EUROBANK A.D. BEOGRAD

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

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 2016 and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. This regulation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o. Beograd pwc *Beograd*

Saša Todorović

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o. Beograd

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 19 April 2017

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

EUROBANK A.D.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Contents:

All amounts are expressed in 000 RSD unless stated otherwise

Income statement	Note	2016	2015
Interest income	6	7,472,472	8,649,361
Interest expenses	6	(1,033,784)	(1,379,740)
Net interest income		**6,438,688**	**7,269,621**
Fee and commission income	7	2,381,548	2,185,120
Fee and commission expense	7	(397,536)	(360,614)
Net fee and commission income		**1,984,012**	**1,824,506**
Net gains from financial assets held for trading	8	1,636	13,627
Net foreign exchange gains	9	25,205	91,272
Other operating income	10	61,684	179,611
Net provisions and losses from impairment of financial asset and off-balance sheet credit risk items	11	(885,115)	(1,003,798)
Total operating income		**7,626,110**	**8,374,839**
Salaries, benefits and other personnel expenses	12	(1,818,653)	(1,774,364)
Depreciation and amortization	13	(416,001)	(410,257)
Other expenses	14	(3,244,670)	(3,289,572)
Profit before tax		**2,146,786**	**2,900,646**
Deferred income tax profit /(loss)	15	(85,461)	15,672
Profit for the year		**2,061,325**	**2,916,318**
Earnings per share			
Basic earnings per share (in RSD, without paras)	16	8,108	11,471

Statement of Other Comprehensive Income	2016	2015
Profit for the period	**2,061,325**	**2,916,318**
Items that will not be reclassified to profit and loss		
Actuarial gains on defined benefit pensions plans	5,490	1,117
Items that may be reclassified subsequently to profit and loss		
Losses on fair value changes of financial assets available for sale	(64,613)	(82,970)
Income tax relating to items that may be reclassified	8,868	12,277
Other comprehensive income for the year, net of tax	(50,255)	(69,576)
Total comprehensive income for the year	**2,011,070**	**2,846,742**
Total comprehensive income attributable to:		
Owners of the parent	2,011,070	2,846,742

Belgrade, 19 April 2017

Report prepared by:

Vladimir Tofoski
Chief Financial Officer

On behalf of the Bank:

Slavica Pavlović,
President of the Executive Board

Predrag Janković,
Member of the Executive Board

All amounts are expressed in 000 RSD unless stated otherwise

Balance sheet	Note	2016	2015
Assets			
Cash and balances with Central Bank	17	21,714,061	21,255,247
Pledged financial assets	18	692,590	-
Financial assets at fair value through profit and loss held for trading	19	26,712	69,424
Financial assets available for sale	20	14,993,529	15,681,791
Loans and deposits to banks and other financial institutions	21	12,245,083	10,417,397
Loans and receivables from customers	22	94,819,179	87,023,653
Investments in associates	23	20,479	20,479
Intangible assets	24	1,846,161	1,815,493
Property, plant and equipment	25	3,653,311	3,715,483
Current tax assets		131,796	131,795
Deferred tax assets	26	58,034	134,626
Other assets	27	431,756	317,212
Total assets		150,632,691	140,582,600
Equity and Liabilities			
Financial liabilities at fair value through profit and loss held for trading	28	31,335	75,647
Deposits and other liabilities due to banks, other financial institutions and central bank	29	7,033,192	3,933,034
Deposits and other liabilities due to customers	30	93,532,515	88,528,242
Provisions	31	446,586	556,627
Other liabilities	32	623,225	534,282
Total Liabilities		101,666,853	93,627,832
Shareholders' equity			
Share capital	33	31,481,926	31,481,926
Retained earnings	33	7,914,950	5,853,627
Reserves	33	9,568,962	9,619,215
Total shareholders' equity		48,965,838	46,954,768
Total Equity and Liabilities		150,632,691	140,582,600

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 2014	**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 gains	-	-	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	**25,429,927**	**6,051,999**	**60,880**	**9,558,335**	**5,853,627**	**46,954,768**
AFS portfolio revaluation	-	-	(64,613)	-	-	(64,613)
Deferred tax on revaluation reserves	-	-	9,692	-	-	9,692
Actuarial gains	-	-	5,490	-	-	5,490
Deferred tax on actuarial gains	-	-	(824)	-	-	(824)
Current period profit	-	-	-	-	2,061,325	2,061,325
As at 31 December 2016	**25,429,927**	**6,051,999**	**10,625**	**9,558,335**	**7,914,952**	**48,965,838**

All amounts are expressed in 000 RSD unless stated otherwise

Cash Flow Statement	2016	2015
Cash inflow from operating activities		
Inflow from interest	6,828,481	7,604,274
Inflow from fees and commissions	2,401,428	2,320,918
Inflow from other operating income	119,327	252,701
Inflow from dividends	532	693
	9,349,768	**10,178,586**
Cash outflow from operating activities		
Outflow from interests	(1,094,639)	(1,536,904)
Outflow from fees and commissions	(371,439)	(394,651)
Outflow from gross salaries, benefits and other personal expenses	(1,786,860)	(1,763,126)
Outflow from taxes, contributions and other duties charged to income	(691,383)	(668,853)
Outflow from other operating expenses	(2,740,294)	(2,976,837)
	(6,684,615)	**(7,340,371)**
Net cash inflow for operating activities before increase or decrease in loans investments and deposits	**2,665,153**	**2,838,215**
Decrease in loans and investments, and increase in deposits		
Decrease in loans and placements with banks and other financial organizations	-	954,816
Decrease in securities	36	76
Decrease in receivables for derivatives	-	25,673
	5,154,656	**980,565**
Increase in loans and investments, and decrease in deposits		
Increase in loans and placements with banks and other financial organizations	(9,427,362)	-
(Increase)/Decrease in liabilities for derivatives	-	(39,276)
Decrease in deposits	-	(10,584,006)
	(9,427,362)	**(10,623,282)**
Net cash inflow for operating activities before profit tax	**(1,607,553)**	**(6,804,502)**
Profit tax paid	-	-
Net cash inflow for operating activities	**(1,607,553)**	**(6,804,502)**
Cash flow from investing activities		
Inflow from selling of long term investments	14,127,658	12,780,217
Inflow from selling of intangible assets and fixed assets	3,979	1,221
	14,131,637	**12,781,438**
Cash outflow from investing activities		
Outflow for purchase of long term investments	(13,432,666)	(9,348,468)
Outflow for purchase of intangible assets and fixed assets	(357,951)	(316,751)
	(13,790,617)	**(9,665,219)**
Net cash flow from investing activities	**341,020**	**3,116,219**
Cash inflow from financing activities		
Increase in borrowings	15,884,290	81,023,943
	15,884,290	**81,023,943**
Cash outflow from financing activities		
Decrease in borrowings	(14,052,064)	(78,796,677)
	(14,052,064)	**(78,796,677)**
Net cash inflow from financing activities	**1,832,226**	**2,227,266**
Cash inflow	**44,520,351**	**104,964,532**
Cash outflow	**(43,954,658)**	**(106,425,549)**

All amounts are expressed in 000 RSD unless stated otherwise

Net cash inflow/(outflow)	**565,693**	**(1,461,017)**
Cash at the beginning of the year	**14,698,021**	**16,968,138**
Foreign exchange gains	8,318,173	13,119,071
Foreign exchange losses	(8,342,710)	(13,928,171)
Cash at the end of the reporting period	**15,239,177**	**14,698,020**

1. General information

Eurobank A.D. 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 2016 the Bank had 1,450 employees (31 December 2015: 1,441 employees). The Bank's network comprises of 80 branches and business centres (31 December 2015: 85).

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 28th April 2017.

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.

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)

a) New and amended Standards and Interpretations

The new and amended IFRS set out below are effective as of 1 January 2016:

IAS 1, Amendment - Disclosure initiative. The amendment clarifies that an entity need not provide in the financial statements, including the notes, a specific disclosure required by an IFRS if the information resulting from that disclosure is not material and also clarifies that additional disclosures may be necessary if the information required by IFRSs is not sufficient for an understanding of the impact of particular transactions and events on the entity's financial position and performance. The line items listed in IAS 1 for the balance sheet and the statement of profit or loss should be disaggregated if this is relevant to an understanding of the entity's financial position and additional guidance on the use of subtotals is provided. In the statement of comprehensive income the share of the other comprehensive income of equity -accounted associates and joint ventures should be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss and when determining a systematic approach to presenting notes, the entity should consider the understandability and comparability of its financial statements. The adoption of the amendment had no impact on the Bank's financial statements.

IAS 16 and IAS 38, Amendments - Clarification of Acceptable Methods of Depreciation and Amortization. The amendments clarify that the use of revenue-based methods to calculate the depreciation for property plant and equipment is not appropriate and they also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The adoption of the amendment had no impact on the Bank's financial statements.

IAS 27, Amendment-Equity Method in Separate Financial Statements. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and clarifies the definition of separate financial statements. In particular, separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures which are required by IAS 28 Investments in Associates and Joint Ventures to be accounted for using the equity method. The adoption of the amendment had no impact on the Bank's financial statements.

IFRS 11, Amendment – Accounting for Acquisitions of Interests in Joint Operations. This amendment requires an investor to apply the principles of business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs, which do not conflict with IFRS 11, when it acquires an interest in a joint operation that constitutes a 'business' as defined in IFRS 3. The amendments, which also apply when an existing business is contributed to the joint operation on its formation, require the disclosure of information specified in IFRS 3 and other IFRSs for business combinations. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation while the joint operator retains joint control. However, a previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation results in retaining joint control. The adoption of the amendment had no impact on the Bank's financial statements.

IFRS 10, IFRS 12 and IAS 28, Amendments - Investment Entities: Applying the Consolidation Exception. The amendments clarify the application of the consolidation exception for the subsidiaries of investment entities. The adoption of the amendment had no impact on the Bank's financial statements.

2. **Summary of significant accounting policies (continued)**

a) **New and amended Standards and Interpretations (continued)**

Annual Improvements to IFRSs 2012-2014 Cycle. The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2012-14 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- IFRS 5 'Non-current assets held for sale and discontinued operations': It is clarified that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. Therefore the asset (or disposal group) does not need to be reinstated in the financial statements, as if it had never been classified as 'held for sale' or 'held for distribution', simply because the manner of disposal has changed.
- IFRS 7 'Financial instruments: Specific guidance is added to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. It is also clarified that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34 'Interim financial reporting'.
- IAS 19 'Employee benefits': When determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise.
- IAS 34 'Interim financial reporting': It is clarified that the reference in the standard to 'information disclosed elsewhere in the interim financial report' means some other statement (such as management commentary or risk report) that is available to users of the financial statements at the same time as the interim financial statements, requiring a cross - reference from the interim financial statements to the location of that information.

The adoption of the amendment had no impact on the Bank's financial statements.

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

IAS 7, Amendment – Disclosure Initiative (effective 1 January 2017). The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities. The adoption of the amendment is not expected to impact the Bank's financial statements.

IAS 12, Amendment – Recognition of Deferred Tax Assets for Unrealized Losses (effective 1 January 2017). The amendment clarifies that (a) unrealized losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes may give rise to a deductible temporary difference irrespective of whether the entity expects to recover the carrying amount of the debt instrument by sale or use (b) estimates for future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences (c) the estimate of probable future taxable profits may include the recovery of an asset for more than its carrying amount, if there is sufficient evidence that it is probable that this will be realized by the entity, and (d) a deferred tax asset is assessed in combination with all of the other deferred tax assets where the tax law does not restrict the sources of taxable profits against which the entity may make deductions on the reversal of that

2. Summary of significant accounting policies (continued)

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

deductible temporary differences may be reversed. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type. The adoption of the amendment is not expected to impact the Bank's financial statements.

IAS 40, Amendment – Transfers of Investment Property (effective 1 January 2018). The amendment clarifies that a transfer of property, including property under construction or development, into or out of investment property should be made only when there has been a change in use of the property. Such a change in use occurs when the property meets, or ceases to meet, the definition of investment property and should be supported by evidence. The adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 2, Amendment – Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018). The amendment addresses a) the measurement of cash-settled share-based payments, b) the accounting for modifications of a share-based payment from cash-settled to equity-settled and c) the classification of share-based payments settled net of tax withholdings. Specifically, the amendment clarifies that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments It also clarifies that the liability of cash- settled share - based payment modified to equity-settled one is derecognized and the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted and any difference is recognized in profit or loss immediately. Furthermore, a share–based payment net by withholding tax on the employee's behalf (a net settlement feature) is classified as equity settled in its entirety, provided it would have been classified as equity-settled had it not included the net settlement feature. The adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 4, Amendment – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018). The amendment addresses the accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the forthcoming new insurance contracts Standard. The amendment introduces two options for entities that issue insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance, allowing them to continue to apply IAS 39 'Financial Instruments: Recognition and Measurement' while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets, effectively resulting in IAS 39 accounting for those designated financial assets. This approach can be used provided that the entity applies IFRS 9 in conjunction with IFRS 4 and classifies financial assets as fair value through profit or loss in accordance with IFRS 9, when those assets were previously classified at amortized cost or as available-for-sale in accordance with IAS 39. The amendment is not relevant to the Bank's activities.

IFRS 9, Financial Instruments (effective 1 January 2018)
In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised requirements on the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

2. Summary of significant accounting policies (continued)

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

Classification and measurement

IFRS 9 applies a new classification and measurement approach for all types of financial assets that reflects the entity's business model for managing the assets and their contractual cash flow characteristics. IFRS 9 requires financial assets to be classified into one of the following measurement categories: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available for sale. Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principle and interest ('SPPI'). Financial assets will be measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principle and interest. All other financial assets will be classified at FVTPL. An entity may at initial recognition, designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Furthermore, on initial recognition of an equity instrument that is not held for trading, an entity may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Under IFRS 9, embedded derivatives in contracts where the host is a financial asset in the scope of the standard are no longer bifurcated. Instead, the hybrid financial instrument is assessed for classification as a whole. IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk shall be presented in OCI and shall not be subsequently transferred to profit or loss unless such a presentation would create or enlarge an accounting mismatch. Under IAS 39, all fair value changes of liabilities designated at FVTPL are recognised in profit or loss unless this would create or enlarge an accounting mismatch.

Business model assessment

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the asset, to realise cash flows from the sale of assets, or both, to collect contractual cash flows and cash flows from the sale of assets. Financial assets that are held for trading or that are managed on a fair value basis will be measured at FVTPL.

The Bank's approach is to perform the business model assessment consistently with its operating model and the information provided to key management personnel. In making the above assessment the Bank will consider a number of factors including:

- The stated policies and objectives for each portfolio;
- How the performance of each portfolio is evaluated and reported;
- The risks associated with the performance of the business model and how those risks are managed;
- How managers are compensated; and
- Past experience on how the cash flows from those portfolios were collected, expectations about future sales activity and how the Bank's stated objective for managing the financial assets is achieved.

2. Summary of significant accounting policies (continued)

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

SPPI assessment

In assessing whether the contractual cash flows are solely payments of principle and interest, the Bank will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. This will include an assessment of whether a financial asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVTPL.

Preliminary assessment of changes to the classification and measurement

The Bank conducted a preliminary high-level assessment of possible changes to the classification and measurement of its portfolios based on its existing business models as at 31 December 2016. The Bank's current expectation is that:

- loans and advances to banks and customers that are classified as loans and receivables and measured at amortised cost under IAS 39 would also be measured at amortised cost under IFRS 9;
- held-to-maturity investment securities measured at amortised cost under IAS 39 would in general also be measured at amortised cost under IFRS 9;
- debt securities classified as available-for-sale under IAS 39, may under IFRS 9 be measured at amortised cost or FVOCI depending on the business model within which they are held;
- assets in the debt securities lending portfolio that are measured at amortised cost under IAS 39, may under IFRS 9 be measured at amortised cost or FVTOCI depending on the business model within which they are held;
- debt securities that are measured at FVTPL under IAS 39 would in general continue to be measured at FVTPL under IFRS 9;
- trading assets and derivative assets that are measured at FVTPL under IAS 39 would also be measured at FVTPL under IFRS 9; and
- equity securities classified as available-for-sale under IAS 39 would generally be measured at FVTPL under IFRS 9.

The above classification and measurement assessment may not be fully representative of the impact on the Bank's financial statements as at 1 January 2018 because IFRS 9 requires the business model assessment to be made based on the facts and circumstances that exist at the date of initial application. Moreover, the Bank's preliminary assessment has not included a detailed review of the contractual terms of all the financial assets which is in progress. The final impact will depend on the structure of the Bank's portfolios on initial application, which may not be the same as at 31 December 2016.

Impairment of financial assets

IFRS 9 introduces an expected credit loss ('ECL') model that replaces the incurred loss model in IAS 39. The new requirements eliminate the threshold in IAS 39 that required a credit event to have occurred before credit losses were recognised and will apply to a broader population of financial instruments compared to IAS 39. The measurement of ECL will require the use of complex models and significant judgment about future economic conditions and credit behaviour. The new impairment model will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. No impairment loss will be recognised on equity investments. The new standard uses a 'three stage approach' that will reflect changes in credit quality since initial recognition. At each reporting date, a loss allowance equal to 12-month ECL will be recognized for debt investment securities that are

2. Summary of significant accounting policies (continued)

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

determined to have a low credit risk at the reporting date, and for all other financial assets for which there is no significant increase in credit risk since initial recognition. 12-month ECL are the portion of ECL that result from default events that are possible within the next 12 months after the reporting date. For financial assets that have experienced a significant increase in credit risk since initial recognition where no specific loss event has been identified, a loss allowance equal to lifetime expected credit losses will be recognised. The loss allowance for purchased or originated credit impaired financial assets will always be measured at an amount equal to lifetime ECL. Financial assets where 12-month ECL are recognised are considered to be in 'stage-1'; financial assets which have experienced a significant increase in credit risk are in 'stage-2' and financial assets that are credit impaired are in 'stage-3'. The measurement of ECL will be a probability-weighted average amount that will reflect the time value of money. In measuring expected credit losses, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered. The new impairment model is expected to result in a higher loss allowance for the Bank compared to IAS 39.

Hedge accounting
IFRS 9 includes a new general hedge accounting model which aligns hedge accounting more closely with risk management. Under the new model, more hedging strategies may qualify for hedge accounting, new hedge effectiveness requirements apply and discontinuation of hedge accounting will be allowed only under specific circumstances. The IASB currently has a separate project for the accounting of macro hedging activities. Until the abovecompletion of the project is completedon macro hedging, entities have an accounting policy choice to continue applying the hedge accounting requirements in IAS 39.

IFRS 9 Implementation Programme
A Group-wide IFRS 9 Programme, led jointly by Group Risk and Group Finance, was initiated in 2015 to ensure a high quality implementation in compliance with the Standard and additional published regulatory guidance.

Overall governance is through a central Programme Management Office (PMO) that coordinates the implementation of the Programme among the various stakeholders and is responsible for the day-to-day management tasks, as well as two Management Committees, namely the Steering Committee and the Technical Committee. The Steering Committee, which comprises senior staff from all the main functions of the Group, is mandated to oversee the implementation in accordance with the Standard, monitors timelines and the quality of the Programme's deliverables, and regularly informs the Executive Board, the Board Risk Committee, the Audit Committee and the Board of Directors of the Programme's implementation progress. The Technical Committee is composed of Subject Matter Experts responsible for evaluating key technical issues and analysing proposed changes in accounting policies and risk management methodologies for the Steering Committee before they are submitted and approved by the competent bodies of the Bank.
Reflecting the scale and complexity of the implementation plan, the Programme is structured with various project teams (Group Finance, Group Risk Management, Information Systems, Lending Business Units, Troubled Assets Group, Operations and International General Division) dedicated to the various elements associated with the implementation of the Standard. These teams are supported by two external consultancy firms.

2. Summary of significant accounting policies (continued)

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

The implementation for the Bank is managed locally with the establishment of local PMOs and Steering Committees. Progress is monitored by the central PMO with Head Office providing support and guidance to ensure consistent implementation within the Group. Up to date the Bank, in cooperation with the Group, has performed a gap analysis on data and processes and has completed the design phase of the Programme. As part of the design phase of the implementation plan,

programme activities were focused on the definition of functional and technical requirements of the impairment model, setting out the business specifications for classification and measurement, and the designing of accounting policy changes. Educational workshops to the involved stakeholders across the Group are being continuously conducted on the impact of IFRS 9 in order to ensure that the new requirements are well understood.

The Programme has now progressed to the build phase with its focus on the development of IFRS 9 methodologies and accounting policy decisions in key areas. On conclusion of the build phase, the Bank intends to undertake a parallel run of IAS 39 and IFRS 9 in order to ensure a seamless transition to the new standard on the required effective date, while testing, model validation and refinement activities will continue up to the end of 2017.

The Group participates in the IFRS 9 thematic review conducted by the European Central Bank on the evaluation of the Group's preparedness, the impact of the new accounting rules on processes, infrastructure and regulatory capital. The Group has also carried out a preliminary impact assessment both for the classification and measurement and the impairment requirements within the context of the European Banking Authority's impact assessment on IFRS 9. The assessment was performed with reference date 31 December 2016 using information available as of that date as well as a number of assumptions on key policy choices that are yet to be determined since they are still being analysed by Management and their formulation is in progress.

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. However, management is not yet in a position to estimate reliably the expected impact, since the Bank is in the process of building models, assembling data and calibrating the impairment stage transfer criteria. Furthermore, potential changes to the prudential treatment of accounting provisions due to IFRS 9 that may affect regulatory capital, are yet to be determined. The impact is also dependent on finalizing the classification assessment and the facts and circumstances from the date of initial application. Management expects that this information will be disclosed no later than in the 2017 Annual Report.

IFRS 15, Revenue from Contracts with Customers (effective 1 January 2018) and IFRS 15 Amendments (effective 1 January 2018). IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognize and replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures;
- Lease contracts within the scope of IAS 17 Leases (or IFRS 16 Leases);
- Insurance contracts within the scope of IFRS 4 Insurance Contracts.

2. Summary of significant accounting policies (continued)

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

Therefore, interest and fee income integral to financial instruments will continue to fall outside the scope of IFRS 15. IFRS 15 specifies that revenue should be recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services. It introduces the concept of recognizing revenue for performance obligations as they are satisfied and the control of a good or service (i.e. the ability to direct the use of and obtain the benefits from them), is obtained by the customer. Extensive disclosures will be required in relation to revenue recognized and expected from existing contracts. IFRS 15 was amended in April 2016 to provide several clarifications, including the identification of the performance obligations within a contract. The adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 16, Leases (effective 1 January 2019). IFRS 16, which supersedes IAS 17 Leases and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17. The new standard provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration. The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognized at an amount equal to the present value of the lease payments during the lease term that are not yet paid. Accordingly, the typical straight line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the 'right-of-use-asset' and the interest expense on the 'lease liability'. The recognition of assets and liabilities by lessees, as described above, is not required for certain short term leases and leases of low value assets. Additionally, the accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

Annual Improvements to IFRSs 2014-2016 Cycle (effective 1 January 2017 and 1 January 2018). The amendments introduce key changes to two IFRS following the publication of the results of the IASB's 2014-16 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- IFRS 12 'Disclosure of Interests in Other Entities': It is clarified that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate classified as held for sale except for the requirement for summarized financial information. The amendment applies for annual periods beginning on or after 1 January 2017.
- IAS 28 'Investments in Associates and Joint Ventures': It is clarified that venture capital organizations, mutual funds, unit trusts and similar entities are allowed to elect measuring their investments in associates or joint ventures at fair value through profit or loss. The amendment applies for annual periods beginning on or after 1 January 2018.

The adoption of the amendment is not expected to impact the Bank's financial statements.

2. Summary of significant accounting policies (continued)

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

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective 1 January 2018). IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions that involve an advance payment or receipt. The interpretation clarifies that in this case, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, ie when the entity initially recognized the non-monetary asset (prepayment asset) or non-monetary liability (deferred income liability) arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt. The adoption of the interpretation is not expected to impact the Bank's financial statements.

2. Summary of significant accounting policies (continued)

c) Position of the Group

In June 2016, Greece, after the completion of a number of key prior actions, has successfully concluded the first review of the Third Economic Adjustment Program (TEAP), which permitted the disbursement of € 10.3 bn from the second instalment of the European Stability Mechanism (ESM) loan that allowed the country to cover its debt servicing needs and clear a part of the state's arrears to the private sector. 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 next key milestone for Greece is the timely and successful completion of the second review of the TEAP, currently in progress, which would help reinstating depositors' confidence and thus accelerate the return of deposits, it would facilitate the faster relaxation of capital controls and would allow for the participation in ECB's Quantitative Easing (QE) program, conditional on the decisions of the Institutions regarding the plan for the implementation of the medium-term debt relief measures. Moreover, the reduction of the short term uncertainty along with, the decisive implementation of the reforms agreed in the context of the ESM program and the mobilization of European Union (EU) funding to support domestic investment and job creation, would facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a sustainable growth path.

The main risks and uncertainties stem from the current macroeconomic environment in Greece and the further delays in the conclusion of the second review of the TEAP. In particular risks include (a) possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, which in turn would lead to the delayed disbursement of the third instalment of the ESM loan of € 6.1 bn, (b) the impact on the level of economic activity from the uncertainty associated with the timing of the conclusion of the second review of the TEAP, (c) the impact on the level of economic activity from additional fiscal measures agreed under the first review of the TEAP, (d) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, (e) the possible acceleration of the deposits outflows observed in the first two months of 2017, and/or possible delays in the effective management of non-performing loans as a result of the continuing macroeconomic uncertainty, (f) a possible deterioration of the refugee crisis and its impact on the domestic economy and (g) the geopolitical conditions in the broader region and the external shocks from a slowdown in the global economy.

The Group, following the successful completion of its recapitalization in November 2015, exclusively from private sources, is focused on the organic strengthening of its capital position by the further expansion of pre-provision income while maintaining its robust risk management practices, and by proceeding to additional initiatives associated with the restructuring, transformation or optimization of operations, in Greece and abroad, that will generate or release further capital and/or reduce risk weighted assets. One of the key areas of focus is the active management of non-performing exposures at an accelerated pace, with the aim to substantially reduce their stock in accordance with the Eurobank Ergasias S.A. operational targets and taking advantage of the Group's internal infrastructure, the external partnerships and the important legislative changes that have taken or are expected to take place. The Group's Common Equity Tier 1 (CET1) ratio stood at 17.6% at the end of September 2016 and the net profit attributable to shareholders amounted to € 230 million for the period ended 30 September 2016.

2. Summary of significant accounting policies (continued)

d) Position of the Bank

As at 31 December 2016, 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, 91/10 and 14/15) prescribes that a bank's exposure to all related parties must not exceed 25% of the bank's regulatory capital. As at 31 December 2016, 31 December 2015 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.

e) 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.

f) 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.

2.2. 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.

2. Summary of significant accounting policies (continued)

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 impaired as a result of a loss event, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

2.3. 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 Bank 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.

2. Summary of significant accounting policies (continued)

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.

2.4. 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. Summary of significant accounting policies (continued)

2.5. 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.

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.

2. Summary of significant accounting policies (continued)

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.

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.

2.6. 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)

2.7. 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;
- Significant financial difficulties experienced by the borrower;
- 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.

2.8. Cash and cash equivalents

Cash and cash equivalents comprise of cash on Gyro and current accounts in dinars, cash in hand, other cash and cash equivalents in dinars, foreign currency account, cash in hand and other cash and cash equivalents in foreign currency.

2.9. 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)

2.10. 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 present 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.

2.11. 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:

	2016 in years	2015 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)

2.12. 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 from 3 to 15 years.

2.13. 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.

2.14. 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".

2.15. 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.

The Bank has entered into commercial leases for premises, equipment and motor vehicles. The majority of the Bank's leases are under long-term agreements, according to the usual terms and conditions of commercial leases of each jurisdiction, including renewal options. The Bank's lease agreements, do not include any clauses that impose any restriction on the Bank's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

2. Summary of significant accounting policies (continued)

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.

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.

2.16. 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.

2.17. 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.

2.18. Due to banks

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

2.19. 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)

2.20. 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.

2.21. 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.

2.22. 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.

2.23. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with 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.

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 investments

The Bank determines that available-for-sale 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 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.

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:

	2016	**2015**
Cash and balances with Central bank	21,714,061	21,255,247
Loans and receivables	107,064,262	97,441,050
Financial assets at fair value through profit or loss held for trading	26,712	69,424
Financial assets available for sale	15,686,119	15,681,791
Other asset (financial part)	76,254	100,520
Total	144,567,408	134,548,032
Pledged assets (Note 18)	**692,590**	-

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).

5.1.1. Management of credit risk

The Bank approves loans in accordance with credit policies. Maturity dates of loans approved and interest rates are aligned 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

Troubled Asset Sector is also 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 and Credit Risk Department.
- Credit Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the relevant business unit, and provides independent credit opinion. Renewals and reviews of facilities are subject to the same assessment 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 (rating) policy in order to categorize exposures according to the level of exposure to credit enabling to put more focus on the observed risks. The rating system is maintained by Basel 2 and Modelling Department. The rating 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 the level of risk of default. Ratings are subject to regular reviews.

Reviewing compliance of business units with defined 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, based on which appropriate corrective actions are considered. 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. (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 includes:

- 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 a number of important 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) and it 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 non-performing (non-accruing status/denounced contracts), regardless of dpd.

MLU portfolio

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

Wholesale Banking portfolio

- Outstanding balances are delinquent for more than 90 dpd;
- Rating categories 8-11;
- Exposures that have been classified as non-performing (non-accrual status, denounced contracts, exposures handled by NPL 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, or in case of a second additional restructuring during Performing Forborne status);

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 than 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' (that is when a counterparty has failed to make a payment when contractually due) but can include additional categories of loans as defined below. 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 89 days (1-89 dpd) that are not treated as 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 Forborne 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. Components of this allowance are specific loss component that relates to individually significant exposures assessed as impaired, specific loss component related to exposures that are not individually significant, but assessed as impaired, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been reported.

Impairment of wholesale placements

Clients with materially significant exposure, in line with Bank's internal regulations and credit process, are individually assessed in order to identify existence of any impairment trigger. For exposures to borrowers assessed as impaired (with a rating 8 or 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 of the client. For other exposures (ratings 1-7), provisions are calculated on collective basis, taking into account Bank's historical experience on defaults and losses, as well as coverage of exposure with the eligible collateral. When calculating value of real estate collaterals that can be used for the purpose of credit risk mitigation, appropriate haircuts and realization periods are applied, calculated on the basis of the Bank's historical experience on collateral sales. If the estimated value of the allowance for impairment of the exposure under individual assessment equals 0, the above mentioned exposure is included in the calculation on collective basis i.e. the calculation of allowance for impairment based on historical experience, as defined by the internal regulations.

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 addition, coverage of exposure with the eligible collateral is taken into account. When calculating value of real estate collaterals that can be used for the purpose of credit risk mitigation, appropriate haircuts and realization periods are applied, calculated on the basis of the Bank's historical experience on collateral sales. 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.

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

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. In addition, special monitoring mechanism is defined by the Credit Risk Management Policy, on individual client level for Corporate and materially significant Retail exposures, and on portfolio level for the rest of the portfolio, focusing on clients/portfolios with early indicators of increased credit risk.

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 2016 and 31 December 2015 respectively, without taking account of any collateral.

	2016	2015
Credit risk exposure relating to on balance sheet assets:		
Loans and deposits to banks and other financial institutions	**12,325,886**	**10,427,144**
Less: Impairment allowance	**(80,803)**	**(9,747)**
Financial instruments at fair value through profit or loss:		
Derivative financial instruments	**26,712**	**72,346**
Loans and advances to customers:	**115,064,026**	**106,739,497**
- Corporate loans	43,671,745	38,617,714
- Loans to small and medium enterprise	10,324,948	10,352,017
- Retail loans	53,980,632	50,247,770
- Loans to entrepreneurs	7,086,701	7,521,996
Less: Impairment allowance	**(20,244,847)**	**(19,715,844)**
Investment securities:		
- Debt securities	**15,668,507**	**15,665,593**
Credit risk exposures relating to off balance sheet items:		
- Guarantees and other irrevocable commitments	22,898,425	20,702,013
Total	145,657,905	133,881,002

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. credit risk bearing balance sheet assets and off balance exposures) per types of exposure based on the Bank's classification system as at 31 December 2016:

	Neither past due nor impaired					
	Satisfactory quality	**Substandard quality**	**Other**	**Past due but not impaired**	**Impaired**	**Total 2016**
Loans and deposits to banks	12,325,886	-	-	-	-	12,325,886
Loans and receivables from customers:	73,875,211	2,193,190	28,305	5,493,846	33,473,474	115,064,026
Corporate loans	27,511,099	1,274,631	28,305	2,641,212	12,216,498	43,671,745
Loans to small and medium enterprises	3,364,800	38,014	-	164,489	6,757,645	10,324,948
Retail loans	42,066,463	873,767	-	2,580,788	8,459,614	53,980,632
Loans to entrepreneurs	932,849	6,778	-	107,357	6,039,717	7,086,701
Guarantees and other irrevocable commitments	19,997,813	44,729	3,809	43,257	2,808,817	22,898,425
Total	**106,198,910**	**2,237,919**	**32,114**	**5,537,103**	**36,282,291**	**150,288,337**

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Portfolio quality per types of placements based on the Bank classification system as at 31 December 2015 is presented in the table below:

	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	3.947.206	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**

Overdue analysis of loans and placements to banks and customers that are past due but not impaired as at 31 December 2016:

	Up to 30 days	**31 – 60 days**	**61 – 90 days**	**Over 90 days**	**Total 2016**
Placements to clients:	4,357,485	858,856	277,503	-	5,493,844
- Corporate lending	2,641,212	-	-	-	2,641,212
- SBB lending	109,523	29,264	25,702	-	164,489
- Mortgage lending	83,128	231,359	7,826	-	322,313
- Other retail placements	1,523,624	598,233	243,975	-	2,365,832
Guarantees and other commitments	34,460	8,398	399	-	43,257
Total	**4,391,945**	**867,254**	**277,902**	**0**	**5,537,103**

In 2016 the Bank has implemented new regulatory framework related to forbearance and non-performing exposures. As a consequence, the Bank has implemented definition of NPE, impaired and default status, according to which all exposures in delay over 90 days are treated as impaired.

All amounts are expressed in 000 RSD unless stated otherwise

5. **Risk management policies (continued)**

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 90 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	-	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**

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 2016 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	156,774	12,126	53,823,858	3,014,149	53,980,632	3,026,275
Legal entities	11,837,867	8,075,209	42,158,826	5,030,617	53,996,693	13,105,826
Entrepreneurs	186,190	138,366	6,900,511	3,974,380	7,086,701	4,112,746
	12,180,831	**8,225,701**	**102,883,196**	**12,019,146**	**115,064,026**	**20,244,847**
	Classified off balance assets	**Provisions**	**Classified off balance assets**	**Provisions**	**Classified off balance assets**	**Provisions**
Individuals	-	-	6,660,691	5,360	6,660,691	5,360
Legal entities	456,430	145,680	15,403,016	76,236	15,859,445	221,916
Entrepreneurs	-	-	378,288	1,941	378,288	1,941
	456,430	145,680	22,441,995	83,537	22,898,425	229,217
Total	12,637,261	8,371,381	125,325,191	12,102,685	137,962,451	20,474,066

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

As at 31 December 2015:

	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**

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.

2016	Individually impaired		Other	
	Gross	Net	Gross	Net
Public companies	-	-	71,562	56,802
Companies	7,937,183	3,325,453	4,746,158	2,587,817
Entrepreneurs	174,743	43,535	3,343,494	1,217,223
Retail	156,774	144,648	4,840,797	4,080,261
Total	**8,268,700**	**3,513,636**	**13,002,011**	**7,942,103**

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
Total	**4,748,544**	**3,644,553**	**2,260,155**	**2,245,541**

5. Risk management policies (continued)

Total amount of restructured loans of legal entities in 2016 amounted to RSD 12,754,903 thousand (allowance for impairment stood at RSD 6,784,831 thousand). Total amount of restructured loans of retail clients amounted to RSD 8,515,808 thousand (allowance for impairment stood at RSD 3,030,141 thousand). Comparing to 2015, significant increase of restructured loans is registered, mainly due to methodological changes, upon implementation of the regulatory framework for forbearance and NPE, based on new regulations issued by NBS.

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) *Exposures are considered as Forborne Performing in the following cases :*

- 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
- The exposure is not under Non Performing status
- Forborne Non Performing Exposures for which conditions to be treated as cured have been met, after at least one year from the date of modification.

b) *The following cases are considered as Forborne Non Performing exposure:*

- Modification of contract terms and conditions or refinancing, when the client was under Non Performing status and for at least one year after the last concession
- A Forborne Performing exposure, which during the Forborne Performing probation period met the criteria for Non Performing status
- Modifications of exposures which were Non Performing and after one year under Forborne Non Performing probation period met the criteria for entering the Forborne Performing („cured") status, but during the Forborne Performing probation period, the exposure was either re-modified or more than 30 days past due
- Renewals of forbearance coming from Forborne Performing exposure (less than 90 days past due and not unlikely to pay/defaulted/impaired), will be classified as Forborne Performing if there has been more than one additional concession during probation period.

Segmentation of Forbearance measures (indicative):

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

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

The following table presents a summary of the types of the Bank's forborne activities as at 31 December 2016 and 31 December 2015:

	2016	2015
Forbearance measures:		
Interest only schedule	1,482,463	598,086
Reduced payment schedule	777,284	-
Payment moratorium/Holidays	1,708	218
Term extension	2,541,163	1,988,668
Arrears capitalization	170,428	24,791
Partial debt write-off	-	-
Hybrid (i.e. combination of more than one type)	3,684,313	2,150,257
Other	2,798,378	1,128,074
Total net amount	11,455,737	5,890,094

Credit risk mitigation (collaterals)

The amount and type of the requested collateral 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 acceptable 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 internal regulations.

The Bank monitors the movements in the collateral market value and demands additional collateral in accordance with the loan agreements (where it is applicable).

Collateral overview

	2016	2015
Neither past due nor impaired		
- Real estate property	34,494,648	37,176,802
- Financial assets	1,026,952	772,235
Past due but not impaired		
- Real estate property	1,819,399	2,497,457
- Financial assets	31,264	28,239
Individually impaired		
- Real estate property	16,386,756	13,645,682
- Financial assets	209,619	215,465
Total	53,968,638	54,335,880

All amounts are expressed in 000 RSD unless stated otherwise

5. Risk management policies (continued)

Receivables in default

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

Bank's default definition is aligned with NBS definition stated in the Decision on Capital Adequacy of Banks. Defaults are observed on individual client (or in exceptional cases exposure) level and monitored per each portfolio in accordance with Bank's internal segmentation.

	Value of receivable	Default receivable
Private companies sector	53,996,693	18,974,143
Retail sector	53,980,632	8,459,614
Entrepreneurs sector	7,086,701	6,039,717
Finances and insurance sector	12,325,887	-
Total as at 31 December 2016	**127,389,913**	**33,473,474**
Total as at 31 December 2015	**117,166,641**	**33,668,432**

5.1.6. Securities, treasury bills and other eligible bills

As at 31 December 2016, the Bank has dinar bonds of Republic of Serbia Ministry of Finance in the total amount of RSD 12,117,793 thousand (31 December 2015: RSD 11,685,340 thousand), and foreign currency bonds of Republic of Serbia Ministry of Finance in the amount of RSD 3,550,714 thousand (31 December 2015: frozen saving bonds RSD 3,980,252 thousand) – (Note 20). The above mentioned bonds and trading securities are not rated. The rating of country is BB- stable based on Standard and Poor's rating. As of 31.12.2016 part of the RS Ministry of Finance bills in dinars in amount of RSD 692,590 thousand are used as pledge given as collateral for deposits taken from companies in bankruptcy.

5.1.7. Repossessed collateral

As at 31 December 2016 Bank had the following assets that were obtained by taking possession of collateral held as security:

Nature of assets	**Carrying amount**	
	2016	**2015**
Residential property	6,183	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	26,712	-	-	26,712
Financial assets available for sale	15,686,119	-	-	15,686,119
Loans and deposits to banks and other financial institutions	3,505,908	3,402,726	5,417,252	12,325,886
Loans and advances to customers:	**114,978,009**	**8,083**	**77,934**	**115,064,026**
- Corporate lending	43,671,744	-	-	43,671,745
- Consumer lending	32,059,309	2,756	4,930	32,066,995
- Mortgages	21,835,306	5,327	73,004	21,913,637
- Small business lending	17,411,650	-	-	17,411,650
Other assets	431,756	-	-	431,756
As at 31 December 2016	**134,628,504**	**3,410,809**	**5,495,186**	**143,534,499**
As at 31 December 2015	**127,337,943**	**267,854**	**5,629,271**	**133,235,068**

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	-	-	-	-	-	26,712	**26,712**
Financial assets available for sale	-	-	-	-	-	15,686,119	**15,686,119**
Loans and deposits to banks and other financial institutions	-	-	11,417,280	-	-	908,606	**12,325,886**
Loans and advances to customers:	28,772,892	3,370,633	-	12,326,727	60,938,753	9,655,021	**115,064,026**
- Corporate lending	24,555,906	2,720,045	-	10,436,074	-	5,959,719	**43,671,744**
- Consumer lending	-	-	-	-	32,066,995	-	**32,066,995**
- Mortgages	-	-	-	-	21,913,636	-	**21,913,636**
- Small business lending	4,216,986	650,588	-	1,890,653	6,958,122	3,695,302	**17,411,651**
Other assets						431,756	**431,756**
As at 31 December 2016	**28,772,892**	**3,370,633**	**11,417,280**	**12,326,727**	**60,938,753**	**26,708,214**	**143,534,499**
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**

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

The Bank is necessarily exposed to foreign exchange risk, i.e. to the risk of changes in FX rates since it has been working with different foreign currencies. Daily FX transactions cause the possible loss to the Bank due to uncertainty of the FX rate at which an open FX position can be closed, as well as in terms of negative effects of the revaluation of net open FX positions in individual currencies in the event of adverse movements in foreign exchange rates.

In order to protect Bank's equity and financial result the Bank identify, measure, monitor and manage exposure to foreign exchange risk on daily basis.

The Bank manages the exposure to foreign exchange risk in a manner that will ensure compliance of currency structure of its assets and liabilities with the risk ratios prescribed by the National Bank of Serbia, as well as with the limits prescribed in the internal acts enacted by the Bank's management and Risk 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 2016				At 31 December 2015			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Euros	66,701,296	66,441,938	14,540,313	(14,799,671)	59,069,056	74,999,498	16,320,855	(390,412)
CHF	16,824,411	16,823,330	(14,625,574)	14,624,493	18,656,906	2,328,049	(16,385,265)	56,408
Other	2,609,762	2,608,603	-	(1,158)	1,705,628	1,644,541	-	(61,087)
RSD	58,939,716	64,312,233	85,261	5,287,256	55,485,409	61,053,884	64,410	5,504,066
Total	145,075,185	150,186,105	-	5,110,920	134,916,998	140,025,973	-	5,108,975

5. Risk management policies (continued)

5.2.2. Interest rate risk

Interest rate risk is defined as Bank's exposure to adverse movements in interest rates which can cause negative effects on Bank's earning and economic value of capital. Interest rate risk could come in the variety of forms, including reprising risk, yield curve risk, basis and optionality risk.

In order to protect Bank's equity and financial result the Bank identify, measure, monitor and manage exposure to interest rate risk on monthly basis separately for all major currencies.

In measuring and assessing interest rate risk the Bank applies the following techniques:

- Gap analysis of interest rate risk,
- Scenario analysis,
- Stress testing,
- Analysis of embedded options.

The Bank manages the exposure to interest rate risk by applying the following techniques, which are executed on open interest rate positions recognized in the gap analysis:

- The natural hedge – is achieved by adjusting dates and re-pricing tenor of new products, which should influence decrease of an open gap in specific time bucket,
- Hedging an open interest rate position with OTC derivatives such as: interest rate swaps and options on interest rates.

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 2016						
Total financial assets	111,416,390	12,424,874	5,387,700	15,846,221	5,557,506	150,632,691
Total financial liabilities	43,430,681	15,608,231	12,405,901	29,775,453	49,412,425	150,632,691
Net interest sensitivity gap at 31 December 2016	**67,985,709**	**(3,183,357)**	**(7,018,201)**	**(13,929,232)**	**(43,854,919)**	-

	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	93,386,606	18,442,248	3,096,643	19,991,501	5,665,602	140,582,600
Total financial liabilities	33,287,953	17,441,940	19,660,415	22,680,896	47,511,396	140,582,600
Net interest sensitivity gap at 31 December 2015	**60,098,653**	**1,000,308**	**(16,563,771)**	**(2,689,396)**	**(41,845,794)**	-

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	**2016**	**2015**
Increase in basis points		
+100 bps parallel shift	529,452	350,558
Foreign exchange sensitivity		
10% depreciation of RSD	10,657	(891)

5. Risk management policies (continued)

5.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they come due, which can have a negative result on the Bank's financial results and equity. Liquidity risk is imminent in the banking business which arises from the nature of the basic activity of the Bank and maturity transformation necessary performed by the Bank.

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.

Liquidity management of the Bank represents a continuous process of perceiving liquidity needs and maintaining a satisfactory liquidity level in a variety of business scenarios, as well as contingency planning. In order to implement these activities most attention is directed to analyse stability and level of deposits concentration and other sources of funding of the Bank 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,
- share capital.

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

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 liabilities and discounted cash flows for assets for the years 2016 and 2015.

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 2016						
Due to banks, central bank and other financial institutions	7,513,907	-	-	-	-	7,513,907
Due to customers	18,090,423	6,408,976	18,581,733	51,016,910	166,765	94,264,807
Other liabilities	623,225	-	-	-	-	623,225
Total liabilities (contractual maturity dates)	26,227,555	6,408,976	18,581,733	51,016,910	166,765	102,401,939
Assets held for managing liquidity risk (contractual maturity dates)	50,588,054	4,012,287	20,355,730	22,702,986	52,973,634	150,632,691

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2015						
Deposits and other liabilities from banks, other financial institutions and central bank	278,508	12,839	3,094,608	88,787	651,673	4,126,414
Deposits and other liabilities towards 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

All amounts are expressed in 000 RSD unless stated otherwise

5. **Risk management policies (continued)**

b) Off-balance sheet items

As at 31 December 2016	No later than 1 year	1-5 years	Over 5 years	Total
Loan commitments	4,918,546	7,860,840	793,150	13,572,536
Guarantees and acceptances	2,131,953	2,509,836	4,830,202	9,471,991
Other irrevocable commitments	917,527	-	-	917,527
Operating lease	71,810	-	-	71,810
Capital commitments	36,803	-	-	36,803
Total	**8,076,639**	**10,370,676**	**5,623,352**	**24,070,667**

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**

Derivative cash flow

The Bank's derivatives that are be settled on gross basis include foreign exchange swaps over-the-counter (OTC). As at 31 December 2016 the Bank did not have derivatives that are be settled on gross basis.

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.

Derivatives settled on gross basis

As at 31 December 2015 the contractual undiscounted cash flows are presented below:

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**	-	-	-	-

5. **Risk management policies (continued)**

5.4. Operational risk

Operational risk is the risk of possible 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 management of the information system and other systems in the bank, as well as by unforeseeable external events and includes legal risk. Legal risk is the risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations, and penalties and sanctions pronounced by a regulatory body.

Operational risk processes consist of risk identification, exposure assessment (including measurement and valuation), control management and risk mitigation, operational risk reporting and performance improvement applying following operational risk methods: Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRI), Operational Risk Events Management, Operational Risk Reporting, Operational Risk Capital Charge Calculation and Allocation and Operational Risk Stress Testing.

The Bank includes in its risk management system all risks that arise from outsourcing activities and from launching of new products and services.

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, 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 weights 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 credit risk-weighted balance and off-balance assets are increased for the calculated foreign currency and price risk capital requirements divided by 12%.

The table below summarizes the structure of the Bank's capital as at 31 December 2016, as well as the capital adequacy ratio:

	2016	2015
Shareholders' equity	25,422,400	25,422,400
Share premium	6,051,999	6,051,999
Retained earnings	9,558,335	9,558,335
Intangible assets	(1,846,161)	(1,815,492)
Net regulatory provisions	(21,837,284)	(23,557,706)
Losses from previous years	-	(2,664,792)
Other Tier I deductible items	(10,240)	(10,240)
Total Tier I capital	**17,339,049**	**12,984,504**
Preference shares	4,800	4,800
Revaluation reserves	7,360	62,282
Tier II deductible items	(10,239)	(10,239)
Total Tier II capital	**1,921**	**56,843**
Total regulatory capital	**17,340,970**	**13,041,347**
Risk weighted assets		
Credit and counterparty risk	81,414,458	68,022,521
Market risk	637,695	2,050,308
Operational risk	11,490,285	11,938,992
Total risk weighted assets	**93,542,438**	**82,011,821**
Capital adequacy	**18.54%**	**15.90%**

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.

5. Risk management policies (continued)

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.

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	**31.12.2016 Book value**	**31.12.2016 Fair value**
Financial assets at fair value through profit and loss	26,712	26,712
Financial assets available for sale (Note 20)	15,686,119	15,686,119
Total	**15,712,831**	**15,712,831**

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**

All amounts are expressed in 000 RSD unless stated otherwise

5. **Risk management policies (continued)**

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Equities (Note 19)	559	-	-	559
Treasury bonds	-	-	-	-
Derivative assets (Note 19)	-	26,153	-	26,153
Financial assets available for sale				
Frozen bonds (Note 20)	-	-	-	-
Equities (Note 20)	17,612	-	-	17,612
Treasury bonds (Note 20)		15,668,507		15,668,507
Total assets	18,171	15,694,660	-	15,712,831
Derivative liabilities (Note 28)	-	31,335		31,335
				-
Total liabilities	-	31,335	-	31,335

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 (Note 20)		11,685,341	-	11,685,341
Total assets	3,997,037	11,754,180	-	15,751,217
Derivative liabilities (Note 28)	-	75,647	-	75,647
Total liabilities	-	75,647	-	75,647

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:

	31.12.2016		31.12.2015	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial (monetary) assets				
Cash and balances with Central bank	21,714,061	21,714,061	21,255,247	21,255,247
Assets held to maturity	-	-	-	-
Loans and receivables from banks and other financial organizations	12,245,083	12,245,083	10,417,397	10,417,397
Loans and receivables from customers	94,819,179	99,779,447	87,023,653	94,442,845
Other assets (financial part)	76,254	76,254	100,520	100,520
Total	**128,854,577**	**133,814,845**	**118,796,817**	**126,216,009**
Financial (monetary) liabilities				
Deposits and other liabilities towards banks and other financial organizations	7,033,192	7,033,192	3,933,034	3,933,034
Deposits and other liabilities towards customers	93,532,515	93,532,515	88,528,245	88,528,245
Other liabilities (suppliers)	181,508	181,508	162,257	162,257
Total	**100,747,215**	**100,747,215**	**92,995,563**	**92,995,563**

		Fair value		
31.12.2016	Level 1	Level 2	Level 3	**Total**
Assets				
Loans and receivables from clients	-	99,779,447	-	99,779,447
Loans and receivables from banks and other financial organizations	-	12,245,083	-	12,245,083
Total	-	112,024,530	-	112,024,530
Liabilities				
Deposits and other liabilities towards banks and other financial organizations	-	7,033,192	-	7,033,192
Deposits and other liabilities towards clients	-	93,532,515		93,532,515
Total	-	100,565,707	-	100,565,707

All amounts are expressed in 000 RSD unless stated otherwise

5. **Risk management policies (continued)**

	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	-	10,417,397	-	10,417,397
Total	**-**	**104,860,242**	**-**	**104,860,242**
Liabilities				
Deposits and other liabilities towards banks	-	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**

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 2016:

	Fin. assets at fair value through P&L	Held to matu -rity	Loans and receiva-bles	Available for sale	Amortized cost	Total book value	Fair value
Cash and assets held at NBS	-	-	21,714,061	-	-	21,714,061	21,714,061
Assets held to maturity	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	15,686,119	-	15,686,119	15,686,119
Financial assets at fair value through profit and loss	26,712	-	-	-	-	26,712	26,712
Loans and receivables from banks and other financial organizations	-	-	12,245,083	-	-	12,245,083	12,245,083
Loans and receivables from clients	-	-	94,819,179	-	-	94,819,179	99,779,447
Other assets	-	-	-	-	431,756	431,756	431,756
Total assets	26,712	-	128,778,323	15,686,119	431,756	144,922,910	149,883,178
Financial liabilities at fair value through profit and loss	31,335	-	-	-		31,335	31,335
Deposits and other liabilities towards banks and other financial organizations	-	-	-	-	7,033,192	7,033,192	7,033,192
Deposits and other liabilities towards clients	-	-	-	-	93,532,515	93,532,515	93,532,515
Other liabilities	-	-	-	-	623,225	623,225	623,225
Total liabilities	31,335	-	-	-	101,188,932	101,220,267	101,220,267

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 due to 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**

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

	2016	2015
Interest income		
Interest income from dinar assets		
Loans	6,212,181	6,946,414
Deposits	142,871	267,814
Securities	590,209	723,935
Other placements	56,478	57,892
Interest income from foreign currency assets		
Loans	160,238	259,425
Deposits	58,266	5,192
Securities	105,042	276,413
Other placements	147,187	112,276
	7,472,472	8,649,361
Interest expense		
Interest expense from dinar liabilities		
Borrowings	-	(19,521)
Deposits	(253,757)	(428,388)
Other liabilities	(1)	-
Interest expense from foreign currency liabilities		
Borrowings	(78,864)	(48,319)
Deposits	(628,522)	(839,739)
Other liabilities	(72,640)	(43,773)
	(1,033,784)	(1,379,740)
Net interest income	6,438,688	7,269,621

7. Fee and commission income and expense

	2016	2015
Fees and commissions income		
Fees for banking services	2,041,943	1,899,204
Commissions from issued guarantees and other sureties	100,029	146,394
Other fees and commissions	239,576	139,522
	2,381,548	2,185,120
Fees and commissions expense		
Fees for domestic payment transactions	(19,421)	(26,548)
Fees for payment transactions abroad	(39,431)	(28,946)
Commissions for received guarantees and sureties	(133)	(153)
Other fees and commissions	(338,551)	(304,967)
	(397,536)	(360,614)
Net fees and commissions income	1,984,012	1,824,506

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:

	2016	2015
Gain from financial assets held for trading	10	43
Gains from change of value of derivatives	1,626	13,603
Losses from financial assets held for trading	-	(19)
Net gains / (losses)	**1,636**	**13,627**

9. Net foreign exchange gains

	2016	2015
Foreign exchange gains	151,207,561	52,752,364
Foreign exchange losses	(151,182,356)	(52,661,092)
Net foreign exchange rate gains	**25,205**	**91,272**

10. Operating and other income

	2016	2015
Release of provisions for legal cases and client damages (Note 31)	17,112	16,174
Release of other provisions (Note 31)	-	34,979
Lease of premises	3,933	4,884
Gains from sale of fixed assets and intangible investments	926	3,557
Gains from sale of other placements	-	52,730
Collected damages and lawsuits	13,899	13,066
Other income	25,814	54,221
Total	**61,684**	**179,611**

All amounts are expressed in 000 RSD unless stated otherwise

11. Net provisions and impairment losses on loans and advances

	2016	2015
Income from reversal of provisions and impairment losses		
Loans and receivables from customers (Note 22)	206,095	703,658
Other assets (Note 27)	821	72,074
Off balance sheet items (Note 31)	92,226	805
Banks	7,393	-
Collected written off loans and receivables	69,205	91,112
Subtotal	375,740	867,649
Expenses for provisions and Impairment charge		
Loans and receivables from customers (Note 22)	(1,153,896)	(1,663,146)
Other assets (Note 27)	(1,537)	(4)
Off balance sheet items (Note 31)	(2,032)	(176,321)
Banks	(78,980)	(9,086)
Direct write off	(24,412)	(22,890)
Subtotal	(1,260,855)	(1,871,447)
Net provisions and impairment	(885,115)	(1,003,798)

12. Salaries, benefits and other personnel expenses

	2016	2015
Salaries	(1,280,293)	(1,244,173)
Tax on salaries and benefits	(161,902)	(158,477)
Contributions on salaries and benefits	(332,216)	(323,095)
Other personnel expenses	(29,741)	(46,003)
Expenses for temporary and occasional work	-	(503)
Loss on retirement benefits	(14,501)	(2,113)
Total	(1,818,653)	(1,774,364)

13. Depreciation and amortization expenses

	2016	2015
Intangible assets (Note 24)	233,732	209,663
Property, plant and equipment (Note 25)	182,269	200,594
Total	416,001	410,257

All amounts are expressed in 000 RSD unless stated otherwise

14. Operating and other expenses

	2016	2015
Administrative expenses	1,460,656	1,439,389
Non-material expenses (excluding taxes and contributions)	1,128,319	1,164,617
Contributions	302,229	293,964
Materials	149,257	149,142
Taxes	54,191	56,997
Disposals and write-offs of intangible assets and PPE	274	7,405
Legal expenses and taxes	40,507	37,535
Other expenses	87,168	110,139
Provisions for legal cases (Note 31)	22,069	30,384
Total	**3,244,670**	**3,289,572**

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

	2016	2015
Transportation services	73,877	76,409
Communication services	123,325	128,466
Telephone	22,626	24,483
Software maintenance	422,654	404,550
Hardware maintenance	61,093	48,819
Maintenance of fixed assets	37,492	36,533
ATM maintenance	15,055	15,587
Marketing and advertising	219,239	197,329
Donations	14,494	15,658
Rent	380,336	385,298
Other services	90,465	106,257
Total	**1,460,656**	**1,439,389**

As of 31 December 2016, non-material expenses in the amount of RSD 1,128,319 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 472,871 thousand, expenses for legal services in the amount of RSD 202,675 thousand, employee transportation expenses in the amount of RSD 44,268 thousand, cleaning services in the amount of RSD 25,297 thousand, safeguarding expenses in the amount of RSD 33,406 thousand, expenses for printing statements for cards in the amount of RSD 33,580 thousand, services of youth organization in the amount of RSD 6,590, collection services in the amount of RSD 28,065 thousand, information system services in the amount of RSD 29,456 thousand, intellectual services in the amount of RSD 34,165 thousand and other expense.

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.

All amounts are expressed in 000 RSD unless stated otherwise

15. Income tax

Income tax:

	2016	2015
Current income tax	-	-
Deferred tax	(85,461)	15,672
Total	**(85,461)**	**15,672**

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

	2016	2015
Profit before tax	2,146,786	2,900,646
Tax calculated at the rate of 15%	(322,018)	(435,097)
Tax effect of non-deductible expenses and non-taxable revenues	17,623	161,702
Tax effect from the current year result	**(304,395)**	**(273,395)**
Tax effect of temporary differences	22,567	(33,212)
Tax effect of deferred tax on tax credits	(87,879)	-
Utilized tax losses	304,395	273,395
(Utilized)/Recognized deferred tax assets on losses carried forward	(20,149)	48,884
Income tax	**(85,461)**	**15,672**

As at 31 December 2016, the Bank has tax profit in the amount of RSD 2,029,301 thousand (2015: tax profit of RSD 1,822,633thousand). As at 31 December 2016, the Bank has utilized part of the previous year losses, while the Bank has total unutilized tax loses from previous years in the amount of RSD 859,574 thousand. The Bank has recognized all deferred tax assets on losses carried forward in the amount of RSD 128,936 thousand. Therefore, there are no unrecognized deferred tax assets on losses carried forward (2015: RSD 284,246 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 2016, the Bank has 48 preference shares issued. No preference dividends are declared, therefore there is no effect on basic earnings per share.

	2016	2015
Profit attributable to equity holders of the Company	2,061,324,967	2,916,317,720
Weighted average number of ordinary shares in issue	254,224	254,224
Basic earnings per share (expressed in RSD per share)	**8,108**	**11,471**

All amounts are expressed in 000 RSD unless stated otherwise

17. Cash and balances with Central Bank

	2016	2015
In dinars		
Current account	8,424,147	7,372,038
Cash in hand	1,007,613	970,759
Revocable loans and deposits	-	1,500,000
In foreign currency		
Cash in hand	2,483,496	1,822,486
Other cash and cash equivalents	1,549	10,041
Required reserve at Central Bank	9,797,256	9,579,923
Total	21,714,061	21,255,247

Mandatory reserves in local currency and in foreign currency are calculated by Bank 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 and 4/2015,78/2015 and 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).

As at 31 December 2016 calculated mandatory reserves in local currency amounted to RSD 6,465,308 thousand (in 2015: RSD 6,558,885 thousand). Mandatory reserves in local currency are included in the balance of the current account, therefore not presented separately. The Bank can use mandatory reserves to maintain its liquidity.

As at 31 December 2016 calculated mandatory reserves in foreign currency amounted to EUR 77,337 thousands (in December 2015: EUR 80,355 thousands). 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.

From January 2016, foreign currency mandatory reserves on deposits with maturity up to 2 years stand at 20%. The reserves should be maintained as follows: 38% of the reserve should be maintained in dinars and 62% of reserve should be maintained in euros. Local currency mandatory reserves on deposits with maturity up to 2 years stand at 5%.

Foreign currency mandatory reserves on deposits with maturity over 2 years stand at 13%. 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. Local currency mandatory reserves on deposits with maturity over 2 years do not require any reserves.

All amounts are expressed in 000 RSD unless stated otherwise

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)	2016	2015
In dinars		
Current account	8,424,146	7,372,038
Cash in hand	1,007,613	970,759
In foreign currency		
Cash in hand	2,483,496	1,822,486
Other cash and cash equivalents	1,549	10,041
Loans, advances and deposits to Financial Institutions (Note 21)		
Foreign currency account	3,322,373	4,522,696
Total cash flow	15,239,177	14,698,020

18. Pledged financial assets

As at 31 December 2016 the Bank has pledged financial assets in the amount of RSD 692,590 thousand relate to the pledged RS Ministry of Finance bills in dinars (Note 20) that was given as collateral for deposits taken from companies in bankruptcy. As at 31 December 2015 the Bank did not have pledged financial assets.

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

	2016	2015
In dinars		
Shares	559	585
In foreign currency		
Increase in fair value of derivatives	26,153	68,839
Total	26,712	69,424

Derivative assets and liabilities:

	31 December 2016			31 December 2015		
		Fair values			Fair values	
	Contract/notional amount	Assets	Liabilities	Contract/notional amount	Assets	Liabilities
Derivatives held for trading						
Currency swaps	-	-	-	6,884,037	-	623
Interest rate swaps	23,872,241	26,153	31,335	24,475,952	68,839	75,024
Total	23,872,241	26,153	31,335	31,359,990	68,839	75,647

All amounts are expressed in 000 RSD unless stated otherwise

20. Financial assets available for sale

	2016	2015
In dinars		
RS Ministry of Finance bills	12,117,793	11,685,340
In foreign currency		
Frozen savings bonds	-	3,980,252
RS Ministry of Finance bills	3,550,714	-
Shares	17,612	16,199
Pledged financial assets (Note 18)	(692,590)	-
Total	**14,993,529**	**15,681,791**

All amounts are expressed in 000 RSD unless stated otherwise

21. Loans and deposits to banks and other financial institutions

	2016					2015
	Domestic banks	Foreign banks	Financial institutions	National Bank of Serbia	Total	Total
Repo in dinars	-	-	-	-	-	3,500,504
Deposits in dinars						
Other deposits	940,000	-	-	-	940,000	-
Deposits in foreign currency	-					
Foreign banks accounts		3,322,373	-	-	3,322,373	4,522,696
Other deposits	2,531,182	4,612,427	-	-	7,143,609	1,739,866
Other special purpose deposits	-	-	869,897	-	869,897	645,701
Placements in dinars	-					
Investment loans	-	-	-	-	-	-
			-		-	-
Other loans		-	683	-	683	12670
Accrued interest receivables	157	-	-	-	157	8
Placements in foreign currency	-					
Other placements	-	-	28,960	-	28,960	2,815
Accrued interest receivables	14	400	19,793	-	20,207	2,884
Loans and placements, gross	**3,471,353**	**7,935,200**	**919,333**	-	**12,325,886**	**10,427,144**
Less: Provisions	(1,732)	(76,228)	(2,843)	-	(80,803)	(9,747)
Loans and placements, net	**3,469,621**	**7,858,972**	**916,490**	-	**12,245,083**	**10,417,397**

All amounts are expressed in 000 RSD unless stated otherwise

22. Loans and receivables from customers

	2016						2015
	Companies	**Entrepreneurs**	**Individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Deposits in dinars							
Other special purpose deposits	-	-	25,000	-	-	25,000	12,000
Deposits in foreign currency							
Other special purpose deposits	-	-	-	-	-	-	-
Placements in dinars							
Interest and fee receivables	676,119	511,412	276,952	13	121,264	1,585,760	1,689,245
Investment loans	1,039,015	452,550	-	-	24,113	1,515,678	1,526,225
Overdrafts	507,656	47,711	696,898	-	756	1,253,020	1,049,552
Working capital loans	36,625,393	4,958,534	-	-	19,126	41,603,055	36,272,344
Mortgage loans	-	-	21,459,781	68,710	7	21,528,497	22,314,874
Other loans	5,391,448	1,046,146	4,969,571	-	27	11,407,192	10,370,615
Cash loans	-	-	26,171,509	-	-	26,171,509	21,312,632
Consumer loans	-	-	174,202	-	-	174,202	343,518
Other placements	1,714,724	2,714	4,087	-	4,484	1,726,008	1,373,115
Accrued interest receivables	95,974	32,445	216,286	99	47,790	392,594	463,154
Placements in foreign currency							
Interest and fee receivables	25,823	-	-	-	-	25,823	28,475
Import loans	3,766,663	-	-	-	-	3,766,663	5,922,624
Other loans	49,111	-	-	-	-	49,111	48,720
Other placements	4,014,126	-	-	-	-	4,014,126	4,215,840
Accrued interest receivables	2,571	-	-	-	-	2,571	21,507
Income deferral using effective interest rate	(91,261)	-	(85,522)	-	-	(176,783)	(224,939)
Loans and placements, gross	**53,817,361**	**7,051,512**	**53,908,764**	**68,822**	**217,567**	**115,064,026**	**106,739,499**
Less: Provisions	(13,030,270)	(4,130,333)	(3,026,554)	(436)	(57,254)	(20,244,847)	(19,715,848)
Loans and placements, net	**40,787,091**	**2,921,179**	**50,882,210**	**68,386**	**160,313**	**94,819,179**	**87,023,651**

All amounts are expressed in 000 RSD unless stated otherwise

22. Loans and receivables from customers (continued)

Interest rates for indexed loans to legal entities ranged between 2.00% and 4.28% per annum and for RSD loans between 3.75% and 5.68% per annum. The Bank approves indexed loans to retail customers, where the interest rate ranges from 2.18%-16.48% per annum and RSD loans with interest rates between 4.47%-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 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	550,850
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	3,229,586	1,239,469	19,715,843
Impairment charge (Note 11)	370,734	228,469	182,118	172,181	162,289	38,105	1,153,896
Release (Note 11)	-	(12,858)	(18,984)	(77,204)	-	(97,048)	(206,095)
BAN 2 implementation	-	-	(31,267)	-	-	-	(31,267)
Net foreign exchange	55,821	7,644	12,652	127,425	50,528	21,324	275,394
Write off	(609,501)	(19,032)	-	(33,141)	-	(1,252)	(662,925)
Other	-	-	-	-	-	-	-
Closing balance 2016	4,419,355	2,180,293	696,631	8,305,568	3,442,403	1,200,598	20,244,847

23. Investments in associates

	2016	**2015**
Equity shares	20,479	20,479
	20,479	**20,479**

As at 31 December 2016 the Bank is holding 25.56% of the voting rights of the ERB Leasing a.d. Beograd (31 December 2015: 25.56%).

All amounts are expressed in 000 RSD unless stated otherwise

24. Intangible assets

As at December 2014	Intangible assets	In course of construction and advances	Total
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 (Note 13)	(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
Year ended 31 December 2016			
Opening net book value	**1,732,162**	**83,331**	**1,815,493**
Additions		264,400	264,400
Transfers	290,588	(290,588)	-
Amortization (Note 13)	(233,732)		(233,732)
Closing net book value	**1,789,018**	**57,143**	**1,846,161**
At 31 December 2016			
Cost	3,808,857	57,143	3,866,000
Accumulated amortization	(2,019,839)	-	(2,019,839)
Net book value	**1,789,018**	**57,143**	**1,846,161**

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

All amounts are expressed in 000 RSD unless stated otherwise

25. Property, plant and equipment

	Land and buildings	Equipment and other assets	In course of construction and advances	Total
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 (Note 13)	(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
Year ended 31 December 2016				
Opening net book amount	3,257,651	444,815	13,017	3,715,483
Additions	6,169		114,905	121,074
Transfers	11,801	59,219	(71,020)	-
Disposal/Write off	(13)	(966)		(979)
Depreciation (Note 13)	(79,101)	(103,168)	-	(182,269)
Closing net book value	3,196,507	399,901	56,903	3,653,311
At 31 December 2016				
Cost	4,042,824	1,447,495	56,903	5,547,222
Accumulated depreciation and impairment	(846,317)	(1,047,594)	-	(1,893,911)
Net book value	3,196,507	399,901	56,903	3,653,311

Rental expenses in the amount of RSD 380,336 thousand (2015: RSD 385,298 thousand) in relation to the rental of property are included in the operating expenses (Note 14).

As at 31 December 2016 there are no charges over the Bank's fixed assets.

All amounts are expressed in 000 RSD unless stated otherwise

26. Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December:

	2016	2015
Deferred tax assets	227,741	310,661
Deferred tax liabilities	(169,707)	(176,035)
	58,034	134,626

Deferred tax is recognized on temporary differences, losses carried forward and unused tax credits.

Movements in net deferred tax assets

	2016	2015
Opening balance of deferred tax (assets)	134,626	106,676
Changes during the year:		
Decrease/(increase) of deferred tax liabilities and (decrease)/ increase of deferred tax assets related to temporary differences	22,567	(33,212)
Deferred tax assets on losses carried forward	(20,149)	48,884
Deferred tax assets on tax credits	(87,878)	-
Total deferred tax (expense)/income for the year	(85,461)	15,672
Deferred tax on revaluation reserves	9,692	12,446
Deferred tax on actuarial losses	(824)	(168)
Net deferred tax assets	58,034	134,626

As at 31 December 2016 the Bank has no unrecognized deferred tax assets on losses carried forward (31 December 2015: RSD 284,246 thousand).

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

	2016	2015
Depreciation	(2,787)	(33,361)
Long term provisions	25,354	149
Losses carried forward	(20,149)	48,884
Tax credits	(87,878)	-
	(85,461)	15,672

All amounts are expressed in 000 RSD unless stated otherwise

27. Other assets

	2016	2015
Prepayments and accrued income in dinars		
Accrued interest	127	158
Prepayments	241,591	111,101
Other prepayments and accrued income	65,411	66,375
Prepayments and accrued income in foreign currency		
Accrued interest	119	375
Other prepayments and accrued income	-	625
	307,248	178,634
Other receivables in dinars		
Employees	5	31
Advances for current assets	11,168	11,412
Advances for property, plant and equipment	39,372	13,205
For prepaid taxes and contributions	120	1,098
Suspense and temporary accounts	(14,897)	(5,034)
Other fee receivables	47,206	57,805
Other receivables	54,010	57,008
Other receivables in foreign currency		
Advances for current assets	2,318	2,587
Suspense and temporary accounts	2,382	1,364
Other fee receivables	5,200	19,210
Other receivables	119,915	114,236
	266,799	272,922
Inventory		
Assets received in collection of claims	12,415	12,415
Material	3,016	3,284
	15,431	15,699
Other assets, gross	589,477	467,255
Less: Impairment	(151,489)	(149,139)
Less: Provisions for repossessed collateral	(6,232)	(904)
Other assets, net	431,756	317,212

All amounts are expressed in 000 RSD unless stated otherwise

27. Other assets (continued)

Movements in impairment allowance are presented below:

	2016	2015
Opening balance	**149,139**	**212,765**
Impairment charge (Note 11)	1,534	4
Release (Note 11)	(821)	(72,074)
Net foreign exchange	1,863	9,036
Write off	(226)	(592)
Other	-	-
Closing balance	**151,489**	**149,139**

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

	2016	2015
Liabilities in dinars		
Increase in fair value of derivatives	5,182	6,808
Liabilities in foreign currency		
Increase in fair value of derivatives	26,153	68,839
Total (Note 19)	**31,335**	**75,647**

All amounts are expressed in 000 RSD unless stated otherwise

29. Deposits and other liabilities due to banks, other financial institutions and Central Bank

	2016				2015
	Foreign banks	Domestic banks	Financial institutions	Total	Total
Transaction deposits in dinars	27,480	-	181,927	209,407	134,775
Transaction deposits in foreign currency	355	5,910	106,795	113,060	17,208
Other deposits and liabilities in dinars					
Special purpose deposits	210	-	-	210	230
Other deposits	-	-	175,000	175,000	83,355
Other financial liabilities	-	48	0	48	-
Interest and fees accruals in dinars	-	-	153	153	81
Other deposits and liabilities in foreign currency					
Special purpose deposits	190,743	-	1,464	192,207	6,093
Other deposits	-	175,706	-	175,706	48,650
Received loans	-	-	6,174,356	6,174,356	3,660,946
Interest and fees accruals	211	12	7,290	7,513	4,278
Deferred costs using effective interest rate	-	-	(14,468)	(14,468)	(22,582)
Total	**218,999**	**181,676**	**6,632,517**	**7,033,192**	**3,933,034**

All amounts are expressed in 000 RSD unless stated otherwise

30. Deposits and other liabilities due to customers

	2016							2015
	Public sector	Companies	Entrepreneurs	Private individuals	Foreign entities	Other clients	Total	Total
Transaction deposits in dinars	756	2,558,938	1,086,930	2,813,177	38,075	355,163	6,853,039	5,280,009
Transaction deposits in foreign currency	-	2,987,921	58,575	17,849,900	908,335	112,770	21,917,501	16,762,843
Other deposits and liabilities in dinars								
Savings deposits	-	-	-	1,053,882	10,114	-	1,063,996	1,315,250
Special purpose deposits	-	197,935	61	29,710	2,429	-	230,135	151,062
Deposits pledged as collateral	-	75,438	1,200	7,602	-	-	84,240	54,907
Other deposits	-	3,086,263	34,080	-	-	4,081,789	7,202,132	7,465,213
Overnight	-	-	-	-	-	-	-	34,000
Other financial liabilities	-	125	-	36,560	-	76	36,761	29,241
Interest, provisions and fees payable	-	145	53	41	1	-	240	454
Interest accruals	-	1,588	88	12,955	286	10,826	25,743	34,252
Deferred costs using effective interest rate	-	-	-	-	-	-	-	-
Other deposits and liabilities in foreign currency								
Savings deposits	-	-	-	47,343,666	1,008,941	-	48,352,607	50,188,048
Special purpose deposits	-	270,633	661	77,148	16,492	47,003	411,937	372,116
Deposits pledged as collateral	-	458,153	5,717	574,585	68,431	-	1,106,886	900,527
Other deposits	-	4,558,432	-	-	-	533,965	5,092,397	4,194,377
Received loans	941,214	-	-	-	-	-	941,214	1,514,572
Other financial liabilities	-	48,467	-	-	-	3,692	52,159	17,580
Interest, provisions and fees payable in foreign currency	-	-	-	310	1	-	311	288
Interest accruals	536	2,571	15	149,376	8,562	157	161,217	213,503
Total	**942,506**	**14,246,609**	**1,187,380**	**69,948,912**	**2,061,667**	**5,145,441**	**93,532,515**	**88,528,242**

All amounts are expressed in 000 RSD unless stated otherwise

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

The interest rate calculated on demand corporate deposits in local currency up to 0.63% per annum, while interest rate on foreign currency deposits is up to 0,.40%. Term corporate deposits in local currency carry interest rate from 1.90% to 2.90% per annum and corporate foreign currency term deposits carry interest rate from 0.64% to 1.03% 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 0.10% for EUR and 2.44%RSD. Interest rate on foreign currency term deposits varied from 0.13% to 0.93% in EUR while interest rate on RSD term deposits of citizens ranged from 1.47% to 3.65% per annum.

31. Provisions

	2016	2015
Provisions for off-balance sheet exposures	229,218	313,694
Provisions for legal cases (Note 34 b)	168,963	202,534
Provisions for retirement	36,759	36,699
Provision for bonuses and other - IAS 19	11,646	3,700
Provisions for restructuring	-	-
Total	**446,586**	**556,627**

Movements in total provisions:

	Bonuses and other - IAS 19	Retirement	Legal cases	Provisions for restructuring	Off balance sheet	Total
Opening balance 2015	**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	-	2,113	30,384	-	176,321	208,818
Release of provisions (Note 11, 10)	-	-	(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**
Provisions paid during the year	-	(1,004)	(39,407)	-		(40,411)
New provisions	7,946	6,554	22,069	-	2,032	38,601
Release of provisions	-	(5,490)	(17,112)	-	-	(114,828)
(Note 10, 11)					(92,226)	
Net exchange gain/loss	-	-	879	-	5,717	6,596
Closing balance 2016	11,646	36,759	168,963	-	229,217	446,586

All amounts are expressed in 000 RSD unless stated otherwise

31. Provisions (continued)

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

	2016	2015
Discount rate	5.2%	6.2%
National average salary increase	1.8%	1.8%
Inflation rate	3.5%	3.5%

32. Other liabilities

	2016	2015
Liabilities for salaries and benefits		
Temporary and occasional assignments	6,255	3,795
Other liabilities towards employees	15,910	15,758
	22,165	19,553
Other liabilities in dinars		
Operations managed on behalf of third parties	5,964	5,995
Advances received	2,131	1,916
Suppliers	137,364	112,741
Temporary and suspense accounts	37,235	6,021
Liabilities from profit	700	700
Other liabilities	26,786	22,058
Liabilities for interest and fees	9,888	3,447
Other obligations in foreign currency		
Advances received	45,342	34,739
Suppliers	44,144	49,516
Temporary and suspense accounts	560	242
Other liabilities	4,448	5,431
	314,562	242,806
Value added tax	45,920	40,831
Other taxes and contributions	9,573	6,607
	55,493	47,438
Accruals and deferred income in dinars		
Other accrued expenses	49,291	43,955
Deferred income from fees	16,561	9,632
Deferred interest income	6,807	33,336
Other accruals and deferred income	152,886	132,609
Accruals and deferred income in foreign currency		
Other accrued expenses	3,079	4,032
Other accruals and deferred income	2,381	921
	231,005	224,485
Total	623,225	534,282

All amounts are expressed in 000 RSD unless stated otherwise

33. Shareholder's equity

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

	2016	2015
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	7,360	62,280
Actuarial loss on defined retirement benefits	3,266	(1,400)
	10,626	**60,880**
Accumulated gains	5,853,626	5,602,100
Accumulated losses	-	(2,664,791)
Current year profit	2,061,325	2,916,318
	7,914,950	5,853,627
Total shareholder's equity	48,965,838	46,954,768
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

33. Shareholder's equity

The shareholders structure of the Bank as at 31 December 2016 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 2016	**254,224**	**48**
Closing balance 2015	**254,224**	**48**

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

During 2016 the Bank did not perform any capital increase.

Share premium

Share premium represents amounts issued over par. As at 31 December 2016 the Bank's share premium was RSD 6,051,999 thousand (31 December 2015: RSD 6,051,999).

Statutory reserves

As at 31 December 2016 statutory reserves and other reserves in total amount of RSD 9,558,335 thousand (31 December 2015: 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

34. Contingent liabilities and commitments

a) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2016	2015
Not later than one year	71,810	70,251
Later than one year but no later than five years	-	-
Later than five years	-	-
	71,810	70,251

b) Litigations

As at 31 December 2016, the Bank has provisions for legal cases in the amount of RSD 168,963 thousand (31 December 2015: RSD 202,534 thousand). Provisions in the amount of RSD 96,814 thousand relate to litigations for the unilateral increase in interest rates that was performed in the past (31 December 2015: RSD 123,029 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 62,309 thousand (31 December 2015: 61,377 thousand).

As at 31 December 2016, the Bank has RSD 19,704,223 thousand loans in CHF. In September 2016 there was one first instance verdict in favour of the client against one Serbian bank for termination of CHF mortgage loan contract due to significant change of market conditions (strengthening of CHF exchange rate comparing to RSD). This resulted in increased number of litigations of clients with claims for contract termination against the Bank. Despite this one verdict of the contract termination, there is still great uncertainty related to the decision of higher instance court and how this will affect the relationship between banks and client. Management continue to monitor the issue and will decide on the need for a provision to be booked in accordance with IAS 37 once more information is available, given the issue is quite recent.

35. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks. As at 31 December 2016, the Bank's ratios were in compliance with the prescribed levels:

Business indicators	Regulatory Limit	2016	2015
Capital adequacy	min 12%	18.54%	15.90%
Long term investments indicator	max 60%	21.07%	28.49%
Largest exposure of the Bank to the group of related persons	max 25%	24.63%	22.81%
Large exposures indicator	max 400%	119.67%	160.71%
Liquidity indicator:			
first month of reporting period	min 1	1.48	1.49
second month of reporting period	min 1	1.85	2.25
last month of reporting period	min 1	1.80	2.40
Currency risk	max 20%	1.31%	1.29%

As at 31 December 2016, the Bank was in compliance with all regulatory requirements.

36. Related parties transactions

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

In November 2015, following the completion of the Bank's share capital increase, fully covered by investors, institutional and others the percentage of the Bank's ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 35.41% to 2.38%.

Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over the Bank. In particular, 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 (including the sale of subsidiaries), 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, which regulates, among others, (a) the Bank's corporate governance, (b) the restructuring plan and its monitoring, (c) the monitoring of the implementation of the Bank's Non-Performing Loans (NPL) management framework and of the Bank's performance on NPL resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of the Bank's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for the Bank's Group Risk and Capital Strategy and for the Bank's Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in the Bank's Board.

All amounts are expressed in 000 RSD unless stated otherwise

Transactions with related parties for the year ended on 31 December 2016 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	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	31,579	-	-	-	-	-	-	-	-	-	-	-
Interest and fee receivables	355	-	-	-	-	132	-	-	-	-	-	-
Loans to clients	3,370,794	-	681,730	-	-	24,694	-	-	4,938	-	-	4
Investment in shares	-	-	-	-	20,479	-	-	-	-	-	-	-
Derivative assets	6,571	-	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	17	-	-	-	-	-	-	-	-	-
Total assets	**3,409,299**	-	**681,747**	-	**20,479**	**24,826**	-	-	**4,938**	-	-	**4**
Liabilities												
Due to customers	203,077	-	341,372	33,656	124,087	100,564	89,696	-	-	47,079	5,535	10,175
Interest and fee payables	-	-	-	-	-	-	-	-	-	-	-	-
Suppliers	2,563	3,334	-	5,587	-	363	-	-	-	-	-	-
Derivative liabilities	19,581	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	**225,222**	**3,334**	**341,372**	**39,243**	**124,087**	**100,927**	**89,696**	-	-	**47,079**	**5,535**	**10,175**
Income												
Interest income	52,792	-	16,189	-	-	1,038	-	-	-	-	-	-
Interest income on derivatives	6,364	-	-	-	-	-	-	-	-	-	-	-
MtM	26,233	-	-	-	-	-	-	-	-	-	-	-
Fee and commission income	10,562	-	348	68	210	6,932	26	-	4,918	-	-	62
Services	-	-	-	-	1,837	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total income	**95,951**	-	**16,537**	**68**	**2,047**	**7,970**	**26**	-	**4,918**	-	-	**62**
Expenses												
Interest expense	2	-	2,371	280	2,007	554	1,346	-	-	-	-	-
Interest expense from derivatives	41,207	-	-	-	-	-	-	-	-	-	-	-
Fee and commission expense	27,234	4,452	-	11,697	-	-	-	-	-	-	-	-
Services	14,477	-	6,801	2,890	19	62,326	-	131,924	-	-	-	-
Other	-	-	-	6,719	-	40	-	-	-	-	-	-
Total expenses	**82,920**	**4,452**	**9,172**	**21,586**	**2,026**	**62,920**	**1,346**	**131,924**	-	-	-	-
Off balance sheet												
Guarantees	-	-	-	-	-	298,260	-	-	-	-	-	-
Derivatives	3,730,406	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	257	-	-	-	-	-	-	-	-

All amounts are expressed in 000 RSD unless stated otherwise

Transactions with related parties for the year ended on 31 December 2015 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	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

As at 31 December 2016, loans to employees amounted to RSD 2,207,849 thousand (31 December 2015: RSD 2,197,424 thousand). All loans are given under terms defined in the Bank's lending policy and interest rates were in range from 1.7% to 5.7% for mortgage loans in EUR and from -0.4% to 3% for mortgage loans in CHF, while for consumer loans interest rates for RSD loans were in range from 4.5% to 14.8%.

a) Payments to directors and key management personnel

	2016	2015
Salaries and other contributions	78,232	110,392
	78,232	110,392

37. 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 2016	31 December 2015
USD	117.1353	111.2468
EUR	123.4723	121.6261
CHF	114.8473	112.5230

38. 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 2016.

39. Board of directors

Members of the Board of directors of Eurobank as at 31 December 2016 are listed below:

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

40. Events after the reporting period

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

Slavica Pavlovic	Predrag Janković	Vladimir Tofoski
President of the Executive Board	Member of the Executive Board	Chief Financial Officer