EUROBANK A.D.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Eurobank a.d. Beograd

We have audited the accompanying financial statements of Eurobank a.d. Beograd (the "Bank") which comprise the balance sheet as of 31 December 2015 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 International Standards on Auditing. Those Standards require 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 audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eurobank a.d. Beograd as of 31 December 2015, 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, 25 April 2016

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Contents:

All amounts are expressed in 000 RSD unless stated otherwise

Income statement	Note	2015	2014
Interest income	6	8,649,361	10,279,337
Interest expenses	6	(1,379,740)	(2,775,668)
Net interest income		**7,269,621**	**7,503,669**
Fee and commission income	7	2,185,120	2,217,916
Fee and commission expense	7	(360,614)	(376,344)
Net fee and commission income		**1,824,506**	**1,841,572**
Net gains /(losses) from financial assets held for trading	8	13,627	(27,568)
Net foreign exchange gains	9	91,272	184,535
Other operating income	10	179,611	39,282
Net provisions and losses from impairment of financial asset and off-balance sheet credit risk items	11	(1,003,798)	(6,381,914)
Total operating income		**8,374,839**	**3,159,576**
Salaries, benefits and other personnel expenses	12	(1,774,364)	(1,833,785)
Depreciation and amortization	13	(410,257)	(437,292)
Other expenses	14	(3,289,572)	(3,545,718)
Profit /(loss) / before tax		**2,900,646**	**(2,657,219)**
Deferred income tax profit /(loss)	15	15,672	(7,572)
Profit/ (loss) for the year		**2,916,318**	**(2,664,791)**
Earnings per share			
Basic earnings per share (in RSD, without paras)	16	11,471	(10,482)
Diluted earnings per share (in RSD, without paras)		-	-

Statement of Other Comprehensive Income	2015	2014
Profit/ (loss) for the period	**2,916,318**	**(2,664,791)**
Items that will not be reclassified to profit and loss		
Actuarial gains on defined benefit pensions plans	1,117	1,369
Items that may be reclassified subsequently to profit and loss		
Losses on fair value changes of financial assets available for sale	(82,970)	(61,629)
Income tax relating to items that may be reclassified	12,277	9,039
Other comprehensive income for the year, net of tax	**(69,576)**	**(51,221)**
Total comprehensive income/ (loss) for the year	**2,846,742**	**(2,716,012)**
Total comprehensive income attributable to:		
Owners of the parent	2,846,742	(2,716,012)

All amounts are expressed in 000 RSD unless stated otherwise

Balance sheet	Note	2015	2014
Assets			
Cash and balances with Central Bank	17	21,255,247	28,211,919
Pledged financial assets	18	-	268,007
Financial assets at fair value through profit and loss held for trading	19	69,424	95,150
Financial assets available for sale	20	15,681,791	16,627,835
Financial assets held to maturity	21	-	1,286,055
Loans and deposits to banks and other financial institutions	22	10,417,397	6,967,932
Loans and receivables from customers	23	87,023,653	85,852,111
Investments in associates	24	20,479	20,479
Intangible assets	25	1,815,493	1,798,492
Property, plant and equipment	26	3,715,483	3,917,065
Current tax assets		131,795	200,624
Deferred tax assets	27	134,626	106,676
Other assets	28	317,212	826,237
Total assets		**140,582,600**	**146,178,582**
Financial liabilities at fair value through profit and loss held for trading	29	75,647	114,923
Deposits and other liabilities due to banks, other financial institutions and central bank	30	3,933,034	780,791
Deposits and other liabilities due to customers	31	88,528,242	99,456,190
Provisions	32	556,627	612,526
Other liabilities	33	534,282	1,106,126
Total Liabilities		**93,627,832**	**102,070,556**
Shareholders' equity			
Share capital	34	31,481,926	31,481,926
Retained earnings	34	5,853,627	2,937,309
Reserves	34	9,619,215	9,688,791
Total shareholders' equity		46,954,768	44,108,026
Total Equity and Liabilities		**140,582,600**	**146,178,582**

Belgrade, 25 April 2016

On behalf of the Bank:

Filippos Karamanolis, President of the Executive Board

Slavica Pavlovic, Chief Financial Officer

All amounts are expressed in 000 RSD unless stated otherwise

Statement of Changes in Equity	**Share and other capital**	**Share premium**	**Revaluation reserves**	**Other reserves**	**Retained earnings/ Accumulated loss**	**Total shareholder's equity**
As at 31 December 2013 (restated)	**25,429,927**	**6,051,999**	**181,677**	**9,558,335**	**5,602,100**	**46,824,038**
AFS portfolio revaluation	-	-	(61,629)	-	-	(61,629)
Deferred tax on revaluation reserves	-	-	9,244	-	-	9,244
Actuarial gains	-	-	1,369	-	-	1,369
Deferred tax on actuarial gains	-	-	(205)	-	-	(205)
Current period loss	-	-	-	-	(2,664,791)	(2,664,791)
As at 31 December 2014 (Note 34)	**25,429,927**	**6,051,999**	**130,456**	**9,558,335**	**2,937,309**	**44,108,026**
AFS portfolio revaluation	-	-	(82,970)	-	-	(82,970)
Deferred tax on revaluation reserves	-	-	12,445	-	-	12,445
Actuarial gain	-	-	1,117	-	-	1,117
Deferred tax on actuarial gains	-	-	(168)	-	-	(168)
Current period profit	-	-	-	-	2,916,318	2,916,318
As at 31 December 2015 (Note 34)	**25,429,927**	**6,051,999**	**60,880**	**9,558,335**	**5,853,627**	**46,954,768**

All amounts are expressed in 000 RSD unless stated otherwise

Cash Flow Statement	2015	2014
Cash inflow from operating activities		
Inflow from interest	7,604,274	8,868,171
Inflow from fees and commissions	2,320,918	2,228,255
Inflow from other operating income	252,701	164,656
Inflow from dividends	693	-
	10,178,586	**11,261,082**
Cash outflow from operating activities		
Outflow from interests	(1,536,904)	(3,008,615)
Outflow from fees and commissions	(394,651)	(375,156)
Outflow from gross salaries, benefits and other personal expenses	(1,763,126)	(1,882,015)
Outflow from taxes, contributions and other duties charged to income	(668,853)	(874,782)
Outflow from other operating expenses	(2,976,837)	(2,720,494)
	(7,340,371)	**(8,861,062)**
Net cash inflow for operating activities before increase or decrease in loans investments and deposits	**2,838,215**	**2,400,020**
Decrease in loans and investments, and increase in deposits		
Decrease in loans and placements with banks and other financial organizations	954,816	13,279,441
Decrease in securities	76	13,823
Decrease in receivables for derivatives	25,673	-
Increase in liabilities for derivatives	-	82,138
	980,565	**13,375,402**
Increase in loans and investments, and decrease in deposits		
Decrease in liabilities for derivatives	(39,276)	-
Increase in receivables for derivatives	-	(62,466)
Decrease in deposits	(10,584,006)	(9,933,631)
	(10,623,282)	**(9,996,097)**
Net cash inflow for operating activities before profit tax	**(6,804,502)**	**5,779,325**
Profit tax paid	-	(70,809)
Net cash inflow for operating activities	**(6,804,502)**	**5,708,516**
Cash flow from investing activities		
Inflow from selling of long term investments	12,780,217	12,560,632
Inflow from selling of intangible assets and fixed assets	1,221	3,281
	12,781,438	**12,563,913**
Cash outflow from investing activities		
Outflow for purchase of long term investments	(9,348,468)	(9,387,013)
Outflow for purchase of intangible assets and fixed assets	(316,751)	(373,989)
	(9,665,219)	**(9,761,002)**
Net cash flow from investing activities	**3,116,219**	**2,802,911**
Cash inflow from financing activities		
Increase in borrowings	81,023,943	-
	81,023,943	**-**
Cash outflow from financing activities		
Decrease in borrowings	(78,796,677)	(4,285,615)
	(78,796,677)	**(4,285,615)**
Net cash inflow from financing activities	**2,227,266**	**(4,285,615)**
Cash inflow	**104,964,532**	**37,200,397**

All amounts are expressed in 000 RSD unless stated otherwise

Cash outflow	**(106,425,549)**	**(32,974,585)**
Net cash inflow/(outflow)	**(1,461,017)**	**4,225,812**
Cash at the beginning of the year	**16,968,138**	**12,886,916**
Foreign exchange gains	13,119,071	9,022,085
Foreign exchange losses	(13,928,171)	(9,166,675)
Cash at the end of the reporting period (Note 17)	**14,698,020**	**16,968,138**

1. General information

Eurobank A.D. Beograd has been established by the merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The Bank operates in accordance with Law on Banks based on principles of liquidity, safety and profitability.

The registered office of the Bank is Vuka Karadžića 10, Belgrade.

As at 31 December 2015 the Bank had 1,441 employees (31 December 2014: 1,522 employees). The Bank's network comprises of 85 branches and business centres (31 December 2014: 100).

The Bank's Registration number is 17171178. The Bank's Tax identification number is 100002532.

These financial statements have been approved for issue by the Board of Directors on 26th April 2016.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

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 (Official Gazette of the Republic of Serbia no. 62/2013), banks are required to maintain their books of account and to prepare financial statements in accordance with International Financial Reporting Standards (IFRS).

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 and on ongoing concern basis, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities at fair value through profit or loss.

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2. Summary of significant accounting policies (continued)

a) New and amended Standards and Interpretations

The new and amended IFRS set out below are effective as of 1 January 2015 :

Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

- IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
- IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.
- IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
- The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
- IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

- The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
- The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

2. Summary of significant accounting policies (continued)

- IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

b) Standards that have been issued but are not yet effective

IFRS 9 "Financial Instruments" (issued 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.

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

2. Summary of significant accounting policies (continued)

b) Standards that have been issued but are not yet effective (continued)

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). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

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). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Bank is currently assessing the impact of the amendments on its financial statements.

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.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Bank is currently assessing the impact of the amendments on its separate financial statements.

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 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards.

- IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such.
- The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

2. Summary of significant accounting policies (continued)

b) Standards that have been issued but are not yet effective (continued)

- The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.
- IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Bank is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Bank is currently assessing the impact of the amendments on its financial statements.

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). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Bank is currently assessing the impact of the amendments on its financial statements.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. 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 3.

The Bank's presentation currency is the RSD being the functional currency of the Bank.

The Bank's financial statements have been prepared on a going concern basis, which assumes that the Bank will continue in operational existence for the foreseeable future. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analyzed the impact of the recent financial crisis on future operations of the Group.

2. Summary of significant accounting policies (continued)

c) Position of the Group

In 2015, the macroeconomic environment in Greece has been very challenging for the Greek banking system. In the first half of the year, the prolonged uncertainty relating to an agreement with the Eurozone partners over the implementation of the required reforms for the conclusion of the Second Economic Adjustment Program, the unsuccessful expiration of the former, the tightened liquidity conditions due to the financing problems of the Greek State and the significant deposit outflows – already observed from late 2014 – led to the imposition of restrictions in banking transactions (capital controls) together with a temporary bank holiday on 28 June 2015. In mid - August the Greek Government reached a final agreement with its European partners on a new 3-year European Stability Mechanism (ESM) program – the Third Economic Adjustment Program (TEAP) - with a ca € 86 bn financing envelope and a series of reforms aiming to restore fiscal sustainability, safeguard financial stability, enhance growth, competitiveness and investment and develop a modern state and public administration. The Greek Government managed to complete two sets of prior actions from the program at the end of November and December 2015. By mid - December 2015, the systemic banks' recapitalization was completed with only ca € 5.4 bn used from the initial buffer of up to €25 billion. The unused funds were subtracted from the ESM loan, reducing it to ca € 64.5 bn as of the end of January 2016. The review of Greece's reform program by international creditors is currently pending. A swift completion of the program review may alleviate significantly the macroeconomic and sovereign uncertainties.

After the gradual normalization of the economic and political situation in Greece and following the Eurobank Ergasias S.A s successful recapitalization, the Group enhanced its liquidity position and reduced its dependence on Eurosystem funding.

In accordance with the agreement with the European partners, the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the ESM program. The decisive implementation of the measures agreed in the context of the new ESM program will permit European Central Bank (ECB) to reinstate the waiver for the instruments issued by the Hellenic Republic and will signal the gradual repatriation of deposits in the banking system, which is a major priority for the Group, and the further re-access to the markets for liquidity.
On 31 October 2015, the ECB announced the results of the comprehensive assessment (CA) based on which the lowest shortfall across Greek banks was identified for the Bank. Following the CA results and in line with the new recapitalization framework introduced by Law 4340/2015, the Bank proceeded to a capital increase of € 2,039 million, which was covered exclusively from the markets. As a result, the Group strengthened further its capital base and its CET1 ratio stood at 17% at the end of December 2015.

d) Position of the Bank

As at 31 December 2015, the Bank does not rely on funding from the Parent bank but predominantly on locally collected deposits, its own capital base and, to a lesser extent, funding from international financial institutions. The bank's capital adequacy ratio (as prescribed by NBS) is higher than the regulatory minimum of 12% (Note 5.5).

Article 33 of the Law on Banks (RS Official Gazette No 107/05 and 91/10) prescribes that a bank's exposure to all related parties must not exceed 25% of the bank's regulatory capital. As at 31 December 2015, 31 December 2014 and the date of approval of these financial statements, the Bank's exposures to the related parties of the Bank did not exceed the amount prescribed by the Law.

2. Summary of significant accounting policies (continued)

2.2. Foreign currency translation

a) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Assets and liabilities denominated in foreign currencies have been translated into the functional currency at the market rates of exchange ruling at the balance sheet date and exchange differences are accounted for in the income statement.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

b) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in RSD (Serbian dinar), which is the Bank's functional and presentation currency.

2.3. Income statement

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized 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 down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2. Summary of significant accounting policies (continued)

b) Fee and commission income

Fees and commissions, except for those, which form part of the effective interest rate of the instruments, are generally recognized on an accrual basis when the service has been provided. Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other services.

(c) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

2.4. Income tax expense

Income tax expense comprises current and deferred tax. Current income tax presents the amount calculated and paid to the tax authorities based on legislations of Republic of Serbia. Estimated monthly instalments are calculated by the Tax authority and paid in advance on a monthly basis.

Income tax at the rate of 15% is payable based on the profit calculated as per the tax return. In order to arrive at the taxable profit, the accounting profit is adjusted for certain differences and reduced for certain investments made during the year. Tax return is submitted to tax authorities until the 30 June of the following year.

Deferred income tax is provided, using the liability method, for tax loss carry forwards and temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between the tax basis of assets and liabilities at the balance sheet date, and their amounts disclosed for reporting purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be sufficient to enable realization (utilization) of deductible temporary The deferred tax asset on income tax losses carried forward is recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized."

Deferred tax related to changes in fair values of available-for-sale investments and cash flow hedges which are recognised to other comprehensive income, is also recognised to other comprehensive income, and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred income tax is recognized in the current year's income statement.

2. Summary of significant accounting policies (continued)

2.5. Employee benefits

a) Employee's benefits

Short term benefits to employees include salaries and social contributions. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to make payments to the pension fund of Republic of Serbia in accordance with the defined contribution plan. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

b) Other employee's benefits

The Bank provides other benefits for the retirement. An employee is usually entitled to these benefits if they were employees of the Bank until reaching the prescribed age for retirement and the minimum required years of employment. The above mentioned benefits are accumulated during the service. The defined retirement obligations are estimated annually by an independent certified actuary through the projected credit unit valuation method. The present value of benefit obligations is determined by discounting the expected future cash payments by reference to the interest rates of the high quality bonds expressed in the same currency, which mature approximately at the same period when retirement obligations are due.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

c) Termination benefits

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 recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without 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 balance sheet date are discounted to present value.

2.6. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

2. Summary of significant accounting policies (continued)

Financial assets and financial liabilities are designated for at fair value through profit or loss when:

- Doing so significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

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.

c) Held-to-maturity financial assets

Held-to-maturity investments 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, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity investments are stated at amortized cost using effective interest rate method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. The amortized cost is calculated taking into consideration all discounts and premiums received at the date of purchase. The Bank assesses its intention and ability to hold to maturity its held-to-maturity investments not only when those financial assets are initially recognised, but also at each subsequent balance sheet date.

d) Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

e) Financial instruments - accounting treatment

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognized at fair value increased for transactions costs for all financial assets not held at fair value through profit or loss. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

2. Summary of significant accounting policies (continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statement. Dividends on equity instruments are recognized in the income statement when the entity's right to receive payment is established.

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

2.7. Derivatives

Derivatives are financial instruments:

(a) whose value is changed in response to the change in specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;
(b) that requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
(c) that are settled at a future date.

Derivative financial instruments, including foreign exchange contracts, forward currency agreements, currency swaps, and other derivative financial instruments are usually not recognised initially on the face of the balance sheet as they are often entered into at no cost (i.e. the net fair value of the receivables and payables is zero). When the net investment is not zero derivatives are are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into, and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The changes in the fair value of derivatives are included in the income statement. The Bank does not apply hedge accounting.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets

a) *Assets carried at cost and amortized cost*

The Bank establishes allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are: specific loss components related to individually significant exposures and a collective loan loss allowance established for groups with similar credit risk characteristic.

At each balance sheet Bank determines whether objective evidence that a financial asset or group of financial assets is impaired exists on individual basis for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank takes into consideration to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

The amount of the loss for individually assessed assets is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows from liquidation of collaterals reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's rating model and days in delay). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due, according to the contractual terms of the assets being evaluated.

2. Summary of significant accounting policies (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical data for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed and back tested regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment charge for credit losses.

b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is removed from other comprehensive income and recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

2.9. 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 Bank, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.10. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the securities; the corresponding liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to purchase and sell ("reverse repos") are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between purchase and sale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

2.11. Investments in associates

Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Bank's share of net assets of an associate are recognised as follows: (i) the Bank's share of profits or losses of associates is recorded in the profit or loss for the year as share of result of associates, (ii) the Bank's share of other comprehensive income is recognised in other comprehensive income and presented separately. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2.12. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income statement of 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 to their residual values over their estimated useful lives, as follows:

	2015 in years	**2014 in years**
Buildings	77	77
Leasehold improvements	up to 18	up to 18
Computer equipment	5-7	5-7
Furniture and other equipment	7-25	7-25
Motor vehicles	5	5

The assets' residual value represents the estimated amount that the Bank might obtain at present through the sale of the asset, decreased by the estimated cost of sale. If the Bank expects to utilize the asset until the expiration of its useful life, the residual value amounts to zero. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income/expenses in the income statement.

2. Summary of significant accounting policies (continued)

2.13. Intangible assets

Licenses

Licenses are initially recognized at cost. They have limited useful life and are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives (from 1 to 15 years).

Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

Costs associated with developing or maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the costs of employees involved in software development.

Computer software development costs recognized as assets are amortized over their estimated useful lives.

2.14. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognized 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 flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15. Repossessed properties

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in "Other Assets". Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value. Any gains or losses on liquidation are included in "Other operating income".

2.16. Leases

The Bank is a lessee

Leases entered into by the Bank are primarily operating leases. With an operating lease, a significant part of both risk and benefits remains with the lessor. The total payments made under operating leases are charged to other operating expenses in the income statement on straight-line basis over period of the lease.

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

2. Summary of significant accounting policies (continued)

The Bank is a 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.

The Bank is leasing the assets under operating lease. The asset under operating lease is included in the balance sheet of the Bank based on the nature of the asset.
Lease income is recognised over the term of the lease on a straight-line basis.

2.17. Share capital

a) *Ordinary shares and share issue costs*

Ordinary shares are classified as equity. Share issue costs directly attributable to the issue of new shares are shown in equity as a deduction. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

b) *Dividends on ordinary shares*

Dividends are recognized as liabilities for the period in which the decision of their payment has been reached. Dividends approved for the year after the balance sheet date are dealt with in the subsequent events note.

c) *Earnings per share.*

Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

2.18. Borrowings, including debt securities in issue

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

2.19. Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Banka by counterparty banks. The non-derivative liability is carried at amortised cost.

2.20. Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

2. Summary of significant accounting policies (continued)

2.21. 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 embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.22. Other liabilities

Other liabilities are recognized initially at fair value net of transaction costs incurred. Other liabilities are subsequently stated at amortized cost.

Other liabilities are classified as current liabilities, unless the Bank has indisputable right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.23. Related party transactions

Related parties include associates, fellow subsidiaries, directors, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and on an arm's length basis.

2.24. 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 the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement.

2.25. Assets managed on behalf of third parties

The bank manages foreign currency frozen bonds issued by Republic of Serbia on behalf of the state and acts as an agent in this business.

3. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. 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 when scheduling its future cash flows. 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 that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Bank would realize a gain of RSD 132,806 thousand (2013: RSD 185,191 thousand), being a reclassification from other comprehensive income to profit or loss for the year.

c) Held-to-maturity financial assets.

Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would, therefore, be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would not be changed significantly as amortized cost approximates fair value.

All amounts are expressed in 000 RSD unless stated otherwise

3. Critical accounting estimates and judgments (continued)

d) Uncertain tax position

The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

e) Deferred income tax asset recognition.

The recognized deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the income statement. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

f) Fair value of financial assets and liabilities

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date, management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 5.6.

4. Financial Assets per categories and classes

Financial assets per categories and classes are as follows:

	2015	**2014**
Loans and receivables	97,441,050	92,820,043
Financial assets at fair value through profit or loss held for trading	69,424	95,150
Financial assets held to maturity	-	1,286,055
Financial assets available for sale	15,681,791	16,627,835
Total	**113,192,265**	**110,829,083**
Pledged assets (Note 18)	**-**	**268,007**

5. Risk management policies

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of certain risk types or combination of risks. Risk management is done through specialized Risk management division. The Bank has defined procedures and methodologies for risk identification, measurement and risk management in accordance with regulations and best practices.

The Bank's risk management policies are designed to identify and analyse exposure to risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Bank is exposed to the following most important risks:

5.1. Credit risk
5.2. Market risk
5.3. Liquidity risk
5.4. Operational risks

Market risk includes:

- Foreign currency risk
- Interest rate risk
- Other price risks

5.1. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and it arises principally from the Bank's loans and advances to customers and banks and from investment in securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector risk, repayment risk, etc.).

5.1.1. Management of credit risk

The Bank approves loans in accordance with business policy and by adjusting maturity dates of loans approved and interest rates with the purpose of loans, type of the loan or client and creditworthiness of its clients.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

The Board of Directors has delegated responsibility for the approval of credit exposures to several different levels in accordance with the limits set forth by the Board. The underlying foundation of the credit processes is the application of the "four-eye principle" on one side from the Business Units and on the other side from Risk Management for all exposures above the business unit level of approval. In case of exposures approved within the business unit level of approval, the "four-eye principle" is ensured within that business unit.

5. Risk management policies (continued)

Business Units, under the Corporate Banking Division, incorporate the following:

- Large Corporate (LC) Department
- Small & Medium Enterprises (SME) Department

Business Divisions, responsible for retail lending operations, incorporate the following:

- Household Lending Division
- Small Business Lending Division

The Risk Management Division (RMD) incorporates the following units handling credit risk:

- Credit Risk Department (CRD)
- Credit Control Department (CCD)
- Basel 2 and Modelling Department

Newly established division Troubled Asset Group is involved in credit risk management, by handling Non- Performing Loans (NPL Department) and collection in Retail segment (Retail Collection Division).

Credit Control Department, Credit Risk Department and Basel 2 and Modelling Department are responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. This task is performed by Credit Control Department.

- Credit Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned, and provides independent credit opinion. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, countries and industries (for loans and advances), and by issuer, credit rating band and market liquidity (for investment securities).

- Developing and maintaining the Bank's risk grading policy in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is maintained by Basel 2 and Modelling Department. The risk grading system is used in determining where impairment allowance may be required against specific credit exposures. The current risk grading framework for wholesale placements consists of eleven grades and for retail exposures of fourteen grades (delinquency based) reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types is the responsibility of Credit Control Department. Regular reports are provided to various Bank bodies on the credit quality of portfolios and appropriate corrective action is taken. One of its main tasks is providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

5. Risk management policies (continued)

Each business unit is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

The Bank has developed and adopted a credit policy for each lending business unit. Each credit policy of Eurobank a.d. Beograd (hereinafter: the Credit Policy) defines basic concepts, guidelines and rules that ensure the proper management of the process of approving, disbursing, monitoring and collecting of loans and other exposures.

Credit Policy defines:

- the goals of the credit policy,
- the basic concepts of credit policy,
- lending principles,
- the organization of credit operations,
- responsibilities and decision making,
- the procedure for granting loans and other placements,
- credit risk,
- collateral instruments,
- procedures for collecting outstanding amounts.

For the purposes of implementing the relevant Credit Policy, the Bank has also passed other necessary acts, decisions, rules, procedures, etc.
When assuming credit risk, the Bank applies the following fundamental rules:

A prerequisite for every financing transaction is the understanding of the economic background of the transaction.

A loan is granted only when the Bank has sufficient information on the borrower's creditworthiness. The Bank will not grant a loan (or increase an existing one) to a borrower who is unwilling or unable to provide sufficient information.

Collateral is accepted only to support an exposure. It cannot serve as a substitute for the borrower's ability to meet obligations (exception: Lombard loans, cash collateralized loans, etc.).

The large and largest exposures towards any borrower (or group of connected borrowers), exposures towards connected persons as well as the total exposure of the Bank (both on and off-balance sheet), is kept within limits prescribed by the Law on Banks and relevant decisions of the National bank of Serbia.

The Bank approves new loans or decides to extend or not to extend the existing ones based on creditworthiness of the client, as well as details and characteristics of the transaction.

All Bank credit facilities are based on relevant approvals, which lay down the terms and other conditions for their implementation. The approval levels and limits are defined by the relevant Board of Directors Decision on approval levels.

For wholesale placements, appropriate approval authority levels depending on exposures are defined, with the highest one being Board of Directors (or other nominated authority) in case of large exposures and exposures to related parties.

5. Risk management policies (continued)

For retail placements, there are also different approval levels depending on the type of business (consumer lending, mortgage lending or SBB lending), with the highest authority being specific Credit Commission for each business type.

In each committee/commission, risk management has the right of vote. All decisions must be unanimous.

In addition to the client's creditworthiness, risk limits are also determined taking into account various collateral instruments. Risk exposure to individual borrower, including banks, is limited and includes both balance and off-balance sheet risk exposures. The total risk exposure per individual client (or group of related parties) with regards to the limits, is considered and analysed prior to completion of the transaction.

In order to ensure the safety of the business operations, and based on the estimated risks of potential losses, the Bank calculates provisions, which arise from loans and off-balance sheet exposures. Levels of provision are related to the risk grade of the placement.

Risk grading system for wholesale clients

The 11 grade system derives the rating of the borrower (and not the credit facility) is based on the weighted average of the following risk parameters:

- Financials
- Sector
- Management
- Operations

In addition, other factors such as debt servicing, change in the borrower's ownership, etc., may affect the final rating of a customer.

The credit rating is based on a profound analysis of qualitative and quantitative factors:

Qualitative factors: are those that deal with the borrower's management, industry, operating conditions, etc.

Quantitative factors: are those that refer to a set of various ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to financial statements etc.)

Credit related commitments
The primary purpose of undrawn credit commitments is to ensure that funds are available to a customer in accordance with the agreement.

Guarantees and letter of credits carry the same credit risk as loans.

5. Risk management policies (continued)

5.1.2. Impairment and provisioning policy

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). Exposures are treated as impaired in accordance with following rules:

Consumer portfolio
- All of the outstanding balances which are delinquent for more than 90 dpd;
- The outstanding balance of exposures that have been characterized as NPLs (non-accruing status/denounced contracts), regardless of dpd.

MLU portfolio
- All the outstanding balances which are delinquent for more than 180 dpd;
- The outstanding balance of exposures that have been characterized as NPLs (non-accruing status/denounced contracts), regardless of dpd.

SBB portfolio
- All the outstanding balances which are delinquent for more than 90 dpd;
- The outstanding balance of exposures that have been characterized as NPLs (non-accruing status/denounced contracts), regardless of dpd.

Wholesale Banking portfolio
- Outstanding balances are delinquent for more than 90 dpd;
- Rating categories 8-11;
- Rating 7 if loss event is identified and that loss event (or events) has an impact on the estimated future cash flow and as a consequence provision amount is calculated;
- Exposures that have been classified as NPLs (non-accrual status, denounced contracts, exposures handled by NPLs Unit).

Forborne/Restructured loans

For Forborne/Restructured loans following rules are applied when treated as impaired:
- A restructured (forborne) exposure if at the date of restructuring it was flagged as NPE (90+ or unlikely to pay etc.) and its current status is Non Performing Forborne;
- A performing Forborne exposure if it becomes Non Performing Forborne (> 90dpd, unlikely to pay or default);
- A Cured Forborne NPE with Performing Forborne Status, if it is modified with additional Forbearance measures (second restructuring) or if it is in delay for more that 30 days and as a consequence it is treated as Non-Performing Forborne.

5. Risk management policies (continued)

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that recognizing impairment loss is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank. The term 'past due financial asset' is defined as 'day-1 delay' but can include additional categories of loans as defined below. That is when a counterparty has failed to make a payment when contractually due. The criteria used by the Bank for the purpose of this disclosure are:

Consumer portfolio

- The outstanding balance of delinquent loans up to 89 days (1-89 dpd) which are not treated as impaired;

MLU portfolio

- The outstanding balance of delinquent loans up to 179 days (1-179 dpd) that are not treated impaired;

SBB portfolio

- The outstanding balance of delinquent loans up to 89 days (1-89 dpd) that are not treated as impaired;

Wholesale Banking portfolio

- The outstanding balance of loans that are delinquent up to 89 dpd and are not treated as impaired;

Forborne/Restructured loans

- Performing Forborn loans that are delinquent less than 90 dpd.

Allowances for impairment

The Bank establishes allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss components that relate to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Impairment of wholesale placements

For exposures to borrowers with a rating 7, but those with materially significant exposure as well as for exposures to borrowers with rating 8 and worse, allowances for impairment are calculated on individual basis in accordance with IAS 39 requirements, depending on collateral, repayments from others sources and on “case by case” based analysis for the client. Clients with materially significant exposures are those whose level of exposure corresponds to the approval levels 3 or 4 for clients under special monitoring, which is defined by the Bank Decision on approval levels of placements adopted by the Board of Directors. In this manner, the defined exposure threshold for individual assessment is harmonized with the approval level in the credit process. For other exposures, provisions are calculated on collective basis.

5. Risk management policies (continued)

Impairment of retail placements

The classification of retail clients is fully based on the delinquency analysis. The required impairment allowances are computed by applying the appropriate provisioning rate to the gross exposure per each product group and subgroup where exists and per each delinquency bucket. In case of individually assessed impaired loans, future expected cash-flows are discounted in accordance with IAS 39 requirements, in order to arrive to appropriate level of impairment.

Special reserves

For both wholesale and retail placements, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off-Balance Sheet Items, and other relevant regulations of the National Bank of Serbia.

Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when it is determined that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to collect entire exposure. For unsecured retail loans, write off decisions generally are based on a product specific past due status. Any write-off is approved by the relevant body in accordance with the decision of Board of Directors.

5.1.3. Collaterals

For a majority of exposures, the Bank requires collateral. Collateral generally is not held over loans and advances to banks. Most often the collateral consists of one or more of the following collateral instruments (or instruments for credit support):

- cash deposits in dinars and foreign currencies,
- guarantees from the government, government funds or first class banks,
- guarantees from parent companies, other legal entities and individual persons,
- letters of comfort from parent companies,
- mortgage over real estate,
- pledge over movable property,
- own blank bills of exchange,
- pledge over shares or ownership stakes
- a pledge over other securities (e.g. bonds) or precious metals,
- assignment of receivables (with or without notification) etc.,
- assignment of insurance policies.

The Bank reserves the right to request any other type of instruments (or variation of the above instruments) which it may deem necessary.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated periodically in accordance with the relevant credit policy.

5.1.4. Credit monitoring

The Bank constantly monitors the state of the borrower's business and any change in its creditworthiness. To this end, besides the regular evaluation of financial statements, the responsible business units carry out regular checks of the borrower's business operations.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

The monitoring of the borrower is institutionalized through regular credit reviews. Credit reviews are prepared by the relevant business unit and approved by the relevant approval authority in accordance with Approval levels and Credit policies. In case of wholesale customers, the review frequency depends on their risk grade.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the Balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The table below represents the Group's maximum credit risk exposure as at 31 December 2015 and 31 December 2014 respectively, without taking account of any collateral.

	2015	2014
Credit risk exposure relating to on balance sheet assets:		
Loans and deposits to banks and other financial institutions	**10,427,144**	**6,967,935**
Less: Impairment allowance	**(9,747)**	**(3)**
Financial instruments at fair value through profit or loss:		
- Debt securities	-	-
Derivative financial instruments	**72,346**	**2,191**
Loans and advances to customers:	**106,739,497**	**106,058,473**
- Corporate loans	38,617,714	39,454,465
- Loans to small and medium enterprise	10,352,017	11,058,422
- Retail loans	50,247,770	47,585,007
- Loans to entrepreneurs	7,521,996	7,960,579
Less: Impairment allowance	**(19,715,844)**	**(20,206,362)**
Investment securities:		
- Debt securities	**15,665,593**	**18,150,500**
Credit risk exposures relating to off balance sheet items		
- Guarantees and other irrevocable commitments	**20,702,013**	**23,860,968**
Total	**133,881,002**	**134,833,702**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

5.1.5. Loans and advances

Portfolio quality

The Bank manages the quality of financial assets through internal classification of loans and advances.

The following table presents the quality of the portfolio (gross loans, payable and performance guarantees, as well as irrevocable commitments i.e. risk weighted balance assets and off balance exposures) per types of placements based on the Bank classification system as at 31 December 2015:

	Neither past due nor impaired					
	Satisfactory quality	**Substandard quality**	**Other**	**Past due but not impaired**	**Impaired**	**Total 2015**
Loans and deposits to banks	10,427,144	-	-	-	-	10,427,144
Loans and receivables from customers:	59,486,589	166,929	4,267,618	5,369,652	33,668,432	106,739,497
Corporate loans	*23,422,267*	*166,929*	*2,342*	*1,727,875*	*13,298,301*	*38,617,714*
Loans to small and medium enterprises	*84,228*	*-*	*3,058,517*	*283,843*	*6,925,429*	*10,352,017*
Retail loans	*35,980,094*	*3,780,277*	*-*	*3,113,688*	*7,373,711*	*50,247,770*
Loans to entrepreneurs	*-*	*-*	*1,206,759*	*244,246*	*6,070,991*	*7,521,996*
Guarantees and other irrevocable commitments	11,814,073	-	7,534,654	81,873	1,271,413	20,702,013
Total	**81,727,806**	**3,947,206**	**11,802,272**	**5,451,525**	**34,939,845**	**137,868,654**

5. Risk management policies (continued)

All amounts are expressed in 000 RSD unless stated otherwise

Portfolio quality per types of placements based on the Bank classification system as at 31 December 2014 is presented in the table below:

	Neither past due nor impaired					
	Satisfactory quality	**Substandard quality**	**Other**	**Past due but not impaired**	**Impaired**	**Total 2014**
Loans and deposits to banks	6,967,936	-	-	-	-	6,967,936
Loans and receivables from customers:	59,219,262	4,584,504	4,354,525	7,691,259	30,208,923	106,058,473
Corporate loans	*23,989,850*	*1,650,664*	*31,776*	*912,431*	*12,869,744*	*39,454,465*
Loans to small and medium enterprises	*108,336*	*221*	*3,147,757*	*950,071*	*6,852,037*	*11,058,422*
Retail loans	*35,121,076*	*2,933,619*	-	*4,974,745*	*4,555,567*	*47,585,007*
Loans to entrepreneurs	-	-	*1,174,992*	*854,012*	*5,931,575*	*7,960,579*
Guarantees and other irrevocable commitments	15,541,791	756,903	6,899,605	90,671	571,998	23,860,968
Total	**81,728,989**	**5,341,408**	**11,254,130**	**7,781,930**	**30,780,921**	**136,887,377**

Maturity analysis of loans and placements to banks and customers that are past due but not impaired as at 31 December 2015:

	Up to 30 days	**31 – 60 days**	**61 – 90 days**	**Over 91 days**	**Total 2015**
Placements to clients:	2,723,567	1,115,720	285,879	1,244,486	5,369,652
– Corporate lending	857,748	47,755	0	822,371	1,727,874
– SBB lending	170,293	57,960	28,443	27,148	283,844
– Mortgage lending	104,948	418,100	11,364	394,967	929,379
– Other retail placements	1,590,578	591,905	246,072	-	2,428,555
Guarantees and other commitments	53,795	17,298	10,780	-	81,873
Total	**2,777,362**	**1,133,018**	**296,659**	**1,244,486**	**5,451,525**

All amounts are expressed in 000 RSD unless stated otherwise

Maturity analysis of loans and placements to banks and customers that are past due but not impaired as at 31 December 2014:

	Up to 30 days	31 – 60 days	61 – 90 days	Over 91 days	Total 2015
Placements to clients:	3,200,947	2,031,244	1,094,626	1,364,442	7,691,259
– Corporate lending	551,820	104,448	33,522	222,641	912,431
– SBB lending	929,995	477,594	379,104	17,390	1,804,083
– Mortgage lending	302,705	700,918	250,165	1,124,411	2,378,199
– Other retail placements	1,416,427	748,284	431,835		2,596,546
Guarantees and other commitments	39,706	36,936	14,029	-	90,671
Total	**3,240,653**	**2,068,180**	**1,108,655**	**1,364,442**	**7,781,930**

The structure of classified balance and off balance assets and allowances for impairment, determined in accordance with Bank internal methodology stated as at 31 December 2015 and 31 December 2014 is presented in the table below:

	Individual assessment		Group assessment		Total	
	Classified balance assets	**Allowance for impairment**	**Classified balance assets**	**Allowance for impairment**	**Classified balance assets**	**Allowance for impairment**
Individuals	350,269	122,379	49,897,501	2,630,391	50,247,770	2,752,770
Legal entities	14,284,392	8,001,794	34,685,338	4,902,795	48,969,730	12,904,589
Entrepreneurs	185,968	143,243	7,336,029	3,915,242	7,521,997	4,058,485
	14,820,629	**8,267,416**	**91,918,868**	**11,448,428**	**106,739,497**	**19,715,844**
	Classified off balance assets	**Provisions**	**Classified off balance assets**	**Provisions**	**Classified off balance assets**	**Provisions**
Individuals	-	-	7,086,150	6,194	7,086,150	6,194
Legal entities	960,920	219,224	12,352,723	85,793	13,313,643	305,017
Entrepreneurs	-	-	302,220	2,483	302,220	2,483
	960,920	**219,224**	**19,741,093**	**94,470**	**20,702,013**	**313,694**
Total	**15,781,549**	**8,486,640**	**111,659,961**	**11,542,898**	**127,441,510**	**20,029,538**

5. Risk management policies (continued)

All amounts are expressed in 000 RSD unless stated otherwise

As at 31 December 2014:

	Individual assessment		Group assessment		Total	
	Classified balance assets	Allowance for impairment	Classified balance assets	Allowance for impairment	Classified balance assets	Allowance for impairment
Individuals	-	-	47,585,007	4,466,429	47,585,007	4,466,429
Legal entities	12,870,721	7,393,506	37,642,166	4,551,200	50,512,887	11,944,706
Entrepreneurs	-	-	7,960,579	3,795,227	7,960,579	3,795,227
	12,870,721	**7,393,506**	**93,187,752**	**12,812,856**	**106,058,473**	**20,206,362**
	Classified off balance assets	**Provisions**	**Classified off balance assets**	**Provisions**	**Classified off balance assets**	**Provisions**
Individuals	-	-	6,231,053	-	6,231,053	-
Legal entities	284,344	72,244	17,033,275	64,673	17,317,619	136,917
Entrepreneurs	-	-	312,297	207	312,297	207
	284,344	**72,244**	**23,576,625**	**64,880**	**23,860,969**	**137,124**
Total	**13,155,065**	**7,465,750**	**116,764,377**	**12,877,736**	**129,919,442**	**20,343,486**

Loans and securities in regards to which the Bank determies that the collection of all due principal and interest as per provisions of the loan/ securities agreement is unlikely, are considered to be impaired loans and securities. Assets which are individually assessed as impaired and for which estimated losses were recognised, are considered to be individually impaired assets. For individually assessed items, loans are considered impaired when there is an objective evidence that the estimated loss was incurred. Items from homogenous loans portfolio are treated as impaired in case of a 90 or more days default for entrepreneurs, small enterprises, consumer and cash loans, and 180 and more days in default for mortgage loans.

Impairment assessment is carried at individual level for placements to legal entities whose rating is 8 or lower, as well as for legal entities with rating 7 with materially significant exposure, and at the group level for other placements to legal entities as well as for all placements to physical entities (apart from materially significant exposures, which are assessed individually). The amount of impairment is individually assessed as the difference between the bookkeeping value and the present value of the expected future cash flows for a particular placement.

If the estimated value of the allowance for impairment for the candidate chosen for individual assessment equals 0, the above mentioned receivables are included in the group calculation i.e. the calculation of allowance for impairment based on experience and defined by the internal procedure.

Classification of receivables from physical entities is based on the analysis of the default. Necessary allowance for impairment is calculated by application of the appropriate rate of allowance for impairment to net exposure per each product group and per each default group.

Placement impairment which reduces the placement value is recorded at the allowance for impairment account within the balance sheet and recognized as expense in P&L. In accordance with regulations of the National Bank of Serbia, the Bank also calculates the necessary reserve for estimated losses that may arise from balance assets and off balance items as per internal methodology based on the Decision on the classification of balance sheet assets and off balance items of banks.

5. Risk management policies (continued)

All amounts are expressed in 000 RSD unless stated otherwise

Restructured loans

In order to protect from the risk of borrower default, the Bank undertakes the following measures in managing receivables: restructuring, repossession of assets in collection of receivables, initiation of court proceedings, and other measures. The Bank approves restructuring of receivables to the borrowers who experience certain setbacks in their business operations.

2015	**Individually impaired**		**Other**	
	Gross	**Net**	**Gross**	**Net**
Public companies	-	-	-	-
Companies	3,342,702	2,285,089	1,797,846	1,786,692
Entrepreneurs	234,352	220,850	2,450	2,427
Retail	1,171,490	1,138,614	459,859	456,422
Other clients	-	-	-	-
Total	**4,748,544**	**3,644,553**	**2,260,155**	**2,245,541**

2014	**Individually impaired**		**other**	
	Gross	**Net**	**Gross**	**Net**
Public companies	-	-	-	-
Companies	3,844,127	3,231,973	3,060,712	2,973,569
Entrepreneurs	717,960	475,670	2,116	1,185
Retail	281,225	201,015	467,926	416,522
Other clients	-	-	-	-
Total	**4,843,312**	**3,908,658**	**3,530,754**	**3,391,276**

Total amount of restructured loans of legal entities in 2015 amounted to RSD 5,140,548 thousand (allowance for impairment stood at RSD 1,068,767 thousand). Total amount of restructured loans of physical entities amounted to RSD 1,631,349 thousand (allowance for impairment stood at RSD 36,313 thousand).

Forbearance is a modification of contract terms and conditions, which is considered as concession due to financial difficulties of the obligor. According to internal definition, the Bank distinguishes between Performing and Non-performing category of Forbearance loans as follows:

a) Forborne Performing Exposures are considered the modifications below:

- Modified contract with more favorable terms than other debtors with similar risk profile
- Total or partial refinancing of a troubled debt contract due to financial difficulties
- Modified contract which has been more than 30 dpd even if the clause was included in the original contract
- Modified contracts of Unemployed Customers with less than 30 days past due and
- The exposure is not under Non Performing status

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

b) Forborne Non Performing Exposure is considered as:

- Modification of contract terms and conditions or refinancing, when the client was under non performing status and for one year after the modification extension
- A forborne performing exposure, which during the Forborne Performing probation period (as defined in "Exit criteria") met the Non Performing criteria
- Modifications on exposures which were Non Performing, after one year under Forborne Non performing probation period (as defined in "Exit criteria") met the criteria of entering the Forborne Performing status and during the Forborne Performing probation period (as defined in "Exit criteria"), the exposure was either re-modified or more than 30 dpd
- Modified contracts of Unemployed Customers with more than 30 days past due
- Any Renewal of Forbearance coming from Cured Forborne NPE (until 30 days)
- Renewals of forbearance coming from Forborne PE(until 90 days past due and not UTP/Default /impaired), will be classified as NPF if > R2 (ie, only one renewal of forbearance can remain in PF)
- Clients with permanent court decision and not denounced will be considered as NPF and exit criteria will apply

Segmentation of Forbearance Measures:

1. **Short-term forbearance measures (duration up to 2 years):** Arrears Capitalization, Arrears Repayment Plan, Reduced Payment above IO, Interest only, Reduced Payment below IO and Grace Period

2. **Long-term forbearance measures (duration > 2 years):** Interest Rate Reduction, Loan term extension, Split balance, Partial Debt Forgiveness/Write Down, Operational Restructuring and Debt/Equity Swap

The following table presents a summary of the types of the Bank's forborne activities as at 31 December 2015:

Forbearance measures:	
Interest only schedule	598,086
Reduced payment schedule	-
Payment moratorium/Holidays	218
Term extension	1,988,668
Arrears capitalization	24,791
Partial debt write-off	-
Hybrid (i.e. combination of more than one type)	2,150,257
Other	1,128,074
Total net amount	**5,890,094**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Instruments of security and other collateral instruments for credit risk

The amount and type of the requested instrument of security depends on each client's estimated credit risk. Conditions for each collateral are determined by the analysis of the client's solvency, type of credit risk exposure, placement maturity, as well as the placement amount.

Through its internal methodology, the Bank determined types of collateral and the parameters of their valuations.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated periodically in accordance with the relevant credit policy.

The Bank monitors the movements in the collateral market value, demands additional collateral in accordance with the loan agreements, and controls the market value of collateral obtained when observing the adequacy of provisions.

Collateral overview

	2015	2014
Neither past due nor impaired		
- Real estate property	37,176,802	37,223,383
- Financial assets	772,235	1,781,579
- Other	-	-
Past due but not impaired		
- Real estate property	2,497,457	3,098,187
- Financial assets	28,239	59,585
- Other	-	-
Individually impaired		
- Real estate property	13,645,682	8,171,364
- Financial assets	215,465	39,880
- Other	-	-
Total	**54,335,880**	**50,373,978**

Loans covered by collateral can be treated as impaired because experience shows that a significant portion of the collateral cannot be enforced due to administrative and legal difficulties. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans.

Receivables in default

The Bank pays particular attention to monitoring of defaulted receivables, by monitoring the total balance and trend of these receivables.

Defaulted receivables are monitored at the Bank level and according to the product criteria (physical entities), and client's sector and maturity structure (companies and entrepreneurs). In accordance with the regulations, defaulted receivables of companies and entrepreneurs are monitored at client level, whereas with regards to physical entities, at the level of individual receivable.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

	Value of receivable	Default receivable
Private companies sector	48,669,218	18,517,087
Retail sector	50,286,730	7,397,797
Entrepreneurs sector	7,521,997	6,070,892
Finances and insurance sector	10,427,144	-
Other sectors	261,552	243,777
Total as at 31 December 2015	**117,166,641**	**32,229,553**
Total as at 31 December 2014	**113,026,405**	**31,084,130**

5.1.6. Securities, treasury bills and other eligible bills

As at 31 December 2015, the Bank has dinar bonds of Republic of Serbia Ministry of Finance in the total amount of RSD 11,685,340 thousand (31 December 2014: RSD 10,550,292 thousand), and foreign currency trading securities of Republic of Serbia (frozen savings bonds) in the amount of RSD 3,980,252 thousand (31 December 2014: RSD 7,600,208 thousand) – (Notes 20, 21). The above mentioned bonds and trading securities are not rated. The rating of country is BB- based on Standard and Poor's rating.

5.1.7. Repossessed collateral

As at 31 December 2015 Bank had the following assets that were obtained by taking possession of collateral held as security:

Nature of assets	**Carrying amount**	
	2015	**2014**
Residential property	11,510	11,510

5.1.8. Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the geographical sectors of counterparties:

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

	Serbia	Greece	Western Europe	Total
Financial assets at fair value through profit and loss held for trading	69,424	-	-	**69,424**
Financial assets available for sale	15,681,791	-	-	**15,681,791**
Financial assets held to maturity	-	-	-	**-**
Loans and deposits to banks and other financial institutions	4,612,681	245,224	5,569,239	**10,427,144**
Loans and advances to customers:	106,656,835	22,630	60,032	**106,739,497**
- Corporate lending	39,045,178	-	-	39,045,178
- Consumer lending	27,227,384	2,775	5,278	27,235,437
- Mortgages	22,633,308	19,855	54,754	22,707,917
- Small business lending	17,750,965	-	-	17,750,965
Other assets	317,212			**317,212**
As at 31 December 2015	**127,337,943**	**267,854**	**5,629,271**	**133,235,068**
As at 31 December 2014	**126,501,392**	**560,600**	**4,799,689**	**131,861,682**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of counterparties:

	Commerce and services	Construction	Financial services	Manufacturing	Private individuals	Other	Total
Financial assets at fair value through profit and loss held for trading						69,424	**69,424**
Financial assets available for sale						15,681,791	**15,681,791**
Loans and deposits to banks and other financial institutions	-	-	10,427,144	-	-	-	**10,427,144**
Loans and advances to customers:	25,476,760	3,975,689	-	9,977,218	57,348,282	9,961,548	106,739,497
- Corporate lending	21,514,054	3,328,997	-	8,015,989		6,186,138	39,045,178
- Consumer lending	-	-	-	-	27,235,437	-	27,235,437
- Mortgages	-	-	-	-	22,707,917	-	22,707,917
- Small business lending	3,962,706	646,692	-	1,961,229	7,404,928	3,775,410	17,750,965
Other assets						317,212	**317,212**
As at 31 December 2015	**25,476,760**	**3,975,689**	**10,427,144**	**9,977,218**	**57,348,282**	**26,029,975**	**133,235,068**
As at 31 December 2014	**26,903,165**	**2,616,622**	**6,967,932**	**11,061,924**	**48,796,921**	**35,515,118**	**131,861,682**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

5.2. Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

5.2.1. Foreign exchange risk

Exposure to foreign currency risk is monitored on regular basis by complying with the requirements of the National Bank of Serbia. The Bank manages its foreign currency position by granting loans that are indexed to foreign currency. The Bank also actively manages the foreign currency risk by careful estimation of the open foreign currency positions and compliance with the risk ratios prescribed by the National Bank of Serbia as well as the limits prescribed in the internal acts enacted by the Bank's management and Risk Management Committee. Bank is using scenario analysis for measurement of FX risk.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2015				At 31 December 2014			
	Monetary financial assets	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Euros	59,069,056	74,999,498	16,320,855	(390,412)	67,358,400	83,475,500	15,624,465	(492,636)
CHF	18,656,906	2,328,049	(16,385,265)	56,408	19,938,839	2,549,061	(17,598,300)	(208,522)
Other	1,705,628	1,644,541	-	(61,087)	2,188,220	2,214,546	-	(26,325)
RSD	55,485,409	61,053,884	64,410	5,504,066	51,837,508	58,293,568	1,973,835	(4,482,224)
Total	**134,916,998**	**140,025,973**	**-**	**5,108,975**	**141,322,967**	**146,532,675**	**-**	**(5,209,708)**

5.2.2. Interest rate risk

Interest rate risk is the exposure of bank's financial condition to adverse movements in interest rates. Generally, there are two ways on which the bank could be affected by changes in interest rates. Firstly, changes in interest rates are affecting the value of banks assets, liabilities and off-balance sheet items, and secondly, it impacts banks future cash flows that the bank will obtain. Interest rate risk could come in the variety of forms, including reprising risk, yield curve risk, basis and optionality risk. The Bank's interest rates are set taking into account the market interest rates and other factors (such as cost of risk, reserve requirement, etc.) and the Bank regularly adjusts them.

The purpose of the interest rate management activities is to optimize the net interest income, and to maintain the interest margins on a consistent level in accordance to the Bank's business strategy. The management is based on maturities matching of the assets, liabilities and off balance sheet items, on the basis of: macro and micro economic estimations, estimations of the conditions for achieving liquidity, and the estimation of the interest rates' trends.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
31 December 2015						
Total financial assets	40,114,000	17,167,970	11,497,650	66,137,378	5,665,602	140,582,600
Total financial liabilities	51,784,037	15,600,554	21,695,390	3,991,224	47,511,396	140,582,600
Net interest sensitivity gap at 31 December 2015	(11,670,036)	1,567,417	(10,197,741)	62,146,154	(41,845,794)	-

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
31 December 2014						
Total financial assets	110,740,158	16,572,092	2,230,214	27,212,662	(9,171,447)	147,583,679
Total financial liabilities	35,866,253	28,612,812	17,731,563	17,530,403	47,842,648	147,583,679
Net interest sensitivity gap at 31 December 2014	74,873,905	(12,040,720)	(15,501,349)	9,682,259	(57,014,095)	-

For purpose of measurement of interest rate risk, Bank is using sensitivity analysis by applying duration-based sensitivity weights, followed with stress tests incorporating various changes in interest rate variables. The Bank is managing interest rate risk through set of interest rate exposure limits.

5.2.3. Sensitivity analysis

The management of interest rate risk and currency risk against gap limits is supplemented by monitoring the sensitivity of the Bank's income statements to various interest rate and foreign currency rate scenarios. The sensitivity of the income statement is the effect of the assumed changes in interest rates and FX rate on the net interest income for one year.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates and FX rates (assuming no asymmetrical movements in yield curves and constant balance sheet position) is as follows:

	Sensitivity of income statement	
Interest rate sensitivity	**2015**	**2014**
Increase in basis points		
+100 bps parallel shift	350,558	244,688
Foreign exchange sensitivity		
10% depreciation of RSD	(891)	28,330

5. Risk management policies (continued)

5.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations which can have a negative result on the Bank's financial results and equity. The Bank manages liquidity risk by obtaining different funding sources that include:

- customer's deposits with different maturities
- deposits from the money market and available lines with financial institutions
- available lines form the majority shareholder
- available lines from international financial institutions
- share capital

Sources of liquidity are regularly reviewed so as to maintain a wide diversification by currency, geography, provider, product and term.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

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

Diversity and stability of core deposit base involves an analysis allowing the Bank to more effectively controls and measures deposit based liquidity and more accurately measures liquidity risk by defining deposit inputs.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Liquidity risk measurement includes assessment of the risk under normal market conditions and under stress scenarios. Scenarios, which are defined based on historical data and case studies, should allow the bank to evaluate the potential adverse impact these factors can have on its liquidity position. Liquidity risk is monitored through set of short term limits. Following NBS methodology, the Bank had defined minimum level of liquidity expressed as short term liquidity ratio. For internal methodology purposes, limit framework includes ratios as limit definition of acceptable levels of short term liquidity mismatches.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Non – derivative cash flow

The amounts disclosed in the table below are the contractual undiscounted cash flows for the years 2015 and 2014.

a) Balance sheet items

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2015						
Due to banks, central bank and other financial institutions	278,508	12,839	3,094,608	88,787	651,673	4,126,414
Due to customers	48,651,051	5,920,326	28,487,627	5,101,061	416,112	88,576,176
Other liabilities	534,285	-	-	-	-	534,285
Total liabilities (contractual maturity dates)	**49,463,844**	**5,933,165**	**31,582,234**	**5,189,848**	**1,067,784**	**93,236,875**
Assets held for managing liquidity risk (contractual maturity dates)	**40,114,000**	**17,167,970**	**11,497,650**	**20,876,663**	**50,926,317**	**140,582,600**

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2014						
Deposits and other liabilities from banks, other financial institutions and central bank	427,023	10,301	359,090	-	-	796,414
Deposits and other liabilities towards customers	47,851,916	10,489,974	38,234,603	4,099,518	24,293	100,700,304
Other liabilities	1,106,127	-	-	-	-	1,106,127
Total liabilities (contractual maturity dates)	**49,385,066**	**10,500,275**	**38,593,693**	**4,099,518**	**24,293**	**102,602,845**
Assets held for managing liquidity risk (contractual maturity dates)	**38,646,131**	**2,080,882**	**13,761,547**	**38,297,078**	**54,514,682**	**147,300,320**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

b) Off-balance sheet items

As at 31 December 2015	No later than 1 year	1-5 years	Over 5 years	Total
Loan commitments	2,330,363	7,621,303	916,464	10,868,130
Guarantees and acceptances	1,094,921	2,944,524	5,276,350	9,315,795
Other irrevocable commitments	1,048,473	534,159	-	1,582,631
Operating lease	70,251	-	-	70,251
Capital commitments	28,930	-	-	28,930
Total	**4,572,938**	**11,099,986**	**6,192,814**	**21,865,738**

As at 31 December 2014	No later than 1 year	1-5 years	Over 5 years	Total
Loan commitments	5,686,909	5,469,347	847,224	12,003,480
Guarantees and acceptances	1,637,018	2,889,387	6,739,364	11,265,769
Other irrevocable commitments	285,173	575,567	-	860,740
Operating lease	85,377	-	-	85,377
Capital commitments	81,030	-	-	81,030
Total	**7,775,507**	**8,934,301**	**7,586,588**	**24,296,396**

Derivative cash flow

The Bank's derivatives that are be settled on gross basis include foreign exchange swaps over-the-counter (OTC).

The table below analyses the Bank's derivative financial assets and liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Derivatives settled on gross basis

Financial liabilities as at 31 December 2015	Less than 1 month	Between 1 and 3 months	Between 3 and 12 month	Between 1 and 5 years	Over 5 year
Currency swaps	6,941,994	-	-	-	-
Total	**6,941,994**	**-**	**-**	**-**	**-**

Financial assets as at 31 December 2015	Less than 1 month	Between 1 and 3 months	Between 3 and 12 month	Between 1 and 5 years	Over 5 year
Currency swaps	6,884,037	-	-	-	-
Total	**6,884,037**	**-**	**-**	**-**	**-**

As at 31 December 2014 the contractual undiscounted cash flows are presented below:

Financial liabilities as at 31 December 2014	Less than 1 month	Between 1 and 3 months	Between 3 and 12 month	Between 1 and 5 years	Over 5 year
Currency swaps	10,048,749	-	-	-	-
Total	**10,048,749**	**-**	**-**	**-**	**-**

Financial assets as at 31 December 2014	Less than 1 month	Between 1 and 3 months	Between 3 and 12 month	Between 1 and 5 years	Over 5 year
Currency swaps	10,072,156	-	-	-	-
Total	**10,072,156**	**-**	**-**	**-**	**-**

5. Risk management policies (continued)

5.4. Operational risk

Operational risk is the risk of negative effects on the financial result and capital of the bank caused by human error, inadequate internal procedures and processes, inadequate management of the information system and other systems in the bank, as well as by unforeseeable external events. Part of this risk is ***legal risk***, arising from bank's failure to comply with the legal or contractual provisions, negatively affecting the operations or status of the Bank

They are monitored per business lines and per operational loss event types, and regularly reviewed in order to take corrective actions where necessary.

5.5. Capital management

The Bank actively manages capital base to cover risk inherent to the business. The Bank's objectives, when managing capital, which is a broader concept than "equity" on the face of the balance sheet, are:

- To comply with the capital requirements set by the National Bank of Serbia
- To provide an adequate level of capital so as to enable the Bank to continue its operations as a going concern
- To maintain a strong capital base to support the development of its business.

Capital adequacy, as well as the use of the Bank's capital is monitored on a monthly basis by the Bank's management.

The National Bank of Serbia has defined the following capital limits:

- The minimum amount of the capital of EUR 10 million
- Capital adequacy ratio of 12%

The Bank's total capital comprises of tier 1 and tier 2 capital and deductible items.

Tier 1 capital: share capital from ordinary shares, share premium, statutory reserves and retained loss. Tier 1 deductible items comprise intangible assets and regulatory adjustments i.e. required reserve for estimated losses as prescribed by relevant NBS regulations.

Tier 2 capital: share capital from preference shares, share premium from preference shares, part of positive revaluation reserves arising from effects of changes in fair value of fixed assets, securities and other assets, hybrid capital instruments up to 35% of tier I capital, subordinated debt up to 50% of tier 1 capital, and acquired own preference shares as Tier 2 capital deductible items.

Deductible items: direct or indirect investments in banks or other financial institutions in excess of 10% of the capital of these banks or other entities, the amount of the tier 2 capital of the bank which exceeds its tier 1 capital and other items. Deductions are subtracted from the capital in following manner: 50% of the total amount of deductible items is being deducted from the Tier II capital and the rest of the Tier I capital.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

The risk weighted balance and off-balance assets are determined in accordance with the prescribed risk ratios for all types of assets. When calculating the capital adequacy ratio, and in accordance with the regulations of the National Bank of Serbia, the overall risk-weighted balance and off-balance assets are increased for the calculated foreign currency and price risk.

The table below summarizes the structure of the Bank's capital as at 31 December 2015, as well as the capital adequacy ratio:

	2015	2014
TIER I capital	36,552,451	36,569,451
Tier I deductible items	(23,567,947)	(24,089,226)
Total TIER 1	**12,984,504**	**12,480,225**
TIER II capital	67,082	140,745
Tier II deductible items	(10,239)	(10,239)
Total TIER II	**56,842**	**130,505**
Total regulatory capital	**13,041,347**	**12,610,730**
Risk weighted assets		
Credit and counterparty risk	68,022,523	71,625,410
Market risk	2,050,309	2,433,539
Operational risk	11,938,988	11,919,118
Total risk weighted assets	**82,011,821**	**85,978,067**
Capital adequacy	**15.90%**	**14.67%**

5.6. Fair value of financial assets and liabilities

Fair value presented in financial statements is the amount for which an asset may be exchanged, or a liability settled, between informed, willing parties in an arm's length transaction.

Fair value is calculated using market information available as at the reporting date as well as the individual assessment methods of the Bank.

Fair value of a financial instrument presented at nominal value is approximately equal to its bookkeeping value. This includes cash as well as liabilities and receivables without defined maturity or fixed interest rate. For other liabilities and receivables the expected future cash flow is discounted up to their present value by means of current interest rate. Bearing in mind that the variable interest rates are contractual for the majority of Bank assets and liabilities, changes in the current interest rates lead to changes in the agreed interest rates.

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

Fair value of irrevocable loan obligations and potential obligations is the same as their bookeeping values.

5. Risk management policies (continued)

Assessment of financial instruments

Bank measures fair value by means of the following fair value hierarchy reflecting the importance of the inputs used in measurement.

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

Level 2: Assessment techniques based on the observable inputs that are not the quoted prices from the level 1, whether directly (as prices) or indirectly (derived from prices). This category includes instruments valued through their use: quoted prices in active markets for similar instruments; stated prices for same or similar instruments in the markets considered as less active; or other assessment techniques in which all important inputs are directly or indirectly observable from the market data.

Level 3: Assessment techniques used for non-observable inputs. This category includes all instruments relative to which the valuation techniques include inputs not based on observable data and non-observable inputs that have a significant effect on the valuation of the instruments. This category includes instruments valued on the basis of quoted prices of similar instruments with significant non observable adjustments or assumptions necessary to maintain the difference between the instruments.

Fair value of financial assets and 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 means of assessment techniques.

Assessment techniques include net present value and discounted cash flow models, comparisons with similar instruments for which there is an observable market price and other assessment models. Assumptions and inputs used in assessment techniques include risk free and benchmark interest rates, loan margins and other premiums used in assessment of discount rate, bond and share prices, foreign currency exchange rates, capital and capital indexed prices and expected oscillations of the prices and correlations. The aim of assessment techiques is to determine the fair value which reflects the price of a financial instrument as at the reporting date that would be defined by market participants in free transactions carried out at an arm's length.

The Bank uses widely accepted assessment models in determining the fair value of common and simpler financial instruments such as interest rates and currency swaps which make use only of observable market data and require little judgement and assessment by the management. Quoted prices and model inputs are usually available in the market for quoted debt and proprietary securities, trading derivatives and simple derivaties such as interest rate swaps.

The availability of the observable market prices and model inputs decreases the need for assessment by management and reduces the uncertainty arising from determining the fair value. The availability of the observable market data and inputs varies based on the product and market and is prone to change due to particular occurrences and general condition of the future markets.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Table below analyses financial instruments measured at fair value at the end of the reporting period according to the fair value hierarchy within which the fair value measurement takes place:

Financial assets at fair value	**31.12.2015 Book value**	**31.12.2015 Fair value**
Financial assets at fair value through profit and loss	69,424	69,424
Financial assets available for sale	15,681,792	15,681,792
Total	**15,751,217**	**15,751,217**

Financial assets at fair value	**31.12.2014 Book value**	**31.12.2014 Fair value**
Financial assets at fair value through profit and loss	95,150	95,150
Financial assets available for sale	16,895,842	16,895,842
Total	**16,990,992**	**16,990,992**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
Equities (Note 19)	585	-	-	585
Treasury bonds		-	-	-
Derivative assets (Note 19)	-	68,839	-	68,839
				-
Financial assets available for sale				-
Frozen bonds (Note 20)	3,980,252	-	-	3,980,252
Equities (Note 20)	16,199	-	-	16,199
Treasury bonds		11,685,341	-	11,685,341
Total assets	**3,997,037**	**11,754,180**	**-**	**15,751,217**
Derivative liabilities	-	75,647	-	75,647
Total liabilities	**-**	**75,647**	**-**	**75,647**

31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
Equities (Note 19)	638	-	-	638
Derivative assets (Note 19)	-	94,512	-	94,512
				-
Financial assets available for sale				-
Frozen bonds (Note 20)	7,600,208	-	-	7,600,208
Equities (Note 20)	31,397	-	-	31,397
Treasury bonds (Note 20)	-	9,264,237	-	9,264,237
Total assets	**7,632,243**	**9,358,749**	**-**	**16,990,992**
Derivative liabilities (Note 19)	-	114,923	-	114,923
Total liabilities	**-**	**114,923**	**-**	**114,923**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

The following table presents the fair value of financial instruments not measured at fair value and analyses them according to the fair value hierarchy within which the fair value measurement takes place:

	31.12.2015		31.12.2014	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial (monetary) assets				
Cash and balances with Central bank	21,255,247	21,255,247	28,211,919	28,211,919
Assets held to maturity	-	-	1,286,055	1,286,055
Loans and receivables from banks and other financial organizations	10,417,397	10,417,397	6,967,932	6,967,932
Loans and receivables from customers	87,023,653	94,442,845	85,852,111	83,191,028
Other assets	317,212	317,212	826,237	826,237
Total	**119,013,509**	**126,432,701**	**124,144,254**	**120,483,171**
Financial (monetary) liabilities				
Deposits and other liabilities towards banks and other financial organizations	3,933,034	3,933,034	780,791	780,791
Deposits and other liabilities towards customers	88,528,245	88,528,245	99,456,190	97,081,560
Other liabilities	534,285	534,285	1,106,127	1,106,127
Total	**92,995,563**	**92,995,563**	**101,343,108**	**98,968,478**

	Fair value			
31.12.2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans and receivables from clients	-	94,442,845	-	94,442,845
Loans and receivables from banks and other financial organizations	-	10,417,397	-	10,417,397
Total	**-**	**104,860,242**	**-**	**104,860,242**
Liabilities				
Deposits and other liabilities towards banks and other financial organizations	-	3,933,034	-	3,933,034
Deposits and other liabilities towards clients	-	88,528,245		88,528,245
Total	**-**	**92,461,279**	**-**	**92,461,279**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

		Fair value		
31.12.2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans and receivables from clients	-	83,191,028	-	83,191,028
Loans and receivables from banks	-	6,967,932	-	6,967,932
Total	**-**	**90,158,960**	**-**	**90,158,960**
Liabilities				
Deposits and other liabilities towards banks	-	780,791	-	780,791
Deposits and other liabilities towards clients	-	97,081,560		97,081,560
Total	**-**	**97,862,351**	**-**	**97,862,351**

Where possible, fair value of borrowings and advances is based on the observable market transactions. If observable market transactions are not available, fair value is assessed by means of assessment models such as cash flow discount techniques. Assessment technique inputs include the expected loan losses over the course of loan duration, interest rates, advances, and source data or secondary market data. For collateral dependant reduced (impaired) loans, fair value is measured based on the value of the attending collateral. Model inputs may include data by third party brokers based on the OTC trading activity, and information obtained from other market participants which include observable primary and secondary transactions.

In order to improve the accuracy of retail loans and smaller commercial loans assessment, homogenous loans are grouped into portfolios according to similar characteristics such as origin, LTV ratios, quality of collateral, type of product and debtor, advances and non-performance, and standard probability.

Fair value of bank and client deposits is determined by cash flows discount technique by applying rates offered for deposits of similar maturity and conditions. Fair value of payable *a vista* deposits is the payment amount as at the reporting date.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Table below presents Bank classification for each class of financial assets and liabilities and their fair value as at 31 December 2015:

	Fin. assets at fair value through P&L	Held to maturity	Loans and receivables	Available for sale	Amortized cost	Total book value	Fair value
Cash and assets held at NBS	-	-	21,255,247	-	-	21,255,247	21,255,247
Assets held to maturity		-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	15,681,791	-	15,681,791	15,681,791
Financial assets at fair value through profit and loss	69,424	-	-	-	-	69,424	69,424
Loans and receivables from banks and other financial organizations	-	-	10,417,397	-	-	10,417,397	10,417,397
Loans and receivables from clients	-	-	87,023,653	-	-	87,023,653	94,442,845
Other assets	-	-		-	317,212	317,212	317,212
Total assets	**69,424**	**-**	**118,696,297**	**15,681,791**	**317,212**	**134,764,725**	**142,183,917**
Financial liabilities at fair value through profit and loss	75,647	-	-	-	-	-	75,647
Deposits and other liabilities towards banks and other financial organizations	-	-	-	-	3,933,034	3,933,034	3,933,034
Deposits and other liabilities towards clients	-	-	-	-	88,528,242	88,528,242	88,528,242
Other liabilities	-	-	-	-	534,282	534,282	534,282
Total liabilities	**75,647**	**-**	**-**	**-**	**92,995,557**	**92,995,557**	**93,071,204**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Table below presents Bank classification for each class of financial assets and liabilities and their fair value as at 31 December 2014:

	Fin. assets at fair value through P&L	Held to maturity	Loans and receivables	Available for sale	Amortized cost	Total book value	Fair value
Cash and assets held at NBS	-	-	28,211,919	-	-	28,211,919	28,211,919
Assets held to maturity		1,286,055	-	-	-	1,286,055	1,286,055
Available-for-sale financial assets	-	-	-	16,895,842	-	16,895,842	16,895,842
Financial assets at fair value through profit and loss	95,150	-	-	-	-	95,150	95,150
Loans and receivables from banks and other financial organizations	-	-	6,967,932	-	-	6,967,932	6,967,932
Loans and receivables from clients	-	-	85,852,111	-	-	85,852,111	83,191,028
Other assets	-	-	-	-	826,237	826,237	826,237
Total assets	**95,150**	**1,286,055**	**121,031,962**	**16,895,842**	**826,237**	**140,135,245**	**137,474,162**
Financial liabilities at fair value through profit and loss	114,923						114,923
Deposits and other liabilities due to banks and other financial organizations	-	-	-	-	780,791	780,791	780,791
Deposits and other liabilities towards clients	-	-	-	-	99,456,190	99,456,190	97,081,560
Other liabilities	-	-	-	-	1,106,127	1,106,127	1,106,127
Total liabilities	**114,923**	**-**	**-**	**-**	**101,343,108**	**101,343,108**	**99,083,401**

Methodologies and assumptions used in determining fair value of those financial instruments not yet recorded at fair value in the financial statements are described below.

Assets whose fair value approximates their bookkeeping value

For financial assets and liabilities that are liquid or have short term maturity (less than one year), the assumption is that their bookkeeping value approximates their fair value. This assumption is also applied to a vista deposits, non-term savings accounts, and financial instruments with variable rate.

5. Risk management policies (continued)

Financial instruments with fixed rate

Fair value of financial assets and liabilities with fixed rate recorded at amortized value is assessed by comparison with market interest rates at initial recognition based on the current market rates offered for similar financial instruments.

The assessed fair value of deposits with fixed interest rate is based on the discount of cash flows by applying the prevailing interest rates to money market debt with similar risk and maturity

All amounts are expressed in 000 RSD unless stated otherwise

6. Interest income and expense

	2015	2014
Interest income		
Interest income from dinar assets		
Loans	6,946,414	7,870,596
Deposits	267,814	249,437
Securities	723,935	1,129,667
Other placements	57,892	172,455
Interest income from foreign currency assets		
Loans	259,425	288,811
Deposits	5,192	42,365
Securities	276,413	447,876
Other placements	112,276	78,130
	8,649,361	**10,279,337**
Interest expense		
Interest expense from dinar liabilities		
Borrowings	(19,521)	-
Deposits	(428,388)	(473,145)
Other liabilities	-	-
Interest expense from foreign currency liabilities		
Borrowings	(48,319)	(136,034)
Deposits	(839,739)	(2,113,598)
Other liabilities	(43,773)	(52,891)
	(1,379,740)	**(2,775,668)**
Net interest income	**7,269,621**	**7,503,669**

7. Fee and commission income and expense

	2015	2014
Fees and commissions income		
Fees for banking services	1,899,204	1,885,662
Commissions from issued guarantees and other sureties	146,394	207,035
Other fees and commissions	139,522	125,219
	2,185,120	**2,217,916**
Fees and commissions expense		
Fees for domestic payment transactions	(26,548)	(22,876)
Fees for payment transactions abroad	(28,946)	(21,092)
Commissions for received guarantees and sureties	(153)	(10,514)
Other fees and commissions	(304,967)	(321,862)
	(360,614)	**(376,344)**
Net fees and commissions income	**1,824,506**	**1,841,572**

All amounts are expressed in 000 RSD unless stated otherwise

8. Net gains(losses) from financial assets held for trading

Net gains/ (losses) from sale of securities at fair value through profit and loss are as follows:

	2015	2014
Gain from financial assets held for trading	43	6
Gains from change of value of derivatives	33,592	63,273
Losses from financial assets held for trading	(19)	(7,902)
Losses from change of value of derivatives	(19,989)	(82,945)
Net gains / (losses)	**13,627**	**(27,568)**

9. Net foreign exchange gains

	2015	2014
Foreign exchange gains	52,752,364	35,408,016
Foreign exchange losses	(52,661,092)	(35,223,481)
Net foreign exchange rate gains	**91,272**	**184,535**

10. Operating and other income

	2015	2014
Release of provisions for legal cases and client damages (Note 32)	16,174	10,395
Release of other provisions (Note 32)	34,979	-
Lease of premises	4,884	7,945
Gains from sale of fixed assets and intangible investments	3,557	3,460
Gains from sale of other placements	52,730	-
Lease of safe boxes	-	15
Collected damages and lawsuits	13,066	9,302
Other income	54,221	8,165
Total	**179,611**	**39,282**

All amounts are expressed in 000 RSD unless stated otherwise

11. Net provisions and impairment losses on loans and advances

	2015	2014
Income from reversal of provisions and impairment losses		
Loans and receivables from customers	703,658	100,561
Other assets	72,074	432
Off balance sheet items	805	6,985
Collected written off loans and receivables	91,112	68,998
Subtotal	**867,649**	**176,977**
Expenses for provisions and Impairment charge		
Loans and receivables from customers	(1,663,146)	(4,961,714)
BAN 2 provision charge	-	(1,468,719)
Other assets	(4)	(35,945)
Off balance sheet items	(176,321)	(58,350)
Banks	(9,086)	-
Direct write off	(22,890)	(34,163)
Subtotal	**(1,871,447)**	**(6,558,891)**
Net provisions and impairment	**(1,003,798)**	**(6,381,914)**

12. Salaries, benefits and other personnel expenses

	2015	2014
Salaries	(1,244,173)	(1,276,443)
Tax on salaries and benefits	(158,477)	(161,966)
Contributions on salaries and benefits	(323,095)	(339,930)
Other personnel expenses	(46,003)	(62,832)
Expenses for temporary and occasional work	(503)	-
Income from cancelation of provisions for retirement benefits and other provisions	-	16,005
Loss on retirement benefits	(2,113)	(8,619)
Total	**(1,774,364)**	**(1,833,785)**

13. Depreciation and amortization expenses

	2015	2014
Intangible assets (Note 25)	209,663	216,198
Property, plant and equipment (Note 26)	200,594	221,094
Total	**410,257**	**437,292**

During 2015 the Bank has changed useful lives of “blue print software”. Useful lives of all “blue print software” are extended by 5 years, until 2024. The below table summarizes effects of changes in useful lives:

Description	**Effect**
FlexCube System	25,693
Other systems	2,627
Total effect on depreciation charge	**28,320**

All amounts are expressed in 000 RSD unless stated otherwise

14. Operating and other expenses

	2015	2014
Administrative expenses	1,439,389	1,461,160
Non-material expenses (excluding taxes and contributions)	1,164,617	1,093,886
Contributions	293,964	309,107
Materials	149,142	158,286
Taxes	56,997	58,917
Disposals and write-offs of intangible assets and PPE	7,405	10,841
Legal expenses and taxes	37,535	37,081
Other expenses	110,139	67,669
Provisions for legal cases	30,384	135,522
Provisions for restructuring	-	213,249
Total	**3,289,572**	**3,545,718**

Detailed breakdown of administrative expenses is presented in the table below:

	2015	2014
Transportation services	76,409	73,440
Communication services	128,466	124,618
Telephone	24,483	25,191
Software maintenance	404,550	385,831
Hardware maintenance	48,819	49,136
Maintenance of fixed assets	36,533	32,006
ATM maintenance	15,587	14,805
Marketing and advertising	197,329	190,796
Donations	15,658	15,675
Rent	385,298	437,541
Other services	106,257	112,121
Total	**1,439,389**	**1,461,160**

As of 31 December 2015, non–material expenses in the amount of RSD 1,164,617 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 499,167 thousand, expenses for legal services in the amount of RSD 204,857 thousand, employee transportation expenses in the amount of RSD 47,347 thousand, cleaning services in the amount of RSD 26,727 thousand, safeguarding expenses in the amount of RSD 34,168 thousand, expenses for printing statements for cards in the amount of RSD 28,519 thousand, services of youth organization in the amount of RSD 3,817, collection services in the amount of RSD 31,945 thousand, information system services in the amount of RSD 26,028 thousand, intellectual services in the amount of RSD 70,746 thousand and other expense.

As of 31 December 2014, non–material expenses in the amount of RSD 1,093,886 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 539,835 thousand, expenses for legal services in the amount of RSD 144,969 thousand, employee transportation expenses in the amount of RSD 52,698 thousand, cleaning services in the amount of RSD 27,674 thousand, safeguarding expenses in the amount of RSD 22,357 thousand, expenses for printing statements for cards in the amount of RSD 26,566 thousand, services of youth organization in the amount of RSD 12,591, collection services in the amount of RSD 19,177 thousand, information system services in the amount of RSD 26,825 thousand, intellectual services in the amount of RSD 30,672 thousand and other expense.

All amounts are expressed in 000 RSD unless stated otherwise

15. Income tax

Income tax:

	2015	2014
Current income tax	-	-
Deferred tax	15,672	(7,572)
Total	**15,672**	**(7,572)**

The tax on the Bank's profit or loss before tax differs from the theoretical amount that would arise using prescribed tax rate:

	2015	2014
Profit/ (Loss) before tax	2,900,646	(2,657,219)
Tax calculated at the rate of 15%	(435,097)	398,583
Tax effect of non deductible expenses and non taxable revenues	161,702	213,228
Tax effect from the current year result	**(273,395)**	**611,811**
Tax effect of temporary differences	(33,212)	(25,498)
Tax effect of deferred tax on tax credits	-	(82,275)
Utilized tax losses	273,395	-
Recognized deferred tax assets on losses carried forward	48,884	100,201
Non recognized deferred tax assets on current year result	-	(611,811)
Income tax	**15,672**	**(7,572)**

As at 31 December 2015, the Bank has tax profit in the amount of RSD 1,861,854 thousand (2014: tax loss of RSD 4,078,739 thousand). As at 31 December 2015, the Bank does not have tax liabilities as it has utilized part of the previous year losses. As at 31 December 2015 the Bank has total unutilized tax loses from previous years in the amount of RSD 2,884,938 thousand. The Bank has recognized deferred tax assets on losses carried forward in the amount of RSD 149,085 thousand. Therefore, unrecognized deferred tax assets on losses carried forward amount to RSD 283,656 thousand (2014: RSD 611,811 thousand).

16. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.
As at 31 December 2015, the Bank has 48 preference shares issued. No preference dividends are declared, therefore there is no effect on basic earnings per share.

	2015	2014
Profit attributable to equity holders of the Company	2,916,317,720	(2,664,791,539)
Weighted average number of ordinary shares in issue	254,224	254,224
Basic earnings per share (expressed in RSD per share)	**11,471**	**(10,482)**

All amounts are expressed in 000 RSD unless stated otherwise

17. Cash and balances with Central Bank

	2015	2014
In dinars		
Current account	7,372,038	10,210,382
Cash in hand	970,759	1,003,278
Revocable loans and deposits	1,500,000	-
In foreign currency		
Cash in hand	1,822,486	1,889,204
Other cash and cash equivalents	10,041	14,483
Required reserve at Central Bank	9,579,923	15,094,572
Total	**21,255,247**	**28,211,919**

As at 31 December 2015, the amount held in RSD current account has decreased as compared to 31 December 2014 mainly due to changes in the regulatory requirement related to mandatory reserves.

In accordance with the Decision of the National bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014 i 4/2015,78/2015 i 102/2015), and "Guidelines for Implementing the Decision on mandatory reserves with the National Bank of Serbia" (Official Gazette of Republic of Serbia no. 8/2011, 43/2011, 57/2012, 65/2013, 118/2013, 127/2014 and 141/2014) mandatory reserves in local currency are included in the balance of the current account, therefore not presented separately.

As at 31 December 2015 calculated mandatory reserves in local currency amounted to RSD 6,520,405 thousand (in 2014: RSD 9,097,437thousand). The Bank can use mandatory reserves to maintain its liquidity.

Pursuant to NBS Decision on mandatory reserves the Bank is obligated to set aside funds for mandatory reserves in foreign currency on the separate account with NBS.

As December 2015, the Decision on mandatory reserves was amended, the effect of which was that the foreign currency mandatory reserves on deposits with maturity up to 2 years stand at 21%. The reserve should be maintained as follows: 38% of the reserve should be maintained in dinars and 62% of reserve should be maintained in euros.

Foreign currency mandatory reserves on deposits with maturity over 2 years stand at 14%. This reserve should be maintained as follows: 30% of the reserve should be maintained in dinars and 70% of the reserve should be maintained in euros

All amounts are expressed in 000 RSD unless stated otherwise

17. Cash and balances with Central Bank

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

Cash and balances with the Central bank (Note 17)	**2015**	**2014**
In dinars		
Current account	7,372,038	10,210,382
Cash in hand	970,759	1,003,278
In foreign currency		
Cash in hand	1,822,486	1,889,204
Other cash and cash equivalents	10,041	14,483
Loans, advances and deposits to Financial Institutions (Note 22)		
Foreign currency account	4,522,696	3,850,791
Total cash flow	**14,698,020**	**16,968,138**

18. Pledged financial assets

As at 31 December 2015 the Bank does not have pledged financial assets. As at 31 December 2014 pledged financial assets in the amount of RSD 268,007 thousand relate to the pledged frozen savings bonds (Note 20).

19. Financial assets at fair value through profit and loss held for trading

	2015	**2014**
In dinars		
Shares	585	638
RS Ministry of Finance bills	-	-
Increase in fair value of derivatives	-	1,476
In foreign currency		
Increase in fair value of derivatives	68,839	93,036
Total	**69,424**	**95,150**

Derivative assets and liabilities:

	31 December 2015			**31 December 2014**		
		Fair values			Fair values	
	Contract/notional amount	Assets	Liabilities	Contract/notional amount	Assets	Liabilities
Derivatives held for trading						
Currency swaps	6,884,037	-	623	10,059,244	1,476	1,462
Interest rate swaps	24,475,952	68,839	75,024	22,057,519	93,036	113,461
Total	**31,359,990**	**68,839**	**75,647**	**32,116,762**	**94,512**	**114,923**

All amounts are expressed in 000 RSD unless stated otherwise

20. Financial assets available for sale

	2015	2014
In dinars		
RS Ministry of Finance bills	11,685,340	9,264,237
In foreign currency		
Frozen savings bonds	3,980,252	7,600,208
Shares	16,199	31,397
Pledged financial assets (Note 18)	-	(268,007)
Total	**15,681,791**	**16,627,835**

Foreign currency frozen bonds are bonds issued by Republic of Serbia based on the Law on Settlement of Public Debt of the Federal Republic of Yugoslavia arising from the Citizens' Foreign Exchange Savings (Official Gazette of Republic of Serbia no. 36/2002). Bonds are zero-coupon bonds and they are transferable. Bonds are denominated in EUR and payable either in EUR or in RSD and are registered in the Central register. Bonds are actively traded in the Belgrade Stock Exchange.

21. Financial assets held to maturity

	2015	2014
In dinars		
RS Ministry of Finance bills	-	1,286,055
Total	**-**	**1,286,055**

RS Ministry of Finance bills in the amount RSD 1,286,055 thousand have matured during 2015.

All amounts are expressed in 000 RSD unless stated otherwise

22. Loans and deposits to banks and other financial institutions

	2015					2014
	Domestic banks	**Foreign banks**	**Financial institutions**	**National Bank of Serbia**	**Total**	**Total**
Repo in dinars	-	-	-	3,500,504	3,500,504	-
Deposits in dinars						
Other deposits	-	-	-	-	-	800,000
Deposits in foreign currency						
Foreign banks accounts	-	4,522,696	-	-	4,522,696	3,850,792
Other deposits	1,094,635	645,231	-	-	1,739,866	2,307,281
Other special purpose deposits	-	441,650	204,051	-	645,701	4,838
Placements in dinars						
Investment loans	-	-	-	-	-	3,803
Other loans	-	-	12,670	-	12,670	621
Accrued interest receivables	-	-	8	-	8	229
Placements in foreign currency						
Other placements	-	-	2,815	-	2,815	-
Accrued interest receivables	-	2,884	-	-	2,884	371
Loans and placements, gross	**1,094,635**	**5,612,461**	**219,544**	**3,500,504**	**10,427,144**	**6,967,935**
Less: Provisions	(582)	(8,397)	(768)	-	(9,747)	(3)
Loans and placements, net	**1,094,053**	**5,604,064**	**218,776**	**3,500,504**	**10,417,397**	**6,967,932**

All amounts are expressed in 000 RSD unless stated otherwise

23. Loans and receivables from customers

	2015						2014
	Companies	**Entrepreneurs**	**Individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Deposits in dinars							
Other special purpose deposits	-	-	12,000	-	-	12,000	-
Deposits in foreign currency							
Other special purpose deposits	-	-	-	-	-	-	540,021
Placements in dinars							
Interest and fee receivables	775,724	525,296	264,304	-	123,921	1,689,245	1,710,898
Investment loans	1,064,639	428,741	-	-	32,844	1,526,224	1,759,365
Overdrafts	267,442	45,701	736,139	-	269	1,049,551	1,048,978
Working capital loans	36,272,344	-	-	-	-	36,272,344	36,283,624
Mortgage loans	-	-	22,314,874	-	-	22,314,874	22,764,366
Other loans	1,083,294	-	9,287,321	-	-	10,370,615	10,820,562
Cash loans	-	-	21,312,632	-	-	21,312,632	18,427,933
Consumer loans	-	-	343,518	-	-	343,518	-
Other placements	-	-	1,373,115	-	-	1,373,115	677,313
Accrued interest receivables	10,858	-	342,986	98	109,211	463,154	559,537
Placements in foreign currency							
Interest and fee receivables	28,475	-	-	-	-	28,475	39,968
Import loans	5,922,624	-	-	-	-	5,922,624	6,421,195
Other loans	48,720	-	-	-	-	48,720	800,609
Other placements	4,215,838	-	-	-	-	4,215,838	4,466,711
Accrued interest receivables	19,266	-	-	-	2,241	21,507	18,813
Income deferral using effective interest rate	(224,939)	-	-	-	-	(224,939)	(281,420)
Loans and placements, gross	**49,484,283**	**999,739**	**55,986,890**	**98**	**268,487**	**106,739,497**	**106,058,473**
Less: Provisions	(3,164,903)	(440,709)	(16,057,725)	(4)	(52,503)	(19,715,844)	(20,206,362)
Loans and placements, net	**46,319,380**	**559,030**	**39,929,165**	**94**	**215,983**	**87,023,653**	**85,852,111**

All amounts are expressed in 000 RSD unless stated otherwise

23. Loans and receivables from customers (continued)

Interest rates for indexed loans to legal entities ranged between 3% and 5% per annum and for RSD loans between 6% and 10% per annum. The Bank approves indexed loans to retail customers, where the interest rate ranges from 2.77%-16.67 per annum and RSD loans with interest rates between 8.51%-34.51%%

Movements in impairment allowance for loans and receivables from customers are presented below:

	Corporate	Consumer	Mortgage	SBB	Other placements	Interest	Total
Closing balance 2013	**2,032,697**	**2,140,229**	**285,892**	**6,505,461**	**1,319,017**	**973,158**	**13,256,454**
Impairment charge (Note 11)	2,338,531	348,840	68,645	472,133	1,552,004	181,562	4,961,714
BAN 2 provision charge	-	-	1,468,719	-	-	-	1,468,719
Release (Note 11)	-	(19,958)	-	(15,521)	-	(65,082)	(100,561)
Net foreign exchange	141,514	31,077	25,040	376,536	68,508	11,095	653,770
Write off	(5,660)	(11,012)	-	(14,338)	-	(2,725)	(33,734)
Closing balance 2014	**4,507,082**	**2,489,176**	**1,848,296**	**7,324,271**	**2,939,529**	**1,098,008**	**20,206,362**
Impairment charge (Note 11)	73,317	36,877	-	453,054	965,392	134,506	1,663,146
Release (Note 11)	(19,355)	(500,526)	(156,826)	(19,247)	-	(7,703)	(703,658)
BAN 2 implementation	-	(45,781)	(1,178,708)	-	-	-	(1,224,489)
Net foreign exchange	44,078	7,198	39,350	387,124	57,210	15,889	550,851
Write off	(2,165)	(10,873)	-	(28,896)	(732,546)	(1,231)	(775,712)
Other	(656)	-	-	-	-	-	(656)
Closing balance 2015	**4,602,301**	**1,976,071**	**552,112**	**8,116,306**	**3,229,585**	**1,239,469**	**19,715,844**

24. Investments in associates

	2015	2014
Equity shares	20,479	20,479
	20,479	**20,479**

As at 31 December 2015 the Bank is holding 25.56% of the voting rights of the ERB Leasing a.d. Beograd (31 December 2014: 25.56%).

All amounts are expressed in 000 RSD unless stated otherwise

25. Intangible assets

As at December 2013	Intangible assets	In course of construction and advances	Total
Cost	3,147,206	41,548	3,188,754
Accumulated amortization	(1,450,156)	-	(1,450,156)
Net book value	**1,697,050**	**41,548**	**1,738,598**
Year ended 31 December 2014			
Opening net book value	1,697,050	41,548	1,738,598
Additions	-	276,092	276,092
-Transfers	249,220	(249,220)	-
Amortization	(216,198)	-	(216,198)
Closing net book value	1,730,072	68,420	1,798,492
At 31 December 2014			
Cost	3,396,426	68,420	3,464,846
Accumulated amortization	(1,666,354)	-	(1,666,354)
Net book value	**1,730,072**	**68,420**	**1,798,492**
Year ended 31 December 2015			
Opening net book value	1,730,072	68,420	1,798,492
Additions	-	238,136	238,136
Disposals/write offs	(11,472)	-	(11,472)
Transfers	223,225	(223,225)	-
Amortization	(209,663)	-	(209,663)
Closing net book value	1,732,161	83,331	1,815,493
At 31 December 2015			
Cost	3,527,369	83,331	3,610,700
Accumulated amortization	(1,795,207)	-	(1,795,207)
Net book value	**1,732,162**	**83,331**	**1,815,493**

Book value of intangible assets does not materially differ from fair value.

All amounts are expressed in 000 RSD unless stated otherwise

26. Property, plant and equipment

	Land and buildings	Equipment and other assets	In course of construction and advances	Total
At 31 December 2013				
Cost	4,136,117	1,897,262	60,657	6,094,036
Accumulated depreciation and impairment	(779,166)	(1,322,513)	-	(2,101,679)
Net book value	**3,356,951**	**574,749**	**60,657**	**3,992,357**
Year ended 31 December 2014				
Opening net book amount	3,356,951	574,749	60,657	3,992,357
Additions	-	-	159,153	159,153
Transfers	68,256	109,320	(177,576)	-
Write off	(3,619)	(9,732)	-	(13,351)
Depreciation	(91,083)	(130,011)	-	(221,094)
Closing net book value	**3,330,505**	**544,326**	**42,234**	**3,917,065**
At 31 December 2014				
Cost	4,154,947	1,848,184	42,234	6,045,365
Accumulated depreciation and impairment	(824,442)	(1,303,858)	-	(2,128,300)
Net book value	**3,330,505**	**544,326**	**42,234**	**3,917,065**
Year ended 31 December 2015				
Opening net book amount	3,330,505	544,326	42,234	3,917,065
Additions			59,976	59,976
Transfers	30,991	58,202	(89,193)	-
Disposal/Write off	(19,699)	(41,265)	-	(60,964)
Depreciation	(84,146)	(116,448)	-	(200,594)
Closing net book value	**3,257,651**	**444,815**	**13,017**	**3,715,483**
At 31 December 2015				
Cost	4,033,480	1,599,511	13,017	5,646,008
Accumulated depreciation and impairment	(775,829)	(1,154,696)	-	(1,930,525)
Net book value	**3,257,651**	**444,815**	**13,017**	**3,715,483**

Fair value of property and equipment is higher than book value by RSD 54,865 thousand.

Rental expenses in the amount of RSD 385,298 thousand (2014: RSD 437,541 thousand) in relation to the rental of property are included in the operating expenses (Note 14).

As at 31 December 2015 there are no charges over the Bank's fixed assets.

All amounts are expressed in 000 RSD unless stated otherwise

27. Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December:

	2015	2014
Deferred tax assets	310,661	261,796
Deferred tax liabilities	(176,035)	(155,119)
	134,626	**106,676**

Deferred tax is recognized on temporary differences and unused tax credits.

Movements in net deferred tax assets

	2015	2014
Opening balance of deferred tax (assets)	106,676	105,209
Changes during the year:		
Decrease/(increase) of deferred tax liabilities and (decrease)/ increase of deferred tax assets related to temporary differences	(33,212)	(25,498)
Deferred tax assets on losses carried forward	48,884	100,201
Deferred tax assets on tax credits	-	(82,275)
Total deferred tax (expense)/income for the year	**15,672**	**(7,572)**
Deferred tax on revaluation reserves	**12,446**	**9,244**
Deferred tax on actuarial losses	**(168)**	**(205)**
Net deferred tax assets	**134,626**	**106,676**

As at 31 December 2015 the Bank has unrecognized deferred tax assets on losses carried forward in the amount of RSD 283,656 thousand (31 December 2014: RSD 611,811 thousand).

Deferred tax income/ (expense) relates to the following items:

	2015	2014
Depreciation	(33,361)	(23,565)
Long term provisions	149	(1,932)
Losses carried forward	48,884	100,201
Tax credits	-	(82,275)
	15,672	**(7,572)**

All amounts are expressed in 000 RSD unless stated otherwise

28. Other assets

	2015	2014
Prepayments and accrued income in dinars		
Accrued interest	158	497
Prepayments	111,101	105,567
Other prepayments and accrued income	66,375	482,274
Prepayments and accrued income in foreign currency		
Accrued interest	375	1,962
Other prepayments and accrued income	625	402
	178,634	**590,702**
Other receivables in dinars		
Employees	31	64
Advances for current assets	11,412	16,199
Advances for property, plant and equipment	13,205	4,781
For prepaid taxes and contributions	1,098	955
Suspense and temporary accounts	(5,034)	(14,680)
Other fee receivables	57,805	205,626
Other receivables	57,008	91,688
Other receivables in foreign currency		
Advances for current assets	2,587	4,198
Suspense and temporary accounts	1,364	480
Other fee receivables	19,210	8,970
Other receivables	114,236	113,485
	272,922	**431,766**
Inventory		
Assets received in collection of claims	12,415	12,415
Material	3,284	5,024
	15,699	**17,439**
Other assets, gross	**467,255**	**1,039,907**
Less: Impairment	(149,139)	(212,765)
Less: Provisions for repossessed collateral	(904)	(904)
Other assets, net	**317,212**	**826,237**

All amounts are expressed in 000 RSD unless stated otherwise

28. Other assets (continued)

Movements in impairment allowance are presented below:

	2015	2014
Opening balance	**212,765**	**148,908**
Impairment charge (Note 11)	4	35,945
Release (Note 11)	(72,074)	(432)
Net foreign exchange	9,036	6,275
Write off	(592)	-
Other	-	22,069
Closing balance	**149,139**	**212,765**

29. Financial liabilities at fair value through profit and loss for trading

	2015	2014
Receivables in dinars		
Increase in fair value of derivatives	6,808	21,887
Receivables in foreign currency		
Increase in fair value of derivatives	68,839	93,036
Total (Note 19)	**75,647**	**114,923**

All amounts are expressed in 000 RSD unless stated otherwise

30. Deposits and other liabilities due banks, other financial institutions and central Bank

	2015				2014
	Foreign banks	**Domestic banks**	**Financial institutions**	**Total**	**Total**
Transaction deposits in dinars	18,096	-	116,679	134,775	79,245
Transaction deposits in foreign currency	2,235	14,973	-	17,208	19,360
Other deposits and liabilities in dinars					
Special purpose deposits	210	21	-	230	210
Other deposits	-	-	83,355	83,355	421,917
Other financial liabilities	-	-	-	-	-
Interest and fees accruals in dinars	-	81	-	81	2,558
Other deposits and liabilities in foreign currency					
Special purpose deposits	5,452	-	641	6,093	6,059
Other deposits	-	-	48,650	48,650	250,064
Received loans	-	-	3,660,946	3,660,946	-
Interest and fees accruals	95	-	4,182	4,278	1,378
Defrred costs using effective interest rate	(22,582)	-	-	(22,582)	-
Total	**3,506**	**15,075**	**3,914,453**	**3,933,034**	**780,791**

All amounts are expressed in 000 RSD unless stated otherwise

31. Deposits and other liabilities due to customers

	2015							2014
	Public sector	Companies	Entrepreneurs	Private individuals	Foreign entities	Other clients	Total	Total
Transaction deposits in dinars	269	2,075,882	914,260	1,944,817	29,930	314,852	5,280,009	5,451,352
Transaction deposits in foreign currency	-	16,762,843	-	-	-	-	16,762,843	18,785,622
Other deposits and liabilities in dinars								
Savings deposits	-	-	-	1,301,300	13,950	-	1,315,250	1,695,952
Special purpose deposits	-	100,995	2	33,755	16,310	-	151,062	87,997
Deposits pledged as collateral	-	49,055	1,200	4,651	-	-	54,907	55,331
Other deposits	-	3,515,054	53,856	-	-	3,896,303	7,465,213	6,000,377
	-	-	-	-	-	34,000	34,000	-
Other financial liabilities	-	125	-	28,113	-	1,003	29,241	21,498
Interest, provisions and fees payable	-	397	38	19	-	-	454	383
Interest accruals	-	34,252	-	-	-	-	34,252	35,614
Deferred costs using effective interest rate	-	-	-	-	-	-	-	(1,939)
Other deposits and liabilities in foreign currency								
Savings deposits	-	50,188,048	-	-	-	-	50,188,048	57,732,783
Special purpose deposits	-	160,931	122	53,868	16,137	141,057	372,116	434,740
Deposits pledged as collateral	-	246,535	5,631	634,108	14,252	-	900,527	1,015,994
Other deposits	-	3,386,138	8,514	-	-	799,725	4,194,377	4,831,493
Received loans	1,514,572	-	-	-	-	-	1,514,572	2,872,537
Other financial liabilities	-	17,580	-	-	-	-	17,580	63,808
Interest, provisions and fees payable in foreign currency	-	-	-	288	-	-	288	390
Interest accruals	3,068	5,076	11	197,488	6,716	1,144	213,503	372,258
Total	**1,517,909**	**76,542,911**	**983,634**	**4,198,410**	**97,295**	**5,188,083**	**88,528,242**	**99,456,190**

All amounts are expressed in 000 RSD unless stated otherwise

31. Deposits and other liabilities due to customers (continued)

The interest rate calculated on demand corporate deposits in local currency up to 5.5% per annum, while interest rate on foreign currency deposits is up to 2.0%. Term corporate deposits in local currency carry interest rate from 2.5% to 8% per annum and corporate foreign currency term deposits carry interest rate from 1.00% to 2.25% per annum.

The interest rate on the current and demand deposits of citizens range up to 2.72% per annum for EUR and up to 4.89% for RSD (stock of old products). New production of current and demand deposits is up to 1.50% for EUR and 2.44%RSD. Interest rate on foreign currency term deposits varied from 0,52% to 2.12% in EUR while interest rate on RSD term deposits of citizens ranged from 3.40% to 5.80% per annum

32. Provisions

	2015	2014
Provisions for off-balance sheet exposures	313,694	137,124
Provisions for legal cases (Note 35 b)	202,534	222,749
Provisions for retirement indemnities	36,699	35,704
Provisions for bonuses	3,700	3,700
Provisions for restructuring	-	213,249
Total	**556,627**	**612,526**

Movements in total provisions:

	Client damages	Bonus provisions	Retirement indemni-ties	Legal cases	Provisions for restructu-ring	Off balance sheet	Total
Opening balance 2014	**32,100**	**55,000**	**48,587**	**86,674**	**-**	**79,456**	**301,818**
Provisions paid during the year	(22,070)	-	(5,497)	(2,787)	-	-	(30,354)
New provisions (Note 11, 14)	-	-	8,619	135,522	213,248	58,350	415,740
Release of provisions (Note 11, 10)	(10,391)	(51,300)	(16,005)	(4)	-	(6,985)	(84,685)
Net exchange gain/loss	361			3,343		6,302	10,007
Closing balance 2014	**-**	**3,700**	**35,704**	**222,749**	**213,249**	**137,124**	**612,526**
Provisions paid during the year	-	-	(1,118)	(36,153)	(178,269)	-	(215,541)
New provisions (Note 11,14)	-	-	2,113	30,384	-	176,321	208,818
Release of provisions (Note 10, 11)	-	-	-	(16,174)	(34,979)	(805)	(51,959)
Net exchange gain/loss	-	-	-	1,729	-	1,054	2,783
Closing balance 2015	**-**	**3,700**	**36,699**	**202,534**	**-**	**313,694**	**556,627**

All amounts are expressed in 000 RSD unless stated otherwise

32. Provisions (continued)

Principal actuarial assumptions used for retirement indemnities (expressed as weighted averages):

	2015	2014
	%	%
Discount rate	6.2%	6.8%
National average salary increase	1.8%	1.8%
Inflation rate	3.5%	3.5%

33. Other liabilities

	2015	2014
Liabilities for salaries and benefits		
Net salaries	-	10
Temporary and occasional assignments	3,795	2,849
Other liabilities towards employees	15,758	15,966
	19,553	**18,825**
Other liabilities in dinars		
Operations managed on behalf of third parties	5,995	6,047
Advances received	1,916	979
Suppliers	112,741	125,656
Temporary and suspense accounts	6,021	8,103
Liabilities from profit	700	700
Other liabilities	22,058	29,407
Liabilities for interest and fees	3,447	3,608
Other obligations in foreign currency		
Advances received	34,739	84,078
Suppliers	49,516	89,307
Temporary and suspense accounts	242	117
Other liabilities	5,431	8,306
	242,806	**356,308**
Withholding tax	-	1,787
Value added tax	40,831	32,310
Other taxes and contributions	6,607	4,728
	47,438	**38,825**
Accruals and deferred income in dinars		
Other accrued expenses	43,955	47,025
Deferred income from fees	9,632	17,889
Deferred interest income	33,336	147,248
Other accruals and deferred income	132,609	457,696
Accruals and deferred income in foreign currency		
Other accrued expenses	4,032	20,188
Other accruals and deferred income	921	2,122
	224,485	**692,168**
Total	**534,282**	**1,106,126**

All amounts are expressed in 000 RSD unless stated otherwise

34. Shareholder's equity

Capital of the bank comprises share capital, share premium, statutory reserves, revaluation reserves and accumulated gains and losses:

	2015	2014
Share capital and other capital		
Share capital common shares	25,422,400	25,422,400
Share capital preference shares	4,800	4,800
Share premium	6,051,999	6,051,999
Other capital	2,727	2,727
	31,481,926	**31,481,926**
Statutory and other reserves	9,558,335	9,558,335
	9,558,335	**9,558,335**
Revaluation reserves		
Revaluation reserves - AFS securities	62,280	132,807
Actuarial loss on defined retirement benefits	(1,400)	(2,351)
	60,880	**130,456**
Accumulated gains	5,602,100	5,602,100
Accumulated losses	(2,664,791)	-
Current year profit/ (loss)	2,916,318	(2,664,791)
	5,853,627	**2,937,309**
Total shareholder's equity	**46,954,768**	**44,108,026**
Number of issued shares	**254,272**	**254,272**

Nominal value of the shares amounts to RSD 100,000 per share.

All amounts are expressed in 000 RSD unless stated otherwise

34. Shareholder's equity

The shareholders structure of the Bank as at 31 December 2015 is presented in the table below:

Shareholder	Ordinary shares	%	Preference shares	%	Total shares	%
Eurobank Ergasias	141,868	55.80%	17	35.42%	141,885	55.80%
Berberis Investments Limited	3,690	1.45%	-	0.00%	3,690	1.45%
ERB N.E. BV Holding Company Holland	108,666	42.74%	-	0.00%	108,666	42.74%
Agromerkantilija z. zadruga	-	0.00%	3	6.25%	3	0.00%
AKT	-	0.00%	1	2.08%	1	0.00%
Bambi banat	-	0.00%	3	6.25%	3	0.00%
Buducnost	-	0.00%	2	4.17%	2	0.00%
Dunav AD	-	0.00%	1	2.08%	1	0.00%
Habit pharm	-	0.00%	5	10.42%	5	0.00%
Kopaonicanka ZP	-	0.00%	2	4.17%	2	0.00%
Saobracajniinstitut CIP	-	0.00%	3	6.25%	3	0.00%
Siemens IT solutions and service	-	0.00%	2	4.17%	2	0.00%
Stem	-	0.00%	1	2.08%	1	0.00%
TP Beogradelektro	-	0.00%	6	12.50%	6	0.00%
Trustex	-	0.00%	1	2.08%	1	0.00%
ZZ BajinaBasta	-	0.00%	1	2.08%	1	0.00%
Total	**254,224**	**100.00%**	**48**	**100.00%**	**254,272**	**100.00%**

The reconciliation of the movements in number of common and preference shares is as follows:

	Common shares	Preference shares
Closing balance 2015	**254,224**	**48**
Closing balance 2014	**254,224**	**48**

Share issues and the changes in the Eurobank's share capital structure

During 2015 the Bank did not perform any capital increase.

Share premium

Share premium represents amounts issued over par. As at 31 December 2015 the Bank's share premium was RSD 6,051,999 thousand (31 December 2014: RSD 6,051,999).

Statutory reserves

Statutory reserves and other reserves in total amount of RSD 9,558,335 thousand (31 December 2014: RSD 9,558,335 thousand) are formed in accordance with regulations and the Statute of the Bank.

All amounts are expressed in 000 RSD unless stated otherwise

35. Contingent liabilities and commitments

a) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2015	**2014**
Not later than one year	70,251	85,377
Later than one year but no later than five years	-	-
Later than five years	-	-
	70,251	**85,377**

b) Litigations

As at 31 December 2015, the Bank has provisions for legal cases in the amount of RSD 202,534 thousand (31 December 2014: RSD 222,749 thousand). Provisions in the amount of RSD 123,029 thousand relate to litigations for the unilateral increase in interest rates that was performed in the past (31 December 2014: RSD 148,464 thousand). The Bank also has two legal claims filed against the Bank in respect of payments of frozen bonds made to unauthorized persons based on forged documents. Although, the Bank acts as an Agent of the Government of the Republic of Serbia, servicing "old foreign currency savings bonds" the Bank has made provision for claims related to the frozen bonds payments in the amount of RSD 61,377 thousand (31 December 2013: 60,905 thousand) .

36. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks and Other financial institutions. As at 31 December 2015, the Bank's ratios were in compliance with the prescribed levels:

Business indicators	**Determined level**	**2015**	**2014**
Capital adequacy	min 12%	15.90%	14.67%
Long term investments indicator	max 60%	28.49%	31.06%
Exposure to related parties	max 20%	5.70%	8.83%
Large exposures indicator	max 400%	160.71%	165.59%
Liquidity indicator:			
first month of reporting period	min 1	1.49	1.67
second month of reporting period	min 1	2.25	2.70
last month of reporting period	min 1	2.40	2.90
Currency risk	max 20%	1.29%	2.60%

As at 31 December 2015, the Bank was in compliance with all regulatory requirements.

37. Related parties transactions

Eurobank a.d. Beograd is a subsidiary of Eurobank Ergasias ('Eurobank') which is listed on the Athens Stock Exchange.

In May 2014, following the completion of the Parent's share capital increase fully covered by investors, institutional and others, the percentage of the ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF), the controlling shareholder of the Bank until that date, decreased from 95.23% to 35.41%. Accordingly, as of that date HFSF was considered to have significant influence over the Bank. In November 2015, following the completion of the Bank's share capital increase, fully covered by investors, institutional and others, the percentage of the ordinary shares with voting rights held by HFSF decreased to 2.38%.

In the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in the Bank's General Assembly only for decisions concerning the amendment of the Bank's Articles of Association, including the increase or decrease of the Bank's capital or the granting of a corresponding authorization to the Bank's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Bank, the transfer of assets, or any other issue requiring approval by an increased majority as provided for in Company Law 2190/1920. In addition, the Bank has entered into a new Relationship Framework Agreement (RFA) with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014. Taking into account the terms of the revised RFA, the HFSF is still considered to have significant influence over the Bank.

Transactions with related parties for the year ended on 31 December 2015 are presented in the table below:

All amounts are expressed in 000 RSD unless stated otherwise

	Eurobank Ergasias	Be-Business Exchanges S.A.	IMO Property Investments	ERB Property services	ERB Leasing	RECO Real Property	ERB Asset Fin	ERB IT Shared Services	ERB New Europe Funding BV	ERB New Europe Holding B.V.	Eurobank private bank Luxemburg S.A	Eurobank Bulgaria A.D
Assets												
Foreign currency account	245,224	-	-	-	-	-	-	-	-	-	-	-
Interest and fee receivables	49	-	-	-	-	154	-	-	8,757	-	-	6
Loans to clients		-	-	218	-	36,488	-	-	-	-	-	-
Investment in shares		-	-	-	20,479	-	-	-	-	-	-	-
Derivative assets	16,480	-	-	-	-	-	-	-	-	-	-	-
Other receivables		-	-	-	17	-	-	-	-	-	-	-
Total assets	**261,753**	**-**		**218**	**20,496**	**36,642**	**-**	**-**	**8,757**	**-**	**-**	**6**
Liabilities												
Due to customers	17,251	-	824,838	42,906	109,784	384,421	88,767	-	-	46,376	5,452	1,466
Interest and fee payables	95	-	-	-	-	-	-	-	-	-	-	-
Suppliers	2,864	-	-	-	-	-	-	18,791	-	-	-	-
Derivative liabilities	110,948	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	**131,158**	**-**	**824,838**	**42,906**	**109,784**	**384,421**	**88,767**	**18,791**	**-**	**46,376**	**5,452**	**1,466**
Income												
Interest income	4,201	-	-	-	-	1,500	-	-	-	-	-	-
Interest income on derivatives	77,772	-	-	-	-	-	-	-	-	-	-	-
MtM	13,653	-	-	-	-	-	-	-	-	-	-	-
Fee and commission income	3,294	-	293	50	334	2,315	72	-	8,695	-	-	62
Services	-	-	74	915	2,083	-	-	-	-	-	-	-
Other	-	-			91	-	-	-	-	-	-	-
Total income	**98,920**	**-**	**367**	**965**	**2,508**	**3,815**	**72**	**-**	**8,695**	**-**	**-**	**62**
Expenses												
Interest expense	-	-	21,429	1,115	8,565	3,755	2,777	-	-	-	-	-
Interest expense from derivatives	51,673	-	-	-	-	-	-	-	-	-	-	-
Fee and commission expense	27,761	3,622	-	17,511	-	-	-	-	-	-	-	-
Services	34,979	-	6,583	4,591	-	57,960	-	227,256	-	-	-	-
Other	-	-	-	17	-	33	-	-	-	-	-	-
Total expenses	**114,413**	**3,622**	**28,012**	**23,234**	**8,565**	**61,748**	**2,777**	**227,256**	**-**	**-**	**-**	**-**
Off balance sheet												
Guarantees	-	-	-	-	-	302,229	-	-	-	-	-	-
Derivatives	10,957,302	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	82	-	-	-	-	-	-	-	-

All amounts are expressed in 000 RSD unless stated otherwise

Transactions with related parties for the year ended on 31 December 2014 are presented in the table below

	Eurobank Ergasias	Be-Business Exchanges S.A.	IMO Property Investments	ERB property services	ERB Leasing	RECO Real Property	ERB Asset Fin	EFG IT Shared Services	ERB New Europe Funding BV	EFG New Europe Holding B.V.	Eurobank private bank Luxemburg S.A	Eurobank Bulgaria A.D
Assets												
Nostro account	70,396	-	-	-	-	-	-	-	-	-	-	-
Interest and fee receivables	59	-	-	-	-	-	-	-	8,709	-	-	-
Loans to customers	468,916	-	-	29	-	48,383	-	-	-	-	-	-
Investment in associates		-	-	-	20,479	-	-	-	-	-	-	-
Derivative assets	13,633	-	-	-	-	-	-	-	-	-	-	-
Other receivables	61	-	-	329	24	107	-	-	-	-	-	-
Other	21,802	-	-	-	-	-	-	-	-	-	-	-
Total assets	**574,867**	-	-	**358**	**20,503**	**48,490**	-	-	**8,709**	-	-	-
Liabilities												
Due to customers	43,387	-	664,687	51,653	342,299	348,186	32,122	-	-	46,122	5,422	1,167
Suppliers	17,063	-	-	723	-	174	-	38,405	-	-	-	-
Derivative liabilities	94,498	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	**154,948**	-	**664,687**	**52,376**	**342,299**	**348,360**	**32,122**	**38,405**	-	**46,122**	**5,422**	**1,167**
Income												
Interest income	17,198	-	-	-	-	1,967	-	-	-	-	-	-
Interest income from derivatives	96,778	-	-	-	-	-	-	-	-	-	-	-
Fee and commission income	696	-	689	85	432	2,400	98	-	8,347	-	-	39
Services		-	423	3,757	3,354	-	-	-	-	-	-	-
Other	26,608	-	-	-	381	-	-	-	-	-	-	-
Total income	**141,280**	-	**1,112**	**3,842**	**4,167**	**4,367**	**98**	-	**8,347**	-	-	**39**
Expenses												
Interest expense	9	-	28,524	1,739	9,563	4,014	1,908	-	-	-	-	-
Interest expense from derivatives	44,885	-	-	-	-	-	-	-	-	-	-	-
MtM	59,967	-	-	-	-	-	-	-	-	-	-	-
Fee and commission expense	26,566	4,324	-	16,438	-	-	-	-	-	-	-	-
Services	239	-	4,068	4,781	-	56,210	-	262,913	-	-	-	-
Other	-	-	-	153	25	56	-	-	-	-	-	
Total expenses	**131,666**	**4,324**	**32,592**	**23,111**	**9,588**	**60,280**	**1,908**	**262,913**	-	-	-	-
Off Balance Sheet												
Guarantees	-	-	-	-	-	308,952	-	-	-	-	-	-
Derivatives	15,026,229	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	271	-	-	-	-	-	-	-	-
Total off balance sheet	**15,026,229**	-	-	**271**	-	**308,952**	-	-	-	-	-	-

All amounts are expressed in 000 RSD unless stated otherwise

As at 31 December 2015, loans to employees amounted to RSD 2,197,424 thousand (31 December 2014: RSD 2,258,441 thousand). All loans are given under terms defined in the Bank's lending policy and interest rates vary from 0.91% to 7.24% for mortgage loans, while for consumer loans interest rates for RSD loans were in the range of 11% to 25%

a) Payments to directors and key management personnel

	2015	2014
Salaries and other contributions	110,392	151,001
	110,392	**151,001**

38. Foreign Exchange rates

The official exchange rates of major currencies which were used for translation of balance sheet items as at 31 December were as follow:

	31 December 2015	31 December 2014
USD	111.2468	99.4641
EUR	121.6261	120.9583
CHF	112.5230	100.5472

39. Reconciliation of loans, deposits and other liabilities with clients

As required by the Accounting and Auditing Law, the Bank has performed reconciliation of loans, deposits and other liabilities with clients as at 31 December 2015.

40. Board of directors

Members of the Board of directors of Eurobank as at 31 December 2015 are listed below:

Chairman	Members
Michalakis Louis	Karakasis Theodoros
	Stavros Ioannou
	Angelos Tsichrintzis
	Anastasios Nikolaou
	Michail Vlastarakis
	Ivan Vujacic

41. Events after the reporting period

There were no significant events after balance sheet date that would require disclosure in the Financial Statements.

Filippos Karamanolis
President of the Executive Board

Slavica Pavlovic
Chief Financial Officer