123	22	26,845	40,066
Deferred income for receivables measured at amortised cost using effective interest rate	-	-	(40,303)		(40,303)	(51,174)
Impairment allowance of prepayments in dinars	(230)	-	(937)		(1,167)	(1,706)
Net interest and fee receivables 31 December	**12,137**	-	**23,610**	**249**	**35,996**	**129,291**
Loans due from customers on 1 January	2,304,342	29,820	15,104,517	114,012	17,552,691	18,207,397
New loans	1,121,900	107,246	7,379,008	8,705	8,616,859	10,907,573
Positive currency differences	-	-	-	-	-	5,343
Positive currency clause	16,354	-	263,466	-	279,820	582,784
Negative currency differences	-	-	-	-	-	(4,367)
Negative currency clause	(13,753)		(110,192)		(123,945)	(471,468)
Write-offs	-		(49,948)		(49,948)	(343,442)
Repayments	(3,007,085)	(137,066)	(11,840,812)	(81,544)	(15,066,507)	(11,331,128)
Impairment allowances	(152,683)	-	(1,020,499)		(1,173,182)	(4,173,960)
Net loans 31 December	**269,075**	-	**9,725,540**	**41,173**	**10,035,788**	**13,378,732**
Loans and receivables due from customers 31 December	**281,212**	-	**9,749,150**	**41,422**	**10,071,784**	**13,508,023**

All amounts are expressed in thousands of RSD except if indicated otherwise

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

Distribution of loans and receivables due from customers by sectors during the year was as follows:

	Enterprises	Entrepreneurs	Retail	Foreign entities	Other clients	Total 2016	Total 2015
Receivables for interest in RSD	38,615	6,550	35,576	232	-	**80,973**	**336,795**
Receivables for fees in RSD	68	108	4,025	69	419	**4,689**	**42,634**
Impaiment allowance of receivables for interest and fee in RSD	(4,471)	(3,758)	(26,938)	-	(101)	**(35,268)**	**(238,060)**
Receivables for interest in foreign currency	227					**227**	**1,788**
Impaiment allowance of receivables for foreign currency interest							**(1,050)**
Accrued receivables for interest calculated on the basis of loans, deposits and other placements	782	1,738	15,147	278	8,901	**26,846**	**40,065**
Correction of value of accrued receivables in RSD	(25)	(45)	(894)	-	(204)	**(1,168)**	**(1,707)**
Accrued income for income given by depreciated value using effective interest rate	(27,136)	(7,627)	(5,471)	(68)		**(40,302)**	**(51,175)**
Short-term loans							
- in RSD	316,814	43,897	60,636			**421,347**	**1,069,228**
Long-term loans							
- in RSD	4,953,224	624,572	5,133,838	34,395		**10,746,029**	**15,104,506**
- in foreign currency	41,174					**41,174**	**114,012**
Correction of loan value	(311,768)	(94,456)	(766,685)	(11)		**(1,172,920)**	**(3,386,782)**
Deposits given							
- in RSD							-
Other placements							
- in RSD	190	64	165			**419**	**1,235,126**
- in foreign currency	0					**0**	**29,820**
Correction of value of other placements	(190)	(64)	(8)			**(262)**	**(787,177)**
Total gross	**5,007,504**	**570,979**	**4,449,391**	**34,895**	**9,015**	**10,071,784**	**13,508,023**

Maturity structure of loans and receivables is as follows:

	31/12/2016	31/12/2015
Overdue loans	1,446,782	4,895,311
Up to 30 days	1,155,140	215,656
1-3 months	383,013	529,281
3-12 months	1,734,190	2,031,174
1-5 years	4,914,517	7,006,525
Over 5 years	3,339,373	3,915,495
Loans and receivables, gross	**12,973,015**	**18,593,442**

Overdue loans and receivables:

	31/12/2016	31/12/2015
Up to two months	1,432,169	68,494
Between two and six months	-	87,538
Between six months and one year	-	123,667
Over one year	14,613	4,615,612
Total loans due	**1,446,782**	**4,895,311**

All amounts are expressed in thousands of RSD except if indicated otherwise

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

The concentration of exposure to credit risk (including total loans and receivables due from customers, and risk-weighted off-balance sheet items) by industry is given in the table below:

	31/12/2016	31/12/2015
Accommodation and catering	387,864	944,325
Administrative and support service activities	99,169	281,166
Agriculture, forestry and fishing	237,769	1,019,479
Art, entertainment and recreation	129,932	151,058
Construction	963,924	1,978,198
Financial and insurance activities	186,772	239,240
Information and communication	14,909	21,058
Manufacturing industry	1,850,918	4,030,416
Professional, scientific, innovation and technical activities	324,172	456,773
Real estate	466,664	493,677
Transportation and storage	215,153	307,002
Wholesale and retail, repair of motor vehicle and motorbikes	1,998,769	3,950,882
Other	7,478,067	5,261,992
Loans and receivables - gross	**14,354,082**	**19,135,266**

Short-term loans were granted to citizens for a period of 6 months to 1 year, with interest rates at an annual level in the range between 12% and 17% for placements in dinars, and 10%-15% for placements with currency clause indexed in Euros. The interest rate for current account overdrafts on retail ranged between 21%-24% annually. Nominal interest rate for receivables on the basis of use of credit cards during 2016 was in the range between 19.5% and 29.9% annually.

Long-term dinar loans were granted to citizens for a period of 13-120 months with an annual interest rate of 6M BELIBOR+3% to 17%.

Long-term loans with a currency clause indexed in euros were granted to citizens for a period of 13-360 months with annual interest rate of 6M EURIBOR+2.9% to 15%.

Short-term loans in dinars and foreign currency were granted to legal entities and sole proprietors for a period of 1-12 months for financing business activities with interest rates in the range of:
- annual interest rates in the amount of 6M BELIBOR+3% to 15% for dinar loans
- 6M EURIBOR + 5% to 10% annually for placements with currency clause indexed in Euros;

Long-term loans in dinars and foreign currency were granted to legal entities and sole proprietors for a maximum period of 8 years with interest rates in the range of:
- 6M BELIBOR+3% to 17% for dinar loans annually;
- 6M EURIBOR+5% to 12% annually for placements with currency clause indexed in Euros;

All amounts are expressed in thousands of RSD except if indicated otherwise

19. INTANGIBLE ASSETS

Cost	
Balance on 1 January 2015	**372,389**
Additions	30,527
Disposals	(128.552)
Balance on 31 December 2015	**274,364**
Accumulated amortization	
Balance on 1 January 2015	**229,963**
Charge for the year	44,740
Disposals	(128,552)
Balance on 31 December 2015	**146,151**
Cost	
Balance on 1 January 2016	**274,364**
Additions	12,096
Disposals	(11.377)
Balance on 31 December 2016	**275,083**
Accumulated amortization	
Balance on 1 January 2016	**146,151**
Charge for the year	50,644
Disposals	(11,286)
Balance on 31 December 2016	**185,509**
Net book value on 1 January 2016	**128,213**
Net book value on 31 December 2016	**89,574**

All amounts are expressed in thousands of RSD except if indicated otherwise

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipment and other fixed assets	Fixed assets in progress	Leashold improvements	Total
Cost					
Balance on 1 January 2015	565,339	445,280	-	50,952	1,061,571
Additions	-	16,974	2,445	222	19,641
Reclassification from foreclosed assets	49,938	-	-	-	49,938
Transfers	-	-	(2,445)	2,445	-
Disposals (sale)	(6,715)	(12,768)	-	-	(19,483)
Write off	-	(8,557)	-	(8,267)	(16,824)
Balance on 31 December 2015	608,562	440,929	-	45,352	1,094,843
Accumulated depreciation					
Balance on 1 January 2015	164,864	345,433	-	43,294	553,591
Charge for the year	7,332	36,430	-	2,994	46,756
Disposals (sale)	(2,252)	(12,762)	-	-	(15,014)
Write off	-	(8,529)	-	(5,813)	(14,342)
Balance on 31 December 2015	169,944	360,572	-	40,475	570,991
Net book value on 1 January 2015	400,475	99,847	-	7,658	507,980
Net book value on 31 December 2015	438,618	80,357	-	4,877	523,852

	Buildings	Equipment and other fixed assets	Fixed assets in progress	Leashold improvements	Total
Cost					
Balance on 1 January 2016	608,562	440,929	-	45,352	1,094,843
Additions	-	396	-	-	396
Reclassification to foreclosed assets	(95,730)	-	-	-	(95,730)
Transfers	-	-	-	-	-
Disposals (sale)	-	-	-	-	-
Write off	-	(37,821)	-	-	(37,821)
Balance on 31 December 2016	512,832	403,504	-	45,352	961,688
Accumulated depreciation					
Balance on 1 January 2016	169,944	360,572	-	40,475	570,991
Charge for the year	7,704	28,003	-	2,043	37,750
Reclassification	(2,489)	-	-	-	(2,489)
Write off	-	(37,583)	-	-	(37,583)
Balance on 31 December 2016	175,158	350,992	-	42,518	568,669
Net book value on 1 January 2016	438,618	80,357	-	4,877	523,852
Net book value on 31 December 2016	337,673	52,512	-	2,834	393,019

All amounts are expressed in thousands of RSD except if indicated otherwise

20. PROPERTY, PLANT AND EQUIPMENT (continued)

On 29 November 2016, the Bank stopped using the building in 46 Knez Danilova St. (this real estate, acquired by collection of receivables and registered in the Bank's books in the amount of RSD 95,730, was put in use on 21 October 2014) and reclassified it to the position of foreclosed asset.

Alignment of market value and net book value of buildings was last recorded on 14 December 2007 on the basis of assessment dated 18 September 2007 by independent appraisers (of an appraisal company). The appraisal was made on the basis of market prices. The appraisal reduced the cost of buildings by a net amount of RSD 35,455 thousand, and revaluation reserves were reduced by RSD 33,611 thousand. The bank re-evaluated the buildings in December 2014. The estimated value did not deviate significantly from the value given in the Bank's books, thus the Bank's management decided that there were no grounds for adjusting the values in the Bank's books.

Fair value of construction facilities on 31 December 2015 is presented in the following table:

	Level 1	Level 2	Level 3	Total
Construction facilities	-	-	337,673	337,673
Total	-	-	**337,673**	**337,673**

Fair value of construction facilities on 31 December 2015 is presented in the following table:

	Level 1	Level 2	Level 3	Total
Construction facilities	-	-	438,618	438,618
Total	-	-	**438,618**	**438,618**

Rental costs in the amount of RSD 62,015 thousand (2015: RSD 61,984 thousand) related to the rental of real estate are included in the income statement.

Buildings are not encumbered by mortgages as a collateral for loan repayment.

All amounts are expressed in thousands of RSD except if indicated otherwise

21. INVESTMENT PROPERTY

	31/12/2016	31/12/2015
Investment property	877,550	1,039,983
Total	**877,550**	**1,039,983**

Bank had no subsequent investment into investment property. All operating expenses shall be borne by the lessee. Property tax expenses and tax expenses pertaining to transfer of absolute rights shall be borne by the Bank. Net income from leased property for 2016 amounts to RSD 17,993 thousand.

During 2016, three investment properties were sold in the total amount of RSD 87,396 thousand, while two properties, in the amount of RSD 75,037 thousand were transferred to the position of foreclosed assets since the lease agreement for the said property has expired, and it was not extended due to failed negotiations on extension, and the Bank had not been able to find a new lessee despite the invested effort.

Investment properties as at 31 December 2016:

	Carrying amount	Date of the Lease Agreement	Total expenses	Lease income	Net result
Residential building and land Stepojevac	71,482	Annex II 15/04/2016	286	1,183	897
Property at 15 Kralja Petra St., 15 Stari Grad, Belgrade	234,796	Annex II 17/04/2016	939	3,688	2,749
Apartment with gallery, Voždovac 66 Admirala Vukovića St., Belgrade	31,379	Annex I 20/5/2016	126	738	612
Business facility for storing and keeping fruit and vegetables with packaging and processing in Šimanovci	165,094	Annex 25/9/2014	660	7,200	6,540
Business space No. 1 in 70 Milutina Milankovića St.	9,421	Annex 3/11/2014	38	177	139
Gas station "EUROLUXPETROL"	279,661	13/07/2012 Annex I 15/7/2013 Annex II 26/9/2013	1,119	2,951	1,832
Food industry facility and production of pizza Nova Varoš	85,717	19/12/2012 14/07/2014 Annex I 3/9/2015 Annex II 23/6/2016	343	1,475	1,132
Total	**877,550**		**3,511**	**17,412**	**13,901**

All amounts are expressed in thousands of RSD except if indicated otherwise

21. INVESTMENT PROPERTIES (continued)

Properties transferred to foreclosed assets:

	Carrying amount	Date of the Lease Agreement	Total expenses	Lease income	Net result
Business space, at 49 Svetozara Markovića St., Belgrade	72,700	Decision 297/16	291	2,765	2,474
Residential business space at 9 Zelena Gora St. Kraljevo	2,337	Decision 297/16.	9	-	(9)
Total:	**75,037**		**300**	**2,765**	**2,465**

Sold properties during 2016:

	Carrying amount	Date of the Lease Agreement	Total expenses	Lease income	Net result
Business facility, general store, Grbavica, Valjevo	6,500	27.9.2016.	19	-	(-19)
Business facility, extruder machine Patrijarha Dimitrija, Rakovica	65,896	19/07/2016	145	1,719	1,574
Family residential building 25 Petra Kočića St., Inđija	15,000	11/07/2016	82	154	72
Total:	**87,396**		**246**	**1,873**	
1,627					

Carrying value of investment properties at the beginning and at the end of the period

Balance on 1 January 2015	**1,260,239**
Sale	(220,256)
Balance on 31 December 2015	**1,039,983**
Balance on 1 January 2016	**1,039,983**
Sale	(87,396)
Transfer to foreclosed assets	(75,037)
Balance on 31 December 2016	**877,550**

All amounts are expressed in thousands of RSD except if indicated otherwise

22. OTHER ASSETS

	31/12/2016	31/12/2015
Fee and commission receivables	1,861	2,118
Impairment allowance of receivables for fee and commission, receivables on sale and other receivables in dinars	(1,318)	(1,405)
Advances paid for working capital	10,170	8,569
Receivables from employees	4,204	4,222
Receivables on the basis of prepaid taxes and contributions	8	
Other operating receivables	165,938	252,820
Suspense and temporary accounts	(1,343)	814
Receivables in settlement	5,003	5,323
Impairment allowance of other receivables	(147,665)	(222,572)
Foreign currency advances paid for working capital	14,305	10,966
Receivables from employees in foreign currency	7,627	7,512
Other receivables from business in foreign currency	157,838	155,668
Receivables in settlement in foreign currency	2,329	2,423
Impairment allowance of other receivables in foreign currency	(164,973)	(162,575)
Other investments	476	798
Other deferred expenses	15,219	18,554
Other prepayments	16,301	18,553
Foreclosed assets	377,841	788,350
Total	**463,821**	**890,138**

Within other operating receivables of RSD 165,938 thousand (31 December 2015: RSD 252,820 thousand) the largest part is mainly related to receivables on the basis of initiation and conduct of legal proceedings in the amount of RSD 95,969 (31 December 2015: RSD 171,685), receivables on the basis of disputed activities in the amount of RSD 28,685 (31 December 2015: RSD 0), and receivables for leases and reinvoiced expenses in the amount of RSD 17,526 (31 December 2015: RSD 18,620).

Receivables on the basis of advance payments provided for working assets in foreign currency in the amount of RSD 14,305 thousand (31 December 2015: RSD 10,966 thousand) are related to the advance payment with Banca Intesa for the use of Visa and Master cards.

Receivables from business operations in foreign currency in the amount of RSD 157,838 thousand (31 December 2015: RSD 155,668 thousand) is mostly related to receivables for fee on the basis of sale of loan in the amount of RSD 157,349 thousand (31 December 2015: RSD 154,997 thousand).

In addition, forclosed assets have decresed during the year with ending balance of RSD 377,841 thousand (31 December 2015:RSD 788,350 thousand), as a result of disposal.

All amounts are expressed in thousands of RSD except if indicated otherwise

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

	31/12/2016	31/12/2015
Transaction deposits	24,207	55,858
Other deposits	3,190	5,567
Other financial liabilities	2,848	236
Liabilities from fees and commissions on borrowings, deposits and other financial liabilities	839	960
Accrued interest payable on borrowings, deposits and other financial liabilities	188	85
Transaction deposits in foreign currency	265	261
Deposits related to given loans in foreign currency	1,191,572	1,173,755
Other deposits in foreign currency	687,534	1,046,092
Borrowings in foreign currency	5,271,693	6,058,393
Accrued interest payable on borrowings deposits and other financial liabilities in foreign currency	5,839	7,900
Total	**7,188,174**	**8,349,107**

Deposits related to given loans in foreign currency, the amount of RSD 1,191,572 thousand (31 December 2015: RSD 1,173,755 thousand) refers to deposits of the Bank of Cyprus Public Co Ltd, amounting to EUR 9,651 thousand (31 December 2015: EUR 9,651 thousand) with the following structure and terms:

Date of Agreement	Currency	Amount in the currency	Amount in 000 RSD	Maturity	Fixed-time deposit	Interest rate %
26/10/2011	EUR	1,536,185.43	189,676	11/3/2023	3M	1.686
26/10/2011	EUR	1,707,659.03	210,848	11/4/2023	3M	1.686
29/12/2011	EUR	550,000.00	67,910	25/5/2020	3M	1.688
29/12/2011	EUR	1,099,000.00	135,696	25/5/2020	3M	1.688
20/9/2012	EUR	1,583,561.00	195,526	21/5/2018	1M	1.631
20/9/2012	EUR	3,174,117.00	391,916	11/3/2023	1M	1.631
Total EUR	EUR	**9,650,522.46**				
Total in 000 RSD			**1,191,572**			

Within other deposits in the foreign currency, the amount of RSD 687,534 thousand (31 December 2015: RSD 1,046,092 thousand) the largest part in the amount of RSD 685,064 thousand refers to deposits of the Bank of Cyprus Public Co Ltd, amounting to CHF 5,965 thousand (31 December 2015: CHF 5,965 thousand) with the following structure and terms:

Date of Agreement	Currency	Amount in the currency	Amount in 000 RSD	Maturity	Fixed-time deposit	Interest rate %
28/12/2016	CHF	4,915,000.00	564,474	4/1/2017	7D	1.1282
19/12/2016	CHF	300,000.00	34,454	19/1/2017	1M	1.1732
19/12/2016	CHF	250,000.00	28,712	19/1/2017	1M	1.1732
19/12/2016	CHF	500,000.00	57,424	19/1/2017	1M	1.1732
Total CHF	**CHF**	**5,965.000,00**				
Total in 000 RSD			**685,064**			

All amounts are expressed in thousands of RSD except if indicated otherwise

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

Borrowings in the foreign currency amounting to RSD 5,271,693 thousand (31 December 2015: RSD 6,058,393 thousand) refer to loans received from the Bank of Cyprus Public Co Ltd, amounting to EUR 42,230 thousand (31 December 2015: EUR 49,349 thousand) and CHF 500 thousand (31 December 2015: CHF 500 thousand) with the following structure and terms:

Date of Agreement	Currency	Amount in the currency	Amount in 000 RSD	Maturity	Fixed-time deposit	Interest rate %
14/8/2009	EUR	39,081,632.60	4,825,499	21/2/2017	1M	1.629
28/12/2012	EUR	3,148,642.56	388,770	30/11/2017	3M	1.686
7/11/2012	CHF	500,000.00	57,424	9/1/2018	6M	1.344
Total EUR	**EUR**	**42,230,275.16**				
Total CHF	**CHF**	**500,00.00**				
Total in 000 RSD			**5,271,693**			

24. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

	31/12/2016	31/12/2015
Transaction deposits	1,628,878	1,616,000
Savings deposits	881,333	675,814
Deposits related to given loans	20,536	8,138
Specific purpose deposits	7,544	3,230
Other deposits	519,013	957,185
Other financial liabilities	1,235	1,235
Liabilities from interests on borrowings, deposits and other fin. liabitilies	3	73
Accrued interest payable on borrowings, deposits and other financial liabilities	3,428	2,547
Transaction deposits in foreign currency	1,192,008	849,287
Savings deposits in foreign currency	4,823,052	5,489,425
Deposits related to given loans in foreign currency	167,822	162,778
Specific purpose deposits in foreign currency	11,004	12,869
Other deposits in foreign currency	239,017	310,409
Other financial liabilities in foreign currency	7,403	5,248
Accrued interest payable on borrowings, deposits and other financial liabilities in foreign currency	49,861	35,265
Total	**9,552,137**	**10,129,503**

All amounts are expressed in thousands of RSD except if indicated otherwise

24. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

	Enterprises	Entrepreneurs	Public sector	Retail	Foreign entities	Other clients	Total 2016	Total 2015
Transaction deposits								
- in RSD	1,158,373	176,133	746	188,122	5,227	100,277	**1,628,878**	**1,616,000**
- in foreign currency	261,419	12,340	-	868,910	48,851	488	**1,192,008**	**849,287**
Savings deposits								
Short-term deposits:								
- in RSD	-	-	-	750,218	-	-	**750,218**	**658,090**
- in foreign currency	-	-	-	2,973,997	36,462	-	**3,010,459**	**3,999,503**
Long-term deposits:								
- in RSD	-	-	-	131,115	-	-	**131,115**	**17,723**
- in foreign currency	-	-	-	1,811,852	741	-	**1,812,593**	**1,489,923**
Deposits based on granted loans								
Short-term deposits:								
- in RSD	136	-	-	-	-	-	**136**	**136**
- in foreign currency	-	-	-	30,026	-	-	**30,026**	**44,970**
Long-term deposits:							-	-
- in RSD	12,000	-	-	8,400	-	-	**20,400**	**8,002**
- in foreign currency	17,566	-	-	120,199	30	-	**137,795**	**117,808**
Specific-purpose deposit								
Short-term deposits:								
- in RSD	1,034	-	-	211	-	-	**1,245**	**380**
- in foreign currency	6,147	-	-	-	239	49	**6,435**	**7,547**
Long-term deposits:								
- in RSD	6,299	-	-	-	-	-	**6,299**	**2,850**
- in foreign currency	3,827	741	-	-	-	-	**4,568**	**5,321**
Other deposits								
Short-term deposits:								
- in RSD	507,781	-	1	-	-	11,231	**519,013**	**951,185**
- in foreign currency	9,066	-	-	-	217,512	6,266	**232,844**	**300,375**
Long-term deposits:								
- in RSD	-	-	-	-	-	-	-	**6,000**
- in foreign currency	6,174	-	-	-	-	-	**6,174**	**10,034**
Total	**1,989,822**	**189,214**	**747**	**6,883,050**	**309,062**	**118,311**	**9,490,206**	**10,085,134**
Other financial liabilities								
- in RSD	-	-	-	1,235	-	-	**1,235**	**1,235**
- in foreign currency	7,402	-	-	-	-	-	**7,402**	**5,248**
Interest liabilities								
- in RSD	-	-	-	-	-	3	**3**	**73**
- in foreign currency	-	-	-	-	-		-	-
Fee liabilities								
- in RSD	-	-	-	-	-	-	-	-
Accrued interest payable on borrowings, deposits and other financial liabilities								
- in RSD	425	-	-	2,897	-	108	**3,430**	**2,548**
- in foreign currency	233	-	-	47,065	2,540	23	**49,861**	**35,265**
Total	**8,060**	-	-	**51,197**	**2,540**	**134**	**61,931**	**44,369**
Total deposits and other liabilities	**1,997,882**	**189,214**	**747**	**6,934,247**	**311,602**	**118,445**	**9,552,137**	**10,129,503**

The interest rate for transaction deposits in RSD amounted to 1%, while the transaction deposits in foreign currency are non-interest-bearing.

The interest rate for short-term deposits in RSD ranged from 3% - 4%.

The interest rate for short-term deposits in EUR ranged from 0.25% - 0.7%.

Short-term retail savings deposits in foreign currency refer to: avista savings deposits of natural persons in foreign currency in the amount of RSD 40,606 thousand (on 31 December 2015: RSD 177,064 thousand), up to one month in the amount of RSD 719 thousand (on 31 December 2015: RSD 704 thousand), up to three months in the amount of RSD 47,496 thousand (on 31 December 2015: RSD 53,044 thousand), up to four months in the amount of RSD 9,531 thousand (on 31 December 2015: RSD 10,735 thousand;), up to six months in the amount of RSD 164,154 thousand (on 31 December 2015: RSD 198,986 thousand), at nine months in the amount of RSD 14,645 thousand (on 31 December 2015: RSD 24,689 thousand) and up to one year in the amount of RSD 2,696,840 thousand (on 31 December 2015: RSD 3,395,766 thousand).

All amounts are expressed in thousands of RSD except if indicated otherwise

24. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (continued)

Long-term retail savings deposits in foreign currency at 13 months amount to RSD 136,688 thousand (on 31 December 2015: RSD 109,477 thousand), at 15 months they amount to RSD 215,770 thousand (on 31 December 2015: RSD 364,743 thousand) and at 25 months they amount to RSD 1,459,395 thousand (on 31 December 2015: RSD 1,015,703 thousand).

Interest rates for long-term deposits in RSD ranged from 4%-5%, while interest rates for long-term deposits in EUR ranged from 1-1.75% and in USD from 0.1-0.75%.

Short-term savings deposits of foreign entities in foreign currency refer to avista savings deposits in the amount of RSD 12,471 thousand (on 31 December 2015: RSD 12,250 thousand), up to three months in the amount of RSD 2,656 thousand (on 31 December 2015: RSD 2,640 thousand), up to six months in the amount of RSD 361 thousand (on 31 December 2015: RSD 28,315 thousand) and up to nine months in the amount of RSD 20,974 thousand (on 31 December 2015: RSD 89,837 thousand).

25. TREASURY SHARES AND OTHER BORROWED FUNDS

	31/12/2016	31/12/2015
Priority non-cumulative shares in RSD	123,053	123,053
Total	**123,053**	**123,053**

In 2007, the Bank reclassified non-cumulative preference shares from equity to other liabilities whereas in 2014 it reclassified them from "Other Liabilities" to "Treasury shares and other borrowed funds" due to their different legal and accounting treatment. As these shares have a fixed dividend, they do not meet the equity recognition criteria prescribed by IAS 32, but meet the financial liability recognition criteria. In accordance with the above, the preference shares have been reclassified to the line item "Treasury shares and other borrowed funds". However, from the legal aspect, these shares have elements of share capital therefore, in the capital adequacy assessment process they form part of Basic capital.

26. SUBORDINATED LIABILITIES

	31/12/2016	31/12/2015
Subordinated liabilities in foreign currency	617,362	608,131
Accruals for interest payable and other accrued expenses for subordinated liabilities in foreign currency	5,144	3,902
Total	**622,506**	**612,033**

Subordinated liabilities in foreign currency in the amount of RSD 617,362 thousand (on 31 December 2015: RSD 608,131 thousand) refer to borrowings received from Bank of Cyprus Public Co Ltd. Contract terms are given in the table below:

Date of agreement	Currency	Amount in currency	Amount in 000 RSD	Due date	Interest rate %
28/11/2014	EUR	5,000,000,00	617,362	29/11/2021	4 p.a.
Total EUR	**EUR**	**5,000,000,00**			
Total RSD			**617,362**		

All amounts are expressed in thousands of RSD except if indicated otherwise

27. PROVISIONS

	31/12/2016	31/12/2015
Provisions for court litigations	8,332	3,809
Provisions for losses per off-balance sheet items	1,828	3,177
Provisions for pensions	8,794	7,801
Other provisions	11,167	25,782
Total	**30,121**	**40,569**

Provisions for court litigations in the amount of RSD 8,332 thousand (on 31 December 2015: RSD 3,809 thousand) refer to provisions for potential liabilities arising due to the possibility of losing the Bank's litigations. Provisions were formed based on the assessment of litigations by the Bank's legal department and external attorneys. The formed amount of provisions represents the best possible assessment of the Bank's management regarding expected loss for court litigations, where a negative outcome for the Bank was estimated.

As of 31 December 2016, provisions for pensions in the amount of RSD 8,794 thousand (on 31 December 2015: RSD 7,801 thousand) were determined in accordance with IAS 19.

Other provisions in the amount of RSD 11,167 thousand (on 31 December 2015: RSD 25,782 thousand) refer to other provisions for employee benefits (on 31 December 2015: RSD 10,782 thousand), while the amount of provisions for unidentified shareholders, which on 31 December 2015 amounted to RSD 15,000 thousand, was reversed, because it was determined that in the unique Bank shareholder records there are no unidentified shareholders and that the total number of emitted shares in all amissions is equal to the number of shares in the shareholders' possession, which was confirmed in the procedure of forced purchase of minority shareholder shares.

Movement in provisions during 2016

	Provisions for pensions	Other provisions for employees	Provision for other liabilities	Provision for unidentified shareholders	Provisions for losses for off-balance sheet
Balance on 01/01/2015	7,801	10,782	3,809	15,000	3,177
Charge for the year	993	385	4,523	-	2,596
Reversal	-	-	-	(15,000)	(3,945)
Balance on 31 December 2016	**8,794**	**11,167**	**8,332**	**-**	**1,828**

Movement in provisions during 2015

	Provisions for pensions	Provisions for other long-term earnings of employees	Other provisions for employees	Provision for other liabilities	Provision for unidentified shareholders	Provisions for losses for off-balance sheet
Balance on 01/01/2015	4,804	67	13,102	10,919	15,000	-
Charge for the year	3,190	-	-	3,809	-	4,354
Reversal	-	-	(1,380)	(10,919)	-	
Used reservations	(193)	(67)	(940)		-	(1,177)
Balance on 31 December 2015	**7,801**	**-**	**10,782**	**3,809**	**15,000**	**3,177**

All amounts are expressed in thousands of RSD except if indicated otherwise

28. DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes are calculated on temporary differences under the liability method using the effective 15% tax rate (31.12.2013: 15%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The Bank has implemented this method of presentation in the income statements and by doing this, it has presented net deferred tax liabilities as at 31 December 2016 and 2015.

	31/12/2016	31/12/2015
Deferred tax assets	1,998	1,170
Deferred tax liabilities	(26,053)	(28,255)
Net deferred tax liabilities	**(24,055)**	**(27,085)**

Movement in deferred tax assets and liabilities are presented in the following table:

	Tax credits-provision for court litigations	Tax credits – provision on the basis of IAS 19	Tax depreciation	Total
Balance on 01/01/2015	-	**817**	**(20,361)**	**(19,544)**
Charged (credited) to income statement	-	353	(7,894)	(7,541)
Balance on 31/12/2015	-	**1,170**	**(28,255)**	**(27,085)**
Charged (credited) to income statement	678	149	2,203	3,030
Balance on 31/12/2016	**678**	**1,319**	**(26,052)**	**(24,055)**

All amounts are expressed in thousands of RSD except if indicated otherwise

29. OTHER LIABILITIES

	31/12/2016	31/12/2015
Other liabilities in RSD		
Liabilities towards suppliers	61,301	50,987
Liabilities on the basis of received advances	-	73
Liabilities from profit	5,009	5,009
Other operating liabilities	30,118	27,120
Liabilities in settlement	21,611	28,383
Transfer and temporary accounts	12	-
Liabilities on the basis of temporary and seasonal employees	926	911
Other liabilities towards employees	693	756
Liabilities for value added tax	2,153	2,711
Liabilities for other taxes and contributions	6,077	9,124
Accrued liabilities for other expenses	-	38,097
Deferred interest income	3,468	3,508
Deferred other income	3,074	5,309
Other accruals and deferred revenues	124	-
Liabilities towards suppliers in foreign currency	1,247	1,249
Other operating liabilities in foreign currency	18,221	17,921
Liabilities in settlment in foreign currency	678	648
Total	**154,712**	**191,806**

Other operating liabilities in the amount of RSD 30,118 thousand (on 31 December 2015: RSD 27,120 thousand) mostly refer to liabilities on the basis of accrued expenses in the amount of RSD 15,401 (on 31 December 2015: RSD 5,218) and to the transfer of funds of natural persons from a closed accounts in the amount of RSD 9,673 thousand (on 31 December 2015: RSD 10,918 thousand).

Liabilities in settlment in the amount of RSD 21,611 thousand (on 31 December 2015: RSD 28,383 thousand) mostly refer to advance payments related to retail loans in the amount of RSD 11,656 thousand (on 31 December 2015: RSD 18,148 thousand) and liabilities in settlement per VISA credit cards in the amount of RSD 4,510 thousand (on 31 December 2015: RSD 5,534 thousand).

Other operating liabilities in foreign currency in the amount of RSD 18,221 thousand (on 31 December 2015: 17,921 thousand) mostly refer to the transfer of funds from closed accounts in foreign currency in the amount of RSD 16,842 thousand (on 31 December 2015: RSD 16,563 thousand).

30. EQUITY

The Bank presents within Equity its share capital, share premium, current year profit/loss, prior periods profit/loss, reserves created from profit, other reserves, revaluation reserves, and unrealised loss on available-for-sale securities.

	31/12/2016	31/12/2015
Share capital – ordinary shares (Note 30a)	5,548,557	5,548,557
Share premium (Note 30a)	2,877,486	2,877,486
Loss from the current year	(957,175)	(837,332)
Loss from the previous years	(5,884,782)	(5,047,450)
Reserves from profit (Note 30c)	103,228	103,228
Other reserves	48,445	48,445
Revaluation reserves from valuation of properties	268,118	268,118
Actuary losses per defined benefit plans	(2,231)	(2,324)
Revaluation reserves valuation of securities available for sale	-	551
Unrealized losses on securities available for sale	-	(229)
Total	**2,001,646**	**2,959,050**

All amounts are expressed in thousands of RSD except if indicated otherwise

30. EQUITY (continued)

	31/12/2016		31/12/2015	
	Share capital	% of capital	Share capital	% of capital
Cyprus Popular Bank	5,497,130	99.07	5,497,130	99.07
Total	**5,497,130**	**99.07**	**5,497,130**	**99.07**
Other	51,427	0.93	51,427	0.93
Total share capital	5,548,557	100.00	5,548,557	100.00

a) Share capital and the Share premium

Cyprus Popular Bank is the owner of 99.07% of the Bank's capital. The total value of share capital with the share premium as at 31 December 2016 amounts to RSD 8,426,043 thousand (31 December 2015: RSD 8,426,043 thousand.

b) Revaluation reserves

Revaluation reserves comprise the effects of changes in fair value of properties.

c) Reserves from profit

Reserves from profit were created for estimated losses, general banking risks and other reserves from profit in accordance with legal regulations, the Bank's Statute and other internal rules and regulations.

The difference between provisions calculated under NBS regulations and those calculated in accordance with the Bank's internal calculation methodology are stated as the missing reserve in accordance with item 3, paragraph 2, provision 4 of the Decision on the Capital Adequacy of Banks.

Total special reserves for estimated losses on balance sheet assets and off-balance sheet items amount to RSD 2,367,888 thousand (31 December 2015: RSD 7,082,689 thousand). Provision for balance sheet assets and off-balance sheet items classified under the Bank's internal rules and regulations amounts to RSD 1,525,496 thousand (31 December 2015: 4,804,908 thousand). Total special reserves from profit for estimated losses on balance sheet assets and off-balance sheet items amount to RSD 926,576 thousand (31 December 2015: 2,277,782 thousand), whereby a total of RSD 923,220 thousand (on 31 December 2015: RSD 2,177,282 thousand) refers to balance assets; and RSD 3,356 thousand (on 31 December 2015: RSD 100,499 thousand) refers to off-balance sheet assets.

d) Loss from the current period

Loss from the current year in the amount of RSD 957,175 thousand (in 2015: RSD 837,332 thousand) represents the negative difference between income and expenses of the accounting period, reduced by the income from deductions of deferred tax liabilities, in the amount of RSD 2,203 thousand (in 2015: increase of RSD 7,894 thousand) and reduced by the income from the increase of deferred tax assets, in the amount of RSD 827 thousand (in 2015: RSD 353 thousand). Prior years' loss is covered in accordance with the Law, the Statute and the Founding Agreement of the Bank stipulating that the loss in the Bank's operations shall be covered in the following order:

1. From the current operating income;
2. From the Bank's reserves; and
3. From the Bank's share capital, i.e. the shareholder interest, where funds from items 1 and 2 are not sufficient.

All amounts are expressed in thousands of RSD except if indicated otherwise

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

The Bank is obliged to perform its business activities in accordance with provisions of the Law on Banks and other regulations of the National Bank of Serbia. According to the annual accounts for 2016, the Bank achieved the following indicators:

Business indicators	Prescribed	Achieved in 2016	Achieved in 2015
Capital	Min EUR 10,000,000	12,055,715	6,699,855
Capital adequacy ratio	Min 12%	16.22%	6.88%
The Bank's investments	Max 60%	85.38%	191.91%
The sum of large exposures of the Bank, as follows:	Max 400%	134.48%	349.91%
The sum of large exposures to a single entity or a group of related entities		133.03%	344.91%
The sum of exposures to entities related to the Bank		1.45%	5.00%
Average monthly liquidity ratio:			
- in the first month of the period	Min 1.00	3.09	2.35
- in the second month of the period	Min 1.00	3.50	2.38
- in the third month of the period	Min 1.00	3.63	2.18
Foreign currency risk ratio	Max 20%	5.22	17.41

As of 31 December 2016, the Bank had achieved compliance of all indicators, except the Bank's investment indicator, which refers to investments into fixed assets.

32. RELATED PARTY TRANSACTIONS

	31/12/2016		31/12/2015	
Assets	Parent entity - Cyprus Popular	Other related parties	Parent entity - Cyprus Popular	Other related parties
Foreign currency accounts	-	1,251	-	2,429
Interest receivables	-	1	-	2
Receivables for compensation according to credits and deposits	-	9	-	9
Other operating receivables	-	18	-	-
Other foreign currency operating receivables	157,350	-	154,997	-
Housing loans	-	18,968	-	36,819
Cash loans	-	1,352	-	401
Other loans	-	81	-	944
Accrued interest receivables on loans, deposits and other receivables	-	16	-	55
Total assets	**157,350**	**21,696**	**154,997**	**40,659**

Other foreign currency operating receivables in the amount of RSD 157,350 thousand (31 December 2015: RSD 154,997 thousand) refer to receivables for selling loans to Cyprus Popular Bank Public Co LTD. The Bank fully provided for the entire amount.

Housing loans in the amount of RSD 18,968 thousand (31 December 2015: RSD 36,819 thousand) are loans given to employees that are considered as the Bank's related parties according to the effective Law on Banks. The approved loans were granted at market conditions. No impairment allowance was made for these loans.

All amounts are expressed in thousands of RSD except if indicated otherwise

32. RELATED PARTY TRANSACTIONS (continued)

	31/12/2016		31/12/2015	
	Parent entity - Cyprus Popular	**Other related parties**	**Parent entity - Cyprus Popular**	**Other related parties**
Liabilities				
Transaction deposits in RSD	22,346	7,558	52,009	4,233
Transaction deposits in foreign currency	264	4,770	261	1,552
Savings deposits in RSD	-	561	-	-
Other deposits in RSD	-	-	-	2
Savings deposits in foreign currency	-	21,592	-	-
Deposits on the basis of granted loans in foreign currency	-	1,191,572	-	1,173,755
Other deposits in foreign currency	-	902,576	-	1,260,352
Borrowings in foreign currency	-	5,271,693	-	6,058,392
Subordinated liabilities in foreign currency	-	617,362	-	608,131
Accrued liabilities for interest and other expenses per subordinated liabilities in foreign currency	-	5,145	-	3,902
Total liabilities	**22,610**	**8,022,829**	**52,270**	**9,110,319**

The transaction deposit in RSD in the amount of RSD 22,346 thousand refers to the deposit of Cyprus Popular Bank Public Co. LTD which is not interest bearing.

Income and expense arising from related parties transactions:

	31/12/2016		31/12/2015	
	Parent entity - Cyprus Popular	**Other related parties**	**Parent entity - Cyprus Popular**	**Other related parties**
Expenses				
Interest expenses on the basis of credits from foreign banks in foreign currency	-	97,998	-	132,690
Interest expenses on the basis of deposits in foreign currency	-	32,298	-	26,113
Interest expenses on the basis of subordinated liabilities in foreign currency	-	20,057	-	15,144
		150,353		**173,947**

Foreign exchange losses	31/12/2016		31/12/2015	
	Parent entity - Cyprus Popular	**Other related parties**	**Parent entity - Cyprus Popular**	**Other related parties**
Foreign exchange losses per IRS	-	-	-	229
Foreign exchange losses per deposits from foreign banks in foreign currency	-	82,440	-	55,414
Foreign exchange losses per borrowings from foreign banks in foreign currency	-	162,506	-	284,480
Foreign exchange losses per loans placed to the parent bank in foreign currency	-	-	-	370
		244,946	**-**	**340,493**

All amounts are expressed in thousands of RSD except if indicated otherwise

32. RELATED PARTY TRANSACTIONS (continued)

	31/12/2016		31/12/2015	
	Parent entity - Cyprus Popular	Other related parties	Parent entity - Cyprus Popular	Other related parties
Income				
Gains on the sale of loans and receivables	-	-	-	10,522
	-	-		**10,522**

Foreign exchange gains	31/12/2016		31/12/2015	
	Parent entity - Cyprus Popular	Other related parties	Parent entity - Cyprus Popular	Other related parties
Foreign exchange gains per IRS	-	-	-	228
Foreign exchange gains per deposits from foreign banks in foreign currency	-	45,515	-	47,603
Foreign exchange gains per borrowings from foreign banks in foreign currency	-	61,707	-	241,942
Foreign exchange gains per loans placed to the parent bank in foreign currency	-	-	-	316
	-	**107,222**	-	**290,089**

The tables above present balance sheet assets and liabilities and income and expenses arising from other related party transactions with: Fortuna Astrum, Laiki Factors & Forfaiters branch office, Laiki Factors & Forfaiters SA. Greece, Bank of Cyprus LTD including related natural persons as well.

As of 31 December 2016, the Bank approved credits to directors and members of the Board of Directors and the Executive Board:

Credits to directors and the management	31/12/2016	31/12/2015
At the beginning of the year	63,078	79,964
Credits approved during the year	3,915	1,151
Payments during the year and placement revalorization	(3,694)	(9,991)
Interest income	1,519	3,431
Collected interest	(1,519)	(3,431)
At the end of the year	**63,299**	**71,124**

During 2016 and 2015, there was no need for provisions on loans granted to directors.

Information on management remuneration

During 2016, the members of the Executive Board achieved gross salaries in the amount of RSD 28,796 thousand (in 2015: RSD 30,966 thousand).

33. RECONCILIATION OF RECEIVABLES AND LIABILITIES

The provisions of Article 18 of the Law on Accounting ("Official Gazette of the Republic of Serbia" no. 62/13) prescribe an obligation of reconciliation of mutual receivables and liabilities with customers. Reconciliation is to be performed at least once a year, before compiling financial statements. In accordance with the Bank's internal procedures, 31 October of the current year has been determined as the date for reconciliation of receivables and liabilities with customers.

On 31 October 2016, there were no material unreconciled amounts of liabilities and receivables. Unreconciled amount of RSD 5,470 relates to receivables due from 4 customers for pazments operations related fees. There were 770 non replied IOS, equalling to RSD 58,881 thousand of non confirmed receivables, and RSD 148,375 thousand of non confirmed liabilities, with the highest one of RSD 133,071 thousand related to Garden Centar doo.

34. OPERATING SEGMENTS

The Bank monitors the movements of its assets and liabilities and generates income and expenses from activities in the following operating segments:

- Corporate Banking (sector for corporate operations) which includes business with government entities and companies,
- Retail Banking which includes business with natural persons and entrepreneurs,
- Interbank operations includes business with banks and
- Other activities of the Bank refer to services and activities which do not represent a separate operating segment for reporting purposes (all other segments that are not branch offices, corporate banking and interbank relations).

The basis for segmentation is the strict internal structure of the Bank according to the abovementioned cash generating units.

There were no income and expense transfers between the segments.

All amounts are expressed in thousands of RSD except if indicated otherwise

34. OPERATING SEGMENTS (continued)

The resuts of segments for the year ended 31 December 2016 are as follows:

	Corporate Banking	Retail Banking	Interbank operations	Other	Total
Total segment revenue/(expense)	**554,214**	**496,831**	**(205,788)**	**15,943**	**861,200**
Revenue from external clients	549,160	485,840	(205,788)	-	829,212
Revenue from other segments	5,054	10,991	-	15,943	31,988
Allowances for impairment	(42,724)	149,065	-	2,990	109,331
Administrative expenses	(24,634)	(436,176)	(16,757)	(573,920)	(1,051,487)
Loss from sell of NPLs	(790,855)	-	-	-	(790,855)
Depreciation	(36)	(12,388)	(27)	(75,943)	(88,394)
Profit/(loss) before taxation	**(304,035)**	**197,332**	**(222,572)**	**(630,930)**	**(960,205)**
Income tax	-	-	-	-	-
Deferred tax income	-	-	-	3,030	3,030
Net income/(expense) for the year	**(304,035)**	**197,332**	**(222,572)**	**(627,900)**	**(957,175)**
Assets	3,378,861	6,692,922	3,778,752	5,845,869	19,696,404
Liabilities	701,286	8,850,851	7,188,174	954,447	17,694,758

The resuts of segments for the year ended 31 December 2015:

	Corporate Banking	Retail Banking	Interbank operations	Other	Total
Total segment revenue/(expense)	**575,514**	**632,278**	**(148,888)**	**29,078**	**1,087,982**
Revenue from external clients	458,736	532,800	(148,888)	-	842,648
Revenue from other segments	116,778	99,478	-	29,078	245,334
Allowances for impairment	(666,453)	(78,771)	-	(1,214)	(746,438)
Administrative expenses	(26,998)	(443,424)	(17,677)	(591,740)	(1,079,839)
Depreciation	(46)	(15,173)	(73)	(76,204)	(91,496)
Profit/(loss) before taxation	**(117,983)**	**94,910**	**(166,638)**	**(640,080)**	**(829,791)**
Income tax	-	-	-	-	
Deferred tax expense	-	-	-	(7,541)	(7,541)
Net income/(expense) 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

All amounts are expressed in thousands of RSD except if indicated otherwise

35. FOREIGN CURRENCY EXCHANGE RATES

Exchange rates of the major currencies used in translation of balance sheet positions include:

	31/12/2016	31/12/2015
EUR	123.4723	121.6261
USD	117.1353	111.2468
CHF	114.8473	112.5230

36. EVENTS AFTER THE DATE OF THE REPORTING PERIOD

As of 28 February 2017, the Share Purchase Agreement for the Bank's shares (hereinafter: SPA) concluded on 30 September 2016 between Cyprus Popular Bank ltd Nicosia, Cyprus and EXPOBANK CZ A.S from the Czech Republic was realized, as well as a series of accompanying agreements (Carve-out, Transfer Agreement, Discount Protocol), which resulted in:

1. Reduction of the high concentration of financing sources by repaying a part of the borrowings from the Bank of Cyprus in the amount of EUR 16,739 thousand and writing off a part of the liabilities in the amount of EUR 15,770 thousand which is a result of the enforcement of the concluded Discount Protocol.
2. By reducing the high level of non-performing loans in the Bank's portfolio (NPL) by selling receivables pursuant to the Carve-out Agreement in the amount of RSD 1,814,801 thousand paid to the Bank, which is the counter value of EUR 14,646 thousand as at 28 February 2017.
3. The change in structure of the capital registered at the Central Securities Depository and Clearing House on 28 February 2017, i.e. registering EXPOBANK CZ A.S. as the owner of 100% of shares of the Bank.
4. The decision of the Bank's Shareholder Assembly held on 28 February 2017 regarding discharge and appointment of the chairman and members of the Bank's Board of Directors, in accordance with obtained consent of NBS.

Based on appraisals performed by an independent certified appraiser CBRE, the Bank adjusted (reduced) the carrying amount of investment property in the amount of RSD 228,793 thousand as at 28 February 2017.

Apart from the above, after the date of the reporting period, there were no other events after the date of the reporting period which would require disclosure in notes with the Bank's financial statements with the balance on the date and for the year ending on 31 December 2016.

Dragana Radaković
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

MARFIN BANK