ERSTE BANK A.D. NOVI SAD

UNCONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2015

Translation of the Auditors' Report issued in the Serbian language

CONTENTS

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Management Board and Shareholders of Erste Bank a.d., Novi Sad

We have audited the accompanying unconsolidated financial statements of Erste Bank a.d., Novi Sad (hereinafter: the "Bank"), enclosed on pages 2 to 76, which comprise the statement of financial position as of December 31, 2015 and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Other Matter

The Bank's unconsolidated financial statements as of and for the year ended December 31, 2014 were audited by another auditor, whose report dated March 31, 2015 expressed an unqualified opinion.

As disclosed in Note 2.1. (a) to the unconsolidated financial statements, the Bank is a parent entity and its consolidated financial statements prepared in accordance with the International Financial Reporting Standards have been issued separately. The consolidated financial statements of the Bank as of and for the year ended December 31, 2015 were audited by us and our audit report dated March 23, 2016 expressed an unqualified opinion

Belgrade, March 23, 2016

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2015

(In RSD '000)

ITEM	Note	2015	2014
Interest income	4	6,772,486	6,740,033
Interest expenses	4	(1,503,663)	(2,163,155)
Net interest income		**5,268,823**	**4,576,878**
Fee and commission income	5	2,254,600	2,262,166
Fee and commission expenses	5	(605,042)	(513,632)
Net fee and commission income		**1,649,558**	**1,748,534**
Net gains on the financial assets held for trading	6	190,700	86,256
Net gains on risk hedges	7	1,836	2,672
Net gains on the financial assets available for sale	8	144	5,829
Net foreign exchange gains and positive currency clause effects	9	127,476	108,673
Other operating income	10	255,596	93,991
Net losses from impairment of financial assets and credit-risk-weighted off-balance sheet assets	11	(1,397,374)	(1,833,462)
TOTAL OPERATING INCOME, NET		**6,096,759**	**4,789,371**
Staff costs	12	(1,646,854)	(1,617,002)
Depreciation and amortization charge	13	(257,267)	(268,051)
Other expenses	14	(2,976,235)	(2,738,689)
PROFIT BEFORE TAXES		**1,216,403**	**165,629**
Current income tax expense	15	(1,557)	(118)
Deferred tax benefits	15	-	107,298
Deferred tax expenses	15	(25,390)	-
NET PROFIT FOR THE YEAR	31	**1,189,456**	**272,809**

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

Novi Sad, February 26, 2016

Stevan Čomić Head of the Accounting and Controlling Division	Frank Michael Beitz Executive Board Member	Slavko Carić Executive Board Chairman

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2015

(In RSD '000)

ITEM	Note	2015	2014
PROFIT FOR THE YEAR	31	**1,189,456**	**272,809**
Components of other comprehensive income that will not be reclassified to profit and loss:			
Actuarial gains/(losses) (Note 29)		16,675	2,061
Other		9,622	-
Components of other comprehensive income that may be reclassified to profit and loss			
Positive effects of changes in fair value of financial assets available for sale		157,876	29,672
Unrealized gains/(losses) on securities available for sale		396	(764)
Income tax expense relating to the other comprehensive income for the year (Notes 15c, 15d)		(23,741)	(4,336)
Total other comprehensive income for the year		**160,828**	**26,633**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,350,284**	**299,442**

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

Novi Sad, February 26, 2016

Stevan Čomić Head of the Accounting and Controlling Division	Frank Michael Beitz Executive Board Member	Slavko Carić Executive Board Chairman

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015

(In RSD '000)

ASSETS	Note	December 31, 2015	December 31, 2014	January 1, 2014
Cash and cash funds held with the central bank	16	18,523,428	15,906,407	16,104,913
Financial assets at fair value through profit and loss, held for trading	17	8,363,472	6,077,169	1,745,956
Financial assets available for sale	18	3,446,272	2,571,624	1,705,821
Financial assets held to maturity	19	7,008,412	6,509,844	5,711,842
Loans and receivables due from banks and other financial institutions	20	2,733,351	3,898,755	13,417,006
Loans and receivables due from customers	21	75,182,667	60,868,620	57,339,373
Investments in subsidiaries	22	93,560	93,560	-
Intangible assets	23	350,854	389,351	411,865
Property, plant and equipment	23	733,119	704,054	707,364
Investment property	23	238,508	13,827	-
Current tax assets		1,116	2,673	1,021
Deferred tax assets	15	161,382	210,513	107,551
Other assets	24	651,624	506,124	329,726
TOTAL ASSETS		**117,487,765**	**97,752,521**	**97,582,438**
LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities carried at fair value through profit and los, held for trading	25	94,235	27,282	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	26	30,282,165	18,433,395	13,729,205
Deposits and other liabilities due to customers	27	68,295,393	61,602,685	64,904,207
Treasury securities issued and other borrowed funds		-	-	1,465,000
Subordinated liabilities	28	1,824,946	2,063,751	2,191,301
Provisions	29	534,486	543,788	461,839
Other liabilities	30	457,059	422,801	471,509
TOTAL LIABILITIES		**101,488,284**	**83,093,702**	**83,223,061**
EQUITY	31			
Issued (share) capital		10,164,475	10,164,475	10,164,475
Profit		1,189,456	1,343,984	1,628,154
Reserves		4,645,550	3,150,360	2,566,748
TOTAL EQUITY		**15,999,481**	**14,658,819**	**14,359,377**
TOTAL LIABILITIES AND EQUITY		**117,487,765**	**97,752,521**	**97,582,438**

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

Novi Sad, February 26, 2016

Stevan Čomić
Head of the Accounting and Controlling Division

Frank Michael Beitz
Executive Board Member

Slavko Carić
Executive Board Chairman

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015

(In RSD '000)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total
Opening balance at January 1, 2014	**10,040,000**	**124,475**	**2,534,108**	**32,640**	**1,628,154**	**14,359,377**
Actuarial gains (Note 29)	-	-	-	2,061	-	2,061
Fair value adjustment of financial assets available for sale	-	-	-	24,572	-	24,572
Profit for the year	-	-	-	-	272,809	272,809
Transfer from profit to reserves	-	-	556,979	-	(556,979)	-
Balance at December 31, 2014	**10,040,000**	**124,475**	**3,091,087**	**59,273**	**1,343,984**	**14,658,819**
Opening balance at January 1, 2015	**10,040,000**	**124,475**	**3,091,087**	**59,273**	**1,343,984**	**14,658,819**
Actuarial gains (Note 29)	-	-	-	16,675	-	16,675
Fair value adjustment of securities	-	-	-	134,531	-	134,531
Profit for the year	-	-	-	-	1,189,456	1,189,456
Transfer from profit to reserves	-	-	1,334,361	-	(1,334,361)	-
Transfer from profit to revaluation reserves	-	-	-	9,622	(9,622)	-
Other	-	-	-	1	(1)	-
Balance at December 31, 2015	**10,040,000**	**124,475**	**4,425,448**	**220,102**	**1,189,456**	**15,999,481**

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

Novi Sad, February 26, 2016

Stevan Čomić
Head of the Accounting and Controlling Division

Frank Michael Beitz
Executive Board Member

Slavko Carić
Executive Board Chairman

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	(In RSD '000) 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	**9,070,550**	**9,512,005**
Interest receipts	6,632,041	7,170,699
Fee and commission receipts	2,236,077	2,272,242
Receipts of other operating income	202,388	68,939
Dividend receipts and profit sharing	44	125
Cash used in operating activities	**6,891,315**	**7,572,920**
Interest payments	1,554,967	2,090,217
Fee and commission payments	604,888	512,171
Payments to, and on behalf of employees	1,637,957	1,594,988
Taxes, contributions and other duties paid	324,963	362,535
Payments for other operating expenses	2,768,540	3,013,009
Net cash inflows from operating activities prior to increases or decreases in loans and deposits	**2,179,235**	**1,939,085**
Decrease in loans and increase in deposits received and other liabilities	**14,826,763**	**15,564,191**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	-	6,819,865
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	14,826,763	8,744,326
Increase in loans and decrease in deposits received and other liabilities	**19,776,645**	**1,382,927**
Increase in deposits and other liabilities due to banks, other financial institutions, central bank and customers	19,519,293	-
Increase in financial assets initially recognized at fair value through profit and and loss, financial assets held for trading and other securities not held for trading	257,352	1,382,927
Net cash generated by operating activities before income taxes	-	**16,120,349**
Net cash used in operating activities before income taxes	**2,770,647**	-
Income tax paid	-	1,651
Net cash generated by operating activities	-	**16,118,698**
Net cash used in operating activities	**2,770,647**	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash generated by investing activities	-	-
Cash used in investing activities	**2,702,036**	**4,665,796**
Cash used for investments in ivestment securities	2,228,026	4,287,594
Cash used for the purchases of equity investments in subsidiaries, associates and joint ventures	-	120,565
Cash used for the purchases of intangible assets, property, plant and equipment	-	-
Cash used for the purchases of investment property	474,010	257,637
Net cash used in investing activities	**2,702,036**	**4,665,796**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash generated by financing activities	**3,892,523**	**226,982**
Inflows from the borrowings	3,736,815	-
Other inflows from financing activities	155,708	226,982
Cash used in financing activities	**238,803**	**9,207,940**
Cash used for subordinated liabilities	238,803	128,100
Cash used in the repayment of borrowings	-	7,642,122
Outfows per own securities issued	-	1,437,718
Other outflows from financing activities	-	-
Net cash generated by financing activities	**3,653,720**	-
Net cash used in financing activities	-	**8,980,958**
TOTAL CASH INFLOWS	**27,789,836**	**25,303,178**
TOTAL CASH OUTFLOWS	**29,608,799**	**22,831,234**
NEYT CASH INCREASE	-	**2,471,944**
NEYT CASH DECREASE	**1,818,963**	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**10,417,751**	**7,837,134**
FOREIGN EXCHANGE GAINS	**10,831,127**	**7,678,037**
FOREIGN EXCHANGE LOSSES	**10,703,651**	**7,569,364**
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 38)	**8,726,264**	**10,417,751**

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

Novi Sad, February 26, 2016

Stevan Čomić	Frank Michael Beitz	Slavko Carić
Head of the Accounting and Controlling Division	Executive Board Member	Executive Board Chairman

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

1. GENERAL INFORMATION

Erste Bank a.d., Novi Sad (the "Bank") was founded on December 25, 1989, under the name of Novosadska banka a.d., Novi Sad. At the beginning of August 2005, subsequent to the successful finalization of privatization process, it became a member of Erste Bank Group.

Under Decision of the Serbian Business Registers no. BD 101499/2005 dated December 21, 2005 a change of the Bank's name from Novosadska banka a.d., Novi Sad to Erste Bank a.d., Novi Sad was registered.

The Bank's shareholders are Erste Group Bank AG, Vienna ("Erste Group") with a 74% interest and Steiermärkische Bank und Sparkassen AG, Graz with a 26% interest in the Bank's share capital. For simplification of Erste Group Bank AG's structure, the ownerhsip of shares of the banks in Europe held by EBG CEPS was transferred to Erste Group. In this manner Erste Group became a direct shareholder of the Bank with 74% of its shareholding. The Bank's Shareholder Assembly enacted the relevant decision on amendment to the Articles of Association and the changes in this respect were registered with the Serbian Business Registers Agency on June 22, 2015.

As of January 15, 2014, under the Agreement on Purchase and transfer of Equity Interest executed by and between Steiermärkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH, the Bank acquired a 75% equity interest in the company S-leasing d.o.o., Srbija, while the remaining 25% are held by Steiermärkische Bank und Sparkassen AG. Moreover, in 2014 the Bank acquired a 19% equity interest in S Rent d.o.o., Srbija.

Through this transaction both companies still remained members of Erste Group.

The Bank is registered in the Republic of Serbia to provide banking services of payment transfers in the country and abroad, lending and depositary activities in the country, payment card transactions, operations involving securities and broker-dealer activities. In accordance with the Law on Banks, the Bank operates on the principles stability and security.

The Bank is headquartered in Novi Sad, at no. 5, Bulevar Oslobođenja St. The Bank operates through 7 business centers, 47 branches, 9 sub-branches and 5 counters.

As of December 31, 2015 the Bank had 1,027 employees (December 31, 2014: 992 employees).

The Bank's corporate ID number is 08063818, and its tax ID number (fiscal code) is 101626723.

The Bank's SWIFT code is GIBARS22 and its website is www.erstebank.rs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. (a) Basis of Preparation and Presentation of the Unconsolidated Financial Statements

The Bank's unconsolidated financial statements (the "financial statements") for 2015 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

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

The accompanying financial statements represent the Bank's unconsolidated (separate) financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

The Bank holds a 75% interest in the equity of its subsidiary S-leasing d.o.o., Srbija (25% is held by Steiermärkische Bank und Sparkassen AG). In these financial statements the Bank stated its equity investment held in the subsidiary at cost. The Bank's consolidated financial statements were issued on March 23, 2016.

These financial statements were prepared at historical cost principle, except for the following items measured at fair value: financial assets at fair value through profit and loss, held for trading, financial assets available for sale and derivatives.

Figures in the accompanying financial statements are stated in thousands of dinars, unless otherwise specified. Dinar (RSD) represents the Bank's functional and presentation currency. All transactions executed in other than functional currencies are treated as foreign currency transactions.

The accompanying financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described further in Note 2.

Standards and interpretations issued that came into effect in the current period are disclosed in Note 2.1 (b Standards and interpretations in issue but not yet in effect are disclosed in Note 2.1 (c).

2.1. (b) New and Revised IFRS Mandatorily Effective in the Current Period

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

- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.
- Amendments resulting from Annual Improvements to IFRSs 2010-2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.
- Amendments resulting from Annual Improvements to IFRSs 2011-2013 Cycle (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

2.1. (c) Standards and Interpretations in Issue not yet in Effect

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

- IFRS 9 “Financial Instruments” and subsequent amendments, supplanting the requirements of IAS 39 “Financial Instruments: Recognition and Measurement,“ with regard to classification and measurement of financial assets. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- IFRS 15 “Revenue from Contracts with Customers,” defining the framework for revenue recognition. IFRS 15 supplants IAS 18 “Revenue,” IAS 11 “Construction Contracts,” IFRIC 13 “Customer Loyalty Programs,” IFRIC 15 “Agreements for the Construction of Real Estate” and IFRIC 18 “Transfers of Assets from Customers.” IFRS 15 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).
- Amendments resulting from Annual Improvements to IFRSs 2012-2014 Cycle (IFRS 5, IFRS 7 and IAS 19) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2016).
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 9 "Financial Instruments"

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

The Key requirements of IFRS 9 are:

- All recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election upon initial recognition to measure an equity investment (that is not held for trading) at fair value through other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

IFRS 15 "Revenue from Contracts with Customers"

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 15 "Revenue from Contracts with Customers" (Continued)

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

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

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

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

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

Amendments to IAS 1 *"Disclosure Initiative"*

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

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

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

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

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

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

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.The application of these amendments to IAS 16 and IAS 41 will have a material impact on the Bank's financial statements as the Bank is not engaged in agricultural activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves. Management of the Bank does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Bank's financial statements, as the Bank is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Annual Improvements to IFRSs 2012-2014 Cycle

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

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

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

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

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

2.2. Interest Income and Expenses

Interest income and expenses, including penalty interest and other income and other expenses from interest bearing assets, i.e. liabilities are recognized on an accrual basis under obligatory terms defined by a contract executed between the Bank and a customer.

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available for sale, interest income and expense are recognized using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

2.3. Fee and Commission Income and Expenses

Fees and commission primarily comprise considerations for banking services rendered o used. Fee and commission income and expenses are recognized on an accrual basis, when such services are rendered.

Fees and commission income are earned from a diverse range of banking services provided to clients. Fee income can be divided into the following two categories:

/i/ Fee Income Earned from Services Rendered Over a Certain Period of Time

Fees earned for the provision of services over time are deferred over the period of service rendering.

Loan origination fees for loans likely to be drawn down and other loan-related fees are deferred (together with any incremental costs) and recognized as adjustment to the loan effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Fee and Commission Income and Expenses (Continued)

/ii/ Fee Income Earned from Transaction Services

Fees or components of fees that are linked to the performance of certain transactions are recognized upon fulfillment of the corresponding criteria.

/iii/ Dividend Income

Dividend income is recognized when the Bank’s right to receive the payment is established.

2.4. Foreign Exchange Translation

Financial statement items are stated using the currency of the Bank's primary economic environment (functional currency). The accompanying financial statements are stated in thousands of dinars (RSD).

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market and effective at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market prevailing as of that date.

Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses and positive or negative currency clause effects.

Gains or losses realized/incurred upon translation of financial assets and liabilities with a currency clause index are recorded within the income statements as foreign exchange gains or losses and positive or negative currency clause effects.

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

2.5. Financial Instruments

All financial instruments are initially recognized at fair value (except for financial assets and financial liabilities at fair value through profit and loss), increased by transaction costs that are directly attributable to their acquisition or issue.

Financial assets and financial liabilities are recognized in the Bank’s statement of the financial position on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date the assets is delivered to the counterparty.

“Day 1” Profit

When the transaction price in a inactive market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (“Day 1” profit) in the income statement.

Classification of Financial Instruments

The Bank’s management determines the classification of its financial instruments at initial recognition. Classification of financial instruments upon initial recognition depends on the purposes for which financial instruments have been obtained and their characteristics.

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Subsequent measurement of financial assets depends on their classification as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Financial Instruments (Continued)

2.5.1. Financial Assets at Fair Value through Profit and Loss

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

Financial assets are classified as held for trading if they have been primarily acquired for generating profit from short-term price fluctuations or are derivatives. Trading securities are stated in the statement of financial position at fair value.

The Bank also has derivatives classified as assets at fair value through profit and loss.

The management did not classify financial instruments, on initial recognition, into the category of the financial assets stated at fair value through profit or loss.

Securities held for trading comprise the Republic of Serbia Government savings bonds and Treasury bills.

All realized or unrealized gains and losses arising upon measurement and sale of financial assets at fair value are stated in the Income statement.

2.5.2. Financial Assets Held to Maturity

Securities held to maturity are 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 and that do not meet the criteria of the definition of loans and receivables.

After initial recognition, securities held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment or impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

Interest accrued on such instruments is credited to interest income in the profit and loss account using the effective interest method. Fees that are part of the effective interest on these instruments are recognized in the income statement over the life of the instrument.

The Bank performs individual assessment in order to determine whether there is objective evidence on impairment of the investment into securities held-to-maturity.

If there is objective evidence that such securities have been impaired, the amount of impairment loss for investments held to maturity is calculated as the difference between the investment's carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate and stated in the income statement as losses from impairment of financial assets.

If, in a subsequent year, the amount of the estimated impairment loss decreases as a consequence of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced and effects are credited to the income statement. Reversal of the impairment allowance will not result in the carrying value of an asset in excess of the amortized cost as if the asset had not been impaired.

2.5.3. Loans and Receivables due from Banks and Customers

Loans and receivables are assets that the Bank does not intend to sell in the near term and those that are not classified, after initial recognition, as financial assets at fair value through profit and loss or financial assets available for sale.

After initial recognition, loans and receivables are measured at their amortized cost using the effective interest method less impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and any issue costs and that are integral part of the effective interest rate Interest income in respect of these instruments are recorded and presented under interest income within the income statement. Any impairment losses are recognized within net losses from impairment of financial assets within the income statement.

Approved RSD loans which are hedged using a contractual currency clause linked to the RSD to another foreign currency exchange rate are revalued in accordance with the terms of the particular loan agreement. The difference between the carrying amount of loan and the amount calculated applying the foreign currency clause is disclosed within loans and receivables. Gains or losses resulting from the application of foreign currency clause are recorded in the income statement, as positive/negative currency clause effects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Financial Instruments (Continued)

Derecognition of Financial Assets and Liabilities

The Bank derecognizes financial assets when it loses control over the contractual rights over such instruments, which occurs when the when the contractual rights to the cash flows from the financial asset have been realized, cancelled or ceded or they expire. When the Bank transfers the contractual rights to the cash flows from a financial asset or executes a contract on such transfer, and thereby the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset, the asset is recognized to the extent of the Bank's involvement in respect of the asset. Any further involvement of the Bank in the transferred asset, in the form of a guarantee for the asset transferred, is measured at the lower of the asset's original carrying value and the maximum amount of the consideration the Bank will need to pay.

A financial liability is derecognized when its contractual obligation is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the simultaneous recognition of a new liability, with the difference between the respective carrying amounts recognized in the income statement.

Impairment of Financial Assets and Risk Provisions

In accordance with the Bank’s internal policy, at each reporting date the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event“) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Initially, the Bank assesses impairment on a group (portfolio) basis before deterioration of a borrower's creditworthiness is identified (e.g. increased number of days past due).

In assessing impairment of loans and receivables due from banks and customers measured at amortized cost, in instances of identified deterioration in borrowers' creditworthiness, the Bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes an 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and its recoverable value, being the present value of estimated future cash flows, discounted at the original effective interest rate for that particular financial asset. If a loan has a variable interest rate, current effective interest rate is applied.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset, in addition to the cash flows from the borrower’s operating activities, reflects the cash flows that may result from collateral foreclosure.

For the purpose of group (collective) impairment assessment, financial assets are grouped on the basis of the Bank's internal classification system that takes into account credit risk characteristics such as the borrower's financial situation, loan type, operating segment the borrower belongs to, existence of the other receivables matured due form the same borrower, past-due status and other relevant factors.

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

The Bank reviews the methodology and assumptions used for estimating future cash flows on an annual basis in order to reduce any differences between loss estimates and actual loss experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Financial Instruments (Continued)

Impairment of Financial Assets and Risk Provisions (Continued)

The carrying amount of the loan is reduced through the use of an allowance account and the amount of the impairment loss arising from impairment of loans and receivables, as well as other financial assets measured at amortized cost, is recognized in the income statement within net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets. A financial assets is deemed irrecoverable when the Bank has no realistic expectation of its recovery. Indicators of probable irrecoverability include: borrower's delay in liability settlement, instigation of the bankruptcy or liquidation procedures, deletion of the borrower from the Business Entity Register, borrower's contestation of the Bank's receivables upon balance reconciliation of receivables and liabilities, etc.

Receivables are written off only when all available sources of collection have been exhausted (e.g. bankruptcy proceedings ended, lawsuit completed, all available collaterals activated, borrower's assets cross-checked). Loans and the related impairment allowances are derecognized (written off) when considered uncollectable. Write-offs are either recorded against the impairment allowance account or directly expensed. Irrecoverable receivables are written off under the competent court ruling, the relevant decision of the Bank's Assembly of Executive Board when there is no realistic prospect of their future recovery and all collaterals have been activated.

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, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement as gain on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet terms. Reversal of the impairment allowance will not result in the carrying value of an asset in excess of the amortized cost as if the asset had not been impaired..

2.5.4. Rescheduled Loans

Where possible, the Bank seeks to reschedule or restructure loans rather than foreclose collaterals. This may involve extending the payment terms or any other modification to the original loan agreement provisions. Rescheduling or restructuring may be business rescheduling or forbearance as per EBA definition.

Business loan rescheduling entails alteration to the originally agreed loan terms not caused by the borrower's financial position deterioration, or mitigation of the consequences of the deteriorated financial position of the borrower, and does not represent restructuring. It is rather a result of a changed market situation (customers, suppliers, competitors) and the need to adjust the loan repayment schedule and terms to the newly arisen situation.

Forbearance represents restructuring caused by:

- the borrower's inability to fulfill its contractual obligations due to financial difficulties and
- the need of the Bank to make certain concessions to enable the borrower to service its liabilities.

Once the terms have been renegotiated, the loan is no longer considered past due, but if after restructuring evidence of impairment arises, the client will again be assigned the default status. The Bank continuously monitors rescheduled/restructured loans to ensure that all criteria are met, as well as that future payments are made or default status assigned in a timely manner to the clients not complying with the re-defined criteria.

2.5.5. Financial Assets Available for Sale

Securities intended to be held for an indefinite period of time, which may be sold, or pledged with the National Bank of Serbia as security, in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as “available-for-sale”. Available-for-sale securities include other legal entities’ equity instruments and debt securities.

Subsequent to the initial measurement, these securities are measured at fair value. The fair values of securities quoted in active markets are based on current bid prices. Unrealized gains and losses are recognized within other comprehensive income until such a security is sold, collected or otherwise realized, or until it is impaired. In case of disposal of securities or their impairment, cumulative fair value adjustments are recognized in the statement of other comprehensive income.

Equity investments in other legal entities that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are inappropriate are exempt from market fair value measurement and are stated at cost less any impairment allowance.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Financial Instruments (Continued)

2.5.5. Financial Assets Available for Sale (Continued)

Dividends earned whilst holding available-for-sale financial instruments are recognized within other operating income and dividend income and income from equity investments when the right to receipt of dividend has been established.

For investments in shares and other securities available for sale, at the reporting date, the Bank assesses if there is significant evidence of impairment of one or more investments. The Bank records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

When there is there is objective evidence of impairment, cumulative loss, measured as the difference between the cost and the current fair value of the asset, less any impairment loss of the investment previously recognized within profit and loss is reclassified from equity to profit or loss. Impairment allowances of available-for-sale investments are not reversed through profit and loss; subsequent increases of fair value, after recognition of impairment, are credited to equity.

Impairment allowances of equity investments, which are not quoted in an active market and whose fair value cannot be determined with certainty, are measured as the difference between the book value and the present value of expected future cash flows, and are recognized in the income statement and are not reversed before derecognition.

In case of debt securities that are classified as available for sale, impairment is assessed based on the same criteria as for financial assets carried at amortized cost. If there is an increase in fair value in the subsequent year, and if that increase may objectively refer to an event that occurred after the impairment loss had been recognized in the income statement, the impairment loss is reversed through profit or loss.

2.5.6. Issued Financial Instruments and Other Financial Liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Components of compound financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Subsequent measurement of financial liabilities depends on their classification as follows:

Deposits and Other Liabilities due to Banks and Customers

All deposits from other banks and customers and interest-bearing financial liabilities are initially measured at fair value less transaction costs, except for the financial liabilities at fair value through profit and loss. After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost.

Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Borrowings are classified as current liabilities, unless the Bank has the undisputable right to postpone the settlement of obligations for at least 12 months after the reporting date.

Other Liabilities

Trade payables and other current operating liabilities are stated at nominal value.

2.6. Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if when there is a currently enforceable legal right to offset the recognized amounts and the Bank has 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. Special Reserves for Estimated Losses on Bank Balance Sheet Assets and Off-Balance Sheet Items

Special reserves for potential losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items (Official Gazette of the Republic of Serbia nos. 94/2011, 57/2012, 123/2012 43/2013,113/2013, 135/2014, 25/2015 and 38/2015).

All receivables (balance sheet and off-balance sheet exposures) from a single borrower are classified in categories from A to D in accordance with the assessment of their recoverability. Recoverability of receivables from a single borrower is assessed based on the borrower's regularity and timeliness in liability settlement, borrower's financial position, analysis of the borrower's operating performance, adequate cash flows, number of days in arrears in principal and interest repayment and quality of obtained collaterals.

In accordance with the classification of receivables and pursuant to the aforesaid NBS Decision, the amount of the special reserves against potential losses is calculated by applying the following percentages: A (0%), B (2%), V (15%), G (30%) and D (100%).

Special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items. All positive differences will constitute the necessary reserves for estimated losses on balance sheet assets and off-balance sheet items ad represent an equity deductible in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks. The Bank is required to maintain at all times capital at a level which is necessary to cover all risks to which the Bank is exposed and the capital adequacy ratio not below 12%.

2.8. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Bank's dinars current accounts and cash in hand (both in dinars and foreign currency) and foreign currency accounts and deposits with up to 3-month maturities held with other domestic and foreign banks.

2.9. Repurchase Transactions ("Reverse Repo" Transactions)

Securities purchased under agreements to repurchase at a specified future date ('repos') are recognized in the statement of financial position.

The corresponding cash given, including accrued interest, is recognized in the balance sheet. The difference between the sale and repurchase prices is treated as interest income and is accrued over the life of the agreement.

2.10. Investments in Subsidiaries

Subsidiary in an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

As at December 31, 2015 the Bank had a 75% equity interest in S Leasing d.o.o., Beograd, which is presented at cost less impairment allowance in the Bank's unconsolidated financial statements.

2.11. Intangible Assets

Intangible assets are measured at cost, less accumulated amortization and impairment losses, if any. Intangible assets comprise licenses and other intangible assets. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least once a year, at the financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embedded in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11. Intangible Assets (Continued)

Amortization of intangible assets is calculated using the straight-line method to write off the cost of intangible assets over their estimated useful lives, as follows:

Software licenses	Up to 10 years
Other intangible assets	4 years

The amortization cost on intangible assets with finite lives is recognized in the income statement.

Costs associated with developing and maintaining computer software programs are recognized as expenses when incurred.

2.12. Property, Plant and Equipment and Investment Property

Property, plant and equipment and investment property are stated at cost less accumulated depreciation and impairment losses, if any.

Costs include all expenses directly related to purchase of property, plant and equipment.

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

The Bank has investment property held to earn rental income or capital appreciation. Investment property is measured at cost less accumulated depreciation and impairment losses, if any.

Depreciation is provided for on a straight-line basis to the cost of fixed assets, using the following prescribed annual rates, in order to write them off over their useful lives:

Buildings	40 years
Computer equipment	4 years
Other equipment	5 to 10 years

Changes in the expected useful lives of assets are accounted for as changes in the accounting estimates.

Calculation of depreciation of property and equipment commences at the beginning of month following the month when an asset is placed into use. Assets under construction are not depreciated. The depreciation charge is recognized as an expense for the period in which incurred.

Leasehold improvements are depreciated over the period of usage pursuant to the relevant lease contracts.

Gains from the disposal of property and equipment are credited directly to other income, whereas any losses arising on the disposal of property and equipment are charged to other operating expenses.

2.13. Impairment of Non-Financial Assets

In accordance with the adopted accounting policy, at each reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14. Leases

The determination of whether an arrangement is a lease, or contains lease elements, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement transfers the right to use the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14. Leases (Continued)

(a) Finance Lease – the Bank as a Lessee

Finance leases, which transfer to the Bank substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments and included in property and equipment with the corresponding liability to the lessor included in other liabilities.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

Lease payments are apportioned between the cost of financing and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Cost of financing is charged directly in the income statement as an interest expense.

(b) Operating Lease – the Bank as Lessee

A lease is classified as an operating lease if it does not transfer to the Bank substantially all the risks and rewards incidental to ownership.

Payments made under operating leases are charged to other operating expenses in the income statement (when they occur) on a straight-line basis over the period of the lease.

2.15. Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates of provisions are considered, determined and, if necessary, adjusted at each reporting date. Provisions are measured at the present value of estimated future cash outflows necessary to settle the liabilities arising thereof, using the discount rate which reflects the current market estimate of the value of money.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed by cancelation of the current year's expenses, i.e., reversed to income if the provision was made in the previous period. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements. They are disclosed in notes to the financial statements if an inflow of resources embodying economic benefits is probable.

2.16. Employee Benefits

(a) Employee social Security Taxes and Contributions – Defined Benefit Plans

In accordance with the Republic of Serbia regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

(b) Other Employee Benefits – Retirement Benefits and Jubilee Awards

In accordance with the Collective Bargaining Agreement the Bank is obligated to pay its vesting employees retirement benefits in the amount of three average monthly salaries paid in the Republic of Serbia in the month prior to the month of the retirement according to the most recent data published by the Republic of Serbia Statistical Office or three average salaries paid by the Bank in the month prior to the month of the retirement, or 3 monthly salaries of the employee prior to the month of the retirement, whichever arrangement is most favorable for the retiree.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Employee Benefits (Continued)

(b) Other Employee Benefits – Retirement Benefits and Jubilee Awards (Continued)

In addition, in accordance with the Collective Bargaining Agreement, employees are entitled to jubilee awards for ten, twenty, thirty and forty consecutive years of service with the Bank. Jubilee awards are paid in the respective amounts of one, two or three average salaries paid by the Bank in the month prior to the date of payment, depending on duration of the continuous service with the employer.

Expenses and liabilities for the plans are not funded. Liabilities for benefits and related expenses are recognized in the amount of present value of estimated future cash flows using the actuarial projected unit credit method.

Actuarial gains and losses and past service costs are recognized in the income statement when realized/incurred, while actuarial gains and losses in respect of retirement benefits upon retirement are recognized in other comprehensive income.

(c) Short-Term Compensated Absences

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the reporting date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

2.17. Financial Guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of payment guarantees and performance bonds, letters of credit, acceptances and other warranties. Financial guarantees are contracts which obligate the issuer of a guarantee to perform the payment or compensate the loss to the holder of a guarantee, incurred if a certain client fails to settle its liabilities in due time as required under the terms of the contract.

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is issued. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is recognized in the income statement. The premium received is recognized in the income statement within the fee and commission income on a straight-line basis over the life of the guarantee.

2.18. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax represents an amount calculated in accordance with the Republic of Serbia Corporate Income Tax Law. During the year, the Bank pays income tax in advance in monthly instalments determined on the basis of the prior year income tax return. The ultimate tax base to which the prescribed income tax rate of 15% is applied is determined in the Bank's income tax statement and reported in the annual tax return.

In order to arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year, as shown in the tax return. The tax return is submitted to the tax authorities within 180 days after expiry date of the financial year, i.e. until June 30 of the following year.

Taxpayers that had acquired the entitlement to a tax credit for capital expenditures up to 2014 in accordance with the Republic of Serbia Corporate Income Tax Law may reduce up to 33% of the calculated income tax. The unused portion of the tax credit may be carried forward and used against the income tax of the future periods but only for a duration of no longer than ten ensuing years, or up to the amount of the tax credit carried forward.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five ensuing years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The tax rate used to calculate deferred tax amounts equals 15%.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries and associates when deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current and deferred taxes are recognized as income or expenses and are included in the net profit/(loss) for the period.

Deferred income taxes related to items that are recorded directly in equity are also recognized in equity.

(b) Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, value added tax, payroll contributions charged to the employer and various other taxes, contributions and duties payable under the republic and municipal tax regulations. These are included under operating and other expenses within the income statement.

2.19. Earnings per Share

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

Pursuant to the Serbian Business Registers Agency Decision no. BD. 243088/2006 dated December 22, 2006, the Bank is registered as a closed joint-stock company, and therefore it is not obligated to calculate and disclose earning per share as required by IAS 33 “Earning per Share”.

2.20. Segment Reporting

The Bank's management monitors operating segments in accordance with the methodology and segmentation defined at the level of Erste Group and on such basis makes decisions about, allocates resources to and assesses the performance of the individual segments. Segment reporting is performed and the report is prepared in compliance with FINREP reporting methodology used in Erste Group where there are departures within certain items from the result stated using the local NBS methodology.

2.21. Managed Funds

The funds that the Bank manages on behalf of and for the account of third parties are disclosed within off-balance sheet items. The Bank bears no risk in respect of such funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Status of New and Revised Standards and Interpretation

IFRS 9 "Financial Instruments – Classification and Measurement"

In 2015 the Bank commenced preparation of documentation regarding the core business concept and business requirements where changes to the policies, procedures, processes and systems are prominent and which are assessed as necessary for transition to the application of IFRS 9 starting from January 1, 2018. As part of these activities, the Bank started assessing financial effects primarily regarding classification and measurement and impairment of financial assets. The plan is to continue with the aforedescribed activities in 2016 through gradual transition from the concept phase to the phase of implementing documented business requirements.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation and presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period.

These estimations and assumptions are based on information available, as of the date of preparation of the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and when adjustments become necessary they are stated within the income statement for periods in which they became known.

What follows are the key assumptions in respect of the future events and other sources of estimations, uncertainties as of the balance sheet date which represent risk from material adjustments to the amounts of balance sheet items in the following fiscal year.

(a) Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that the value of a financial assets or group of financial assets has suffered impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (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.

With regards to the assessment of impairment losses on loans, the Bank reviews the credit portfolio at least on a monthly basis for collective impairment assessment (whether the loans are in the default status or not). Individual impairment assessment is performed in accordance with the changes in assumptions for calculation of the future cash flows. These assumptions are reviewed at least quarterly.

In the process of determining whether an impairment loss needs to be accounted for within the income statement, the Bank assesses whether there is reliable evidence showing a measurable decrease in the estimated future cash flows from the credit portfolio before the impairment, which can be identified within individual loans comprised in the portfolio. The Bank makes assessment based on its experience with losses incurred on loans from prior periods for all assets susceptible to credit risk and showing evidence of impairment similar to the one that existed in the credit portfolio at the time of planning future cash flows. The methodology and assumptions used in the assessment of amounts and time of future cash flows are subject to regular reviews with the aim to decrease differences between the estimated and actually incurred losses.

(b) Determining the Fair Value of Financial Instruments

The fair value of financial instruments traded on an active market at the reporting date are based on the quoted market bid and ask prices, before the decrease by transaction costs. The fair value of financial instruments which are not listed on an active market are determined using adequate measurement techniques including techniques of net present value, comparison with similar instruments for which there are market prices and other relevant models.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Determining the Fair Value of Financial Instruments (Continued)

When market inputs are unavailable, these are determined through assessments that include a certain degree of judgments in the fair value assessment. Models of estimates reflect the current market situation at the date of assessment and do not have to correspond to the market terms before or after the date of measuring. Hence, measurement techniques are revised periodically so they would best reflect current market terms.

(c) Impairment of Equity Investments in Subsidiaries

The Bank considers an equity investmentin a subsidiary impaired when there is objective and documented (market information) or assessed impairment of fair value of such an asset below its cost.

(d) Useful Life of Intangible Assets, Property, Plant and Equipment

Determining the useful life of intangible assets, property and equipment is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors.

Adequacy of useful life is reexamined annually or whenever there are indications of significant changes in factors underlying the estimate of useful lives.

Any change to the aforesaid assumptions may have a significant effect on the Bank’s financial position and its performance.

(e) Impairment of Non-Financial Assets

At each reporting date, the Bank’s management reviews the carrying amounts of the Bank’s intangible assets, property and equipment. If there is any indication that such assets have been impaired, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

Impairment assessment requires management to make subjective judgments in respect to cash flows, growth rates and discounting rates for cash generating units subject to assessment.

(f) Provisions for Litigations

The Bank is involved in a number of lawsuits arising in the everyday business operations in respect to commercial and contractual issues, as well as labor issues, which are resolved or considered in the regular course of business. The Bank routinely estimates the probability of negative outcome of these issues, as well as amounts of likely or reasonable loss assessments.

Reasonable assessment encompasses judgments made by management upon consideration of information provided in reports, settlements, assessment made by the Legal Department, facts available, identification of potentially responsible parties and their ability to contribute to the resolution of the matter, as well as historical experience.

Provisions for litigation are recognized when the Bank has an obligation whose reliable estimate can be made by way of a careful analysis. The amount of provisions is subject to changes contingent on new events or new information coming to light. The matters that either constitute a contingent liability or do not meet the criteria for provisioning are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

(g) Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses and/or tax credits to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

The Bank’s management needs to make prudent assessments of deferred tax assets that should be recognized, based on the period when these arise and the amount of future taxable income and tax policy planning strategy.

(h) Retirement Benefits and Other Post-Employment Benefits

The cost of defined post-employment benefits to employees and/or retirement benefits upon fulfillment of all legally prescribed criteria, are determined in an actuarial assessment. An actuarial assessment includes the assessment of a discount rate, future movements in salaries, mortality rates and employee turnover. Due to a long-term nature of these plans, significant uncertainties influence these assessments.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

4. INTEREST INCOME AND EXPENSES

	2015	In RSD '000 2014
Interest income		
– Banks	312,976	420,564
– Public companies	219,850	219,667
– Corporate customers	1,645,127	1,694,499
– Entrepreneurs	62,133	72,123
– Public sector	1,218,542	1,136,460
– Retail customers	3,211,490	3,139,248
– Non-residents	2,421	8,433
– Agricultural producers	29,772	36,949
– Other customers	70,175	12,090
Total	**6,772,486**	**6,740,033**
Interest expenses		
– Banks	326,942	440,713
– Public companies	113,968	202,189
– Corporate customers	245,930	323,906
– Entrepreneurs	2,383	1,982
– Public sector	37,034	81,823
– Retail customers	405,971	579,416
– Non-residents	244,440	467,450
– Other customers	126,995	65,676
Total	**1,503,663**	**2,163,155**
Net interest income	**5,268,823**	**4,576,878**

Interest income and expenses per classes of financial instruments are presented below:

	2015	In RSD '000 2014
Interest income		
Cash and cash funds held with the central bank	170,825	115,586
Bonds and other securities with fixed yield – held maturity	659,988	722,499
Bonds and other securities with fixed yield – available for sale	253,557	198,377
Bonds and other securities with fixed yield – trading assets	262,424	201,352
Loans and receivables due from customers	5,056,437	4,979,194
Loans and receivables due from financial organizations	33,141	210,095
Other interest income	336,114	312,930
Total	**6,772,486**	**6,740,033**
Interest expenses		
Subordinated liabilities	71,075	80,046
Deposits due to banks	175,262	149,558
Deposits due to the central bank	1	2,161
Deposits due to customers	1,257,325	1,748,265
Issued debt securities	-	183,125
Total	**1,503,663**	**2,163,155**
Net interest income	**5,268,823**	**4,576,878**

5. FEE AND COMMISSION INCOME AND EXPENSES

In RSD '000

	2015	2014
Fee and commission income		
Domestic payment transaction services	459,176	449,710
International payment transaction services	157,633	140,789
Foreign exchange transactions	141,119	226,504
Lending activities	377,380	455,222
Payment card operations	443,343	391,731
Guarantees and other sureties	133,279	140,433
Other fees and commissions	542,670	457,777
Total	**2,254,600**	**2,262,166**
Fee and commission expenses		
Domestic payment transaction services	36,809	36,251
International payment transaction services	28,603	21,670
Foreign exchange transactions	81,163	97,721
Lending activities	190,161	164,070
Payment card operations	182,694	146,262
Other fees and commissions	85,612	47,658
Total	**605,042**	**513,632**
Net fee and commission income	**1,649,558**	**1,748,534**

6. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

In RSD '000

	2015	2014
Gains on financial assets held for trading		
Gains on the sale of securities and other financial assets	11,341	7,972
Gains on the fair value adjustments of securities and other financial assets	274,529	99,671
Gains on the fair value adjustment of derivatives	248,373	78,650
Total	**534,243**	**186,293**
Losses on financial assets held for trading		
Losses on the sale of securities and other financial assets	88,031	1,097
Losses on the fair value adjustments of securities and other financial assets	95,925	36,660
Losses on the fair value adjustment of derivatives	159,588	62,280
Total	**343,544**	**100,037**
Net gains on financial assets held for trading	**190,700**	**86,256**

7. NET GAINS ON RISK HEDGES

In RSD '000

	2015	2014
Gains on risk hedges		
Gains on value adjustment of loans and receivables	3,498	3,737
Total	**3,498**	**3,737**
Losses on risk hedges		
Losses on value adjustment of loans and receivables	1,662	1,065
Total	**1,662**	**1,065**
Net gains on risk hedges	**1,836**	**2,672**

Net gains on the risk hedges resulted from the value adjustments of loans with contracted retail price index.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

8. NET GAINS ON FINANCIAL ASSETS AVAILABLE FOR SALE

	2015	In RSD '000 2014
Gains on the financial assets available for sale		
Gains on the sale of securities and other financial assets	144	5,829
Net gains on the financial assets available for sale	**144**	**5,829**

In 2015 the Bank realized gains of RSD 144 thousand on the sale of securities of Montenegro Stock Exchange available for sale.

9. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

	2015	In RSD '000 2014
Foreign exchange losses, net	(386,498)	(2,118,264)
Positive currency clause effects, net	513,974	2,226,937
Net foreign exchange gains and positive currency clause effects	**127,476**	**108,673**

10. OTHER OPERATING INCOME

	2015	In RSD '000 2014
Gains on the sale of other investments	3,717	-
Other income	65,717	39,971
Reversal of unused provisions for liabilities	43,841	21,077
Reversal of unused other provisions	4,286	8,000
Other income	138,035	23,198
Gains on the value adjustment of financial liabilities	-	1,745
Total	**255,596**	**93,991**

The line item of other income includes the amount of RSD 107,382 thousand, which refers to the income the Bank realized on the sale of irrecoverable receivables.

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

	2015	In RSD '000 2014
Gains on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items		
Gains on the reversal of impairment allowance of financial assets	7,712,010	8,681,050
Gains on the reversal of provisions for off-balance sheet items	1,476,674	899,154
Total	**9,188,684**	**9,580,204**
Losses from the impairment of financial assets and credit risk-weighted off-balance sheet items		
Impairment allowance of financial assets	9,104,541	10,457,048
Provisions for off-balance sheet items	1,481,517	956,618
Total	**10,586,058**	**11,413,666**
Net losses from the impairment of financial assets and credit risk-weighted off-balance sheet items	**(1,397,374)**	**(1,833,462)**

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

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

11a. Net losses from impairment of financial assets and credit risk-weighted off-balance sheet items

In RSD '000

	2015	2014
Losses from the impairment of financial assets and credit risk-weighted off-balance sheet items		
Impairment allowance of financial assets:		
– loans and receivables due from banks and other financial organizations (Note 20 (b))	(533,375)	(375,003)
– loans and receivables due from customers (Note 21 (b))	(8,487,638)	(10,000,813)
– other assets (Note 24)	(83,528)	(81,232)
	(9,104,541)	**(10,457,048)**
Provisions for off-balance sheet items (Note 29)	(1,481,517)	(956,618)
Total losses from the impairment of financial assets and credit risk-weighted off-balance sheet items	**(10,586,058)**	**(11,413,666)**
Gains on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items		
Reversal of impairment allowance of:		
– loans and receivables due from banks and other financial organizations (Note 20 (b))	530,981	367,522
– loans and receivables due from customers (Note 21 (b))	7,068,328	7,899,291
– other assets (Note 24)	112,701	414,237
	7,712,010	**8,681,050**
Reversal of provisions for off-balance sheet items (Note 29)	1,476,674	899,154
Total gains on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items	**9,188,684**	**9,580,204**
Net losses from the impairment of financial assets and credit risk-weighted off-balance sheet items	**(1,397,374)**	**(1,833,462)**

12. STAFF COSTS

In RSD '000

	2015	2014
Net salaries and benefits	1,093,662	1,092,571
Payroll taxes and contributions charged to the employee	420,645	411,090
Retirement benefits, jubilee awards, bonuses and annual leave (vacation) allowances	125,696	101,372
Other staff costs	6,851	11,969
Total	**1,646,854**	**1,617,002**

13. DEPRECIATION/AMORTIZATION CHARGE

In RSD '000

	2015	2014
Depreciation/amortization charge of:		
– property, plant and equipment (Note 23)	83,436	79,303
– intangible assets (Note 23)	173,831	188,748
Total	**257,267**	**268,051**

14. OTHER EXPENSES

	2015	In RSD '000 2014
Professional services	925,690	820,156
Donations and sponsorships	42,145	39,859
Marketing and advertising	257,391	243,416
Telecommunication services and postage	66,319	62,474
Insurance premiums	332,567	279,200
Rental cost	421,094	417,645
Cost of materials	108,656	105,090
Taxes and contributions payable	80,832	60,159
Maintenance of fixed assets and software	231,385	218,533
Losses on sale and disposal of fixed and intangible assets	535	1,641
Payroll contributions payable by the employer	253,378	248,623
Per diems and travel expenses	75,536	78,714
Training and counseling	34,021	32,041
Other expenses	146,686	131,138
Total	**2,976,235**	**2,738,689**

15. INCOME TAXES

(a) Components of Income Taxes

Total tax (expense)/benefit is comprised of:

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Current income tax expense	(1,557)	(118)	(118)
Gains on created deferred tax assets and decrease in deferred tax liabilities	-	107,298	102,962
Losses on decrease of deferred tax assets and created deferred tax liabilities	(25,390)	-	-
Total	**(26,947)**	**107,180**	**102,844**

The outstanding balance of prepaid current income tax amounting to RSD 1,116 thousand resulted from advance payments of the 2014 income tax liabilities.

(b) Reconciliation of the Tax Expense Recognized in the Income Statement and Profit Before Tax Multiplied by the Statutory Income Tax Rate

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Profit before tax	**1,216,403**	**165,628**	**1,125,121**
Income tax at the rate of 15%	**182,460**	**24,844**	**168,768**
Tax effects of expenses not recognized for the tax purposes	8,691	22,315	30,189
Tax credits for capital expenditures			
Tax effects of non-taxable income (interest On securities issued by the Republic of Serbia, Autonomous Province, local self-governance or National Bank of Serbia)	(165,761)	(154,457)	(139,427)
Other	2,324	176	7,328
Total tax benefit (expense) stated in the income statement	**26,947**	**(107,180)**	**65,743**
Effective interest rate	**2.22%**	**0.00%**	**16.17%**

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

15. INCOME TAXES (Continued)

(c) Deferred Tax Components

In RSD '000

	Temporary difference amount	Deferred tax amount
Deductible temporary difference per differnce between the carrying value and tax base of fixed assets – deferred tax assets	45,191	6,779
Deductible temporary difference per adjustment of securities to fair – deferred tax liabilities	(158,272)	(23,741)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	1,188,959	178,344
Total balance at December 31, 2015	**1,075,878**	**161,382**

In RSD '000

	Temporary difference amount	Deferred tax amount
Deductible temporary difference per differnce between the carrying value and tax base of fixed assets – deferred tax assets	3,417	513
Deductible temporary difference per adjustment of securities to fair – deferred tax liabilities	(28,908)	(4,336)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	1,428,909	214,336
Total balance at December 31, 2014	**1,403,418**	**210,513**

(d) Movements on Deferred Taxes

As of December 31, 2015 the Bank had a tax credit carried forward based on capital expendiures for which deferred tax assets totaling RSD 43,797 thousand were not recognized.

In RSD '000

	2015	2014
Balance of deferred tax assets at January 1	210,513	107,551
Effect of termporary tax differenced credited to the income statement	(25,390)	107,298
Effect of termporary tax differenced credited to equity	(23,741)	(4,336)
Balance of deferred tax assets at December 31	**161,382**	**210,513**

(e) Entitlements to the Use of the Unused Tax Credits Expire in the Following Periods:

In RSD '000

	Amount at December 31, 2015	Final Year of Use
Per unused tax credit carryforward for capital expenditures	43,797	2023
Per tax losses incurred up to December 31, 2013	485,676	2017
Per tax losses incurred after December 31, 2014	703,283	2019

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

16. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
In RSD			
Gyro account	5,053,943	5,961,360	3,354,490
Cash on hand	1,268,082	1,195,763	1,343,904
Deposited liquid asset surpluses	4,000,000	-	-
Receivables for interest accrued, fees and commission per funds held with the central bank	278	-	-
	10,322,303	**7,157,123**	**4,698,394**
In foreign currencies			
Cash on hand	991,254	1,236,820	731,296
Obligatory foreign currency reserve held with NBS	7,209,871	7,512,464	10,675,223
	8,201,125	**8,749,284**	**11,406,519**
Stanje na dan 31. decembra	**18,523,428**	**15,906,407**	**16,104,913**

The Bank's obligatory RSD reserve represents the minimum RSD reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 3/11, 31/12, 57/12, 78/12, 87/12, 107/12, 62/13, 125/14, 135/14, 4/2015, 78/2015 and 102/2015). Pursuant to the aforesaid Decision, the obligatory reserve is to be calculated at the rate of 5% on the average balance of RSD liabilities maturing within 2 years, and at the rate of 0% on the portion of the RSD liabilities with maturities of over 2 years during a calendar month.

The Bank is under obligation to calculate and maintain the average daily balance of the allocated obligatory RSD reserve on its gyro account over the accounting period.

The obligatory RSD reserve balance that had to be maintained from December 18, 2015 to January 17, 2016 amounted to RSD 5,189,999 thousand.

The average rate of interest on the funds of the olbigatory RSD reserve in 2015 equaled 2.37% per annum.

The obligatory foreign currency reserve represents the minimum foreign currency reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 3/11, 31/12, 57/12, 78/12, 87/12, 107/12, 62/13, 125/14, 135/14, 4/2015, 78/2015 and 102/2015), which prescribes that banks calculate the obligatory foreign currency reserve at the following rates: 22% on the average daily balance of foreign currency liabilities maturing within 2 years, and exceptionally at the rate of 50% on the portion of RSD liabilities indexed to a currency clause maturing within 2 years; 15% on the average daily balance of foreign currency liabilities with maturities of over 2 years, and exceptionally at the rate of 50% on the portion of RSD liabilities indexed to a currency clause with maturities of over 2 years during a calendar month.

The obligatory foreign currency reserve balance that had to be maintained from December 18, 2015 to January 17, 2016 amounted to EUR 59,279 thousand.

The obligatory foreign currency reserve does not accrue interest.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
In RSD			
Financial assets at fair value through profit and loss			
– Treasury bills	728,000	570,660	569,069
– bonds	1,108,290	453,221	200,206
– positive fair value of derivatives held for trading	22,421	43,652	48,858
	1,858,711	**1,067,533**	**818,133**
In foreign currencies			
Financial assets at fair value through profit and loss			
– Treasury bills	1,438,362	1,232,539	-
– bonds	4,986,893	3,777,097	927,823
– positive fair value of derivatives held for trading	79,506	-	-
	6,504,761	**5,009,636**	**927,823**
Balance at	**8,363,472**	**6,077,169**	**1,745,956**

18. FINANCIAL ASSETS AVAILABLE FOR SALE

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
In RSD			
Securities available for sale			
– Treasury bills	198,273	16,689	-
– bonds	1,951,803	1,538,177	1,530,105
– equity investments	137,027	136,786	143,383
	2,287,103	**1,691,652**	**1,673,488**
In foreign currencies			
Securities available for sale			
– Treasury bills	1,245,699	944,701	112,254
– other securities available for sale	32,918	52,363	39,741
	1,278,617	**997,064**	**151,995**
Total financial assets available for sale	**3,565,720**	**2,688,716**	**1,825,483**
***Less:* Impairment allowance**	**(119,448)**	**(117,092)**	**(119,662)**
Balance at	**3,446,272**	**2,571,624**	**1,705,821**

Movements on allowance for impairment during the year were as follows:

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
Balance, beginning of year	117,092	119,662	120,378
Foreign exchange effects	2,356	(2,570)	(716)
Balance, end of year	**119,448**	**117,092**	**119,662**

19. FINANCIAL ASSETS HELD TO MATURITY

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
In RSD			
Securities held to maturity:			
– Treasury bills	-	-	932,309
– bonds	7,008,412	6,509,844	4,779,533
Balance at	**7,008,412**	**6,509,844**	**5,711,842**

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

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

In RSD '000

	December 31, 2105			December 31, 2104			January 1, 2014		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD									
Revocable deposits and loans	500,082	-	**500,082**	-	-	**-**	7,501,560	-	**7,501,560**
Loans	-	522	**522**	-	1,801	**1,801**	163	-	**163**
Deposits placed	6,500	-	**6,500**	-	-	**-**	-	-	**-**
Other loans and receivables	-	-	**-**	-	-	**-**	142,100	-	**142,100**
	506,582	**522**	**507,104**	**-**	**1,801**	**1,801**	**7,643,823**	**-**	**7,643,823**
In foreign currencies									
Foreign currency accounts	1,420,557	-	**1,420,557**	2,034,677	-	**2,034,677**	2,414,420	-	**2,414,420**
Foreign currency cheques	-	-	**-**	24	-	**24**	23	-	**23**
Loans	-	509,481	**509,481**	-	101,157	**101,157**	-	158,452	**158,452**
Deposits placed	4,865	-	**4,865**	1,379,903	-	**1,379,903**	3,209,979	-	**3,209,979**
Other loans and receivables	304,642	-	**304,642**	399,226	-	**399,226**	11,184	-	**11,184**
	1,730,064	**509,481**	**2,239,545**	**3,813,830**	**101,157**	**3,914,987**	**5,635,606**	**158,452**	**5,794,058**
Gross loans and receivables	**2,236,646**	**510,003**	**2,746,649**	**3,813,830**	**102,958**	**3,916,788**	**13,279,429**	**158,452**	**13,437,881**
Less: Impairment allowance			**(13,298)**			**(18,033)**			**(20,875)**
Balance at			**2,733,351**			**3,898,755**			**13,417,006**

RSD loans with a foreign currency clause index are presented within loans and receivables in foreign currencies.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

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

(a) Breakdown per type of loan and deposit beneficiaries

In RSD '000

	December 31, 2105			December 31, 2104			January 1, 2014		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD									
Central bank	500,072	-	**500,072**	-	-	**-**	7,501,560	-	**7,501,560**
Domestic banks	-	-	**-**	-	-	**-**	29	-	**29**
Insurance companies	-	116	**116**	-	122	**122**	-	-	**-**
Finance lessors	-	42	**42**	-	-	**-**	-	-	**-**
Auxiliary activities within financial services and insurance	-	121	**121**	-	546	**546**	-	-	**-**
Other crediting and financing service providers	-	243	**243**	-	175	**175**	-	-	**-**
Foreign banks	6,510	-	**6,510**	-	958	**958**	142,234	-	142,234
	506,582	**522**	**507,104**	**-**	**1,801**	**1,801**	**7,643,823**	**-**	**7,643,823**
In foreign currencies									
Domestic banks	-	-	**-**	-	-	**-**	127	-	**127**
Finance lessors	-	353,455	**353,455**	-	100,590	**100,590**	483	152,790	**153,273**
Auxiliary activities within financial services and insurance	309,507	1,395	**310,902**	399,178	567	**399,745**	9,001	5,662	**14,663**
Other crediting and financing service providers	-	154,631	**154,631**	-	-	**-**	-	-	**-**
Foreign banks	1,420,557	-	**1,420,557**	3,414,652	-	**3,414,652**	5,625,995	-	**5,625,995**
	1,730,064	**509,481**	**2,239,545**	**3,813,830**	**101,157**	**3,914,987**	**5,635,606**	**158,452**	**5,794,058**
Gross loans and receivables	**2,236,646**	**510,003**	**2,746,649**	**3,813,830**	**102,958**	**3,916,788**	**13,279,429**	**158,452**	**13,437,881**
Less: Impairment allowance			**(13,298)**			**(18,033)**			**(20,875)**
Balance at			**2,733,351**			**3,898,755**			**13,417,006**

RSD loans with a foreign currency clause index are presented within loans and receivables in foreign currencies.

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

(b) Maturities of Loans and Receivables due from Banks and Other Financial Institutions

Maturities of loan and receivables due from banks and other financial institutions per outstanding maturity as of December 31, 2015 and 2014 and January 1, 2014 , gross, are presented in the table below:

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
Without defined maturity	1,730,064	3,813,824	9,923,445
Under 30 days	506,582	-	2,438,847
From 1 to 3 months	-	-	917,137
From3 to 12 months	-	6	-
Over a year	510,003	102,958	158,452
	2,746,649	**3,916,788**	**13,437,881**

Movements on the impairment allowance accounts during the year are presented below:

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
Balance, beginning of year	18,033	20,875	9,984
Charge for the year (Note 11 (a))	533,375	375,003	1,136,692
Reversal of impairment allowance (Note 11 (a))	(530,981)	(367,522)	(1,116,319)
Write-off	(14)	(27,474)	-
Foreign exchange differences	(7,115)	17,151	(9,482)
Balance, end of year	**13,298**	**18,033**	**20,875**

Receivables per reverse repo transactions totaling RSD 500,072 thousand as of December 31, 2015 mostly, in the amount of RSD 500,000 thousand, relate to the funds invested in NBS Treasury bills maturing within 7 days at the interest rate of 2.59 % annually, while RSD 72 thousand refer to the interest accrued over the period from December 30 to December 31, 2015.

21. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

In RSD '000

	December 31, 2105			December 31, 2104			January 1, 2014		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD									
Loans	601,317	17,032,096	**17,633,413**	1,962,501	16,304,448	**18,266,949**	2,797,636	11,603,135	**14,400,771**
Other receivables	443,898	65,502	**509,400**	391,467	4,000	**395,467**	464,958	-	**464,958**
	1,045,215	**17,097,598**	**18,142,813**	**2,353,968**	**16,308,448**	**18,662,416**	**3,262,594**	**11,603,135**	**14,865,729**
In foreign currencies									
Revocable deposits and loans	-	-	**-**	-	-	**-**	-	-	**-**
loans	1,427,042	61,173,839	**62,600,881**	6,751,889	40,864,011	**47,615,900**	12,727,917	35,498,852	**48,226,769**
Deposits placed	96,537	-	**96,537**	86,037	-	**86,037**	-	-	**-**
Other receivables	203,395	1,631,129	**1,834,524**	77,693	1,276,748	**1,354,441**	749,041	1,017,690	**1,766,731**
	1,726,974	**62,804,968**	**64,531,942**	**6,915,619**	**42,140,759**	**49,056,378**	**13,476,958**	**36,516,542**	**49,993,500**
Gross loans and receivables	**2,772,189**	**79,902,566**	**82,674,755**	**9,269,587**	**58,449,207**	**67,718,794**	**16,739,552**	**48,119,677**	**64,859,229**
Less: Impairment allowance									
– individually assessed			**(4,479,587)**			**(4,210,699)**			**(4,798,520)**
– collectively assessed			**(3,012,501)**			**(2,639,475)**			**(2,721,337)**
			(7,492,088)			**(6,850,174)**			**(7,519,857)**
Balance at			**75,182,667**			**60,868,620**			**57,339,372**

RSD loans with a foreign currency clause index are presented within loans and receivables in foreign currencies.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

21. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

(a) Breakdown per type of loan and deposit beneficiaries

In RSD '000

	December 31, 2105			December 31, 2104			January 1, 2014		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD									
Holding companies	-	891	891	-	-	-	1,975	217	2,192
Public companies	406	2,716	3,122	18,373	8,125	26,498	3,135	-	3,135
Other corporate customers	678,617	1,097,769	1,776,386	1,001,172	2,352,408	3,353,580	1,524,345	37,115	1,561,460
Entrepreneurs	26,170	208,770	234,940	77,752	268,490	346,242	108,999	34,187	143,186
Public sector	-	853	853	596,202	1,569	597,771	15,089	107	15,196
Retail customers	191,463	15,667,111	15,858,574	488,517	13,552,415	14,040,933	809,942	11,526,998	12,336,940
Non-residents	42	-	42	38	-	38	36	500	536
Agricultural producers	7,210	17,532	24,742	8,667	1,987	10,654	6,717	-	6,717
Other customers	141,307	101,956	243,263	163,247	123,454	286,699	792,356	4,011	796,367
	1,045,215	**17,097,598**	**18,142,813**	**2,353,968**	**16,308,448**	**18,662,415**	**3,262,594**	**11,603,135**	**14,865,729**
In foreign currencies									
Holding companies	50,162	311,709	361,871	50,829	-	50,829	742,164	45,730	787,894
Public companies	1	4,957,054	4,957,055	138,719	6,006,171	6,144,890	30	4,668,278	4,668,308
Other corporate customers	1,281,414	38,712,731	39,994,145	6,308,400	20,746,141	27,054,541	9,336,943	19,967,356	29,304,299
Entrepreneurs	11,137	459,371	470,508	99,203	407,753	506,956	235,141	475,357	710,498
Public sector	40,128	1,898,229	1,938,357	71,297	709,469	780,766	13,364	244,956	258,320
Retail customers	91	14,457,906	14,457,997	3,843	12,555,540	12,559,383	630,107	10,819,913	11,450,020
Non-residents	96,537	43,901	140,438	86,037	-	86,037	-	-	-
Agricultural producers	14,579	285,596	300,175	46,870	330,794	377,664	201,290	212,986	414,276
Other customers	232,925	1,678,471	1,911,396	110,422	1,384,891	1,495,313	2,317,919	81,966	2,399,885
	1,726,974	**62,804,968**	**64,531,942**	**6,915,620**	**42,140,759**	**49,056,379**	**13,476,958**	**36,516,542**	**49,993,500**
Gross loans and receivables	**2,772,189**	**79,902,566**	**82,674,755**	**9,269,587**	**58,449,207**	**67,718,794**	**16,739,552**	**48,119,677**	**64,859,229**
Less: Impairment allowance									
– individually assessed			(4,479,587)			(4,201,699)			(4,798,520)
– collectively assessed			(3,012,501)			(2,639,475)			(2,721,337)
			(7,492,088)			**(6,850,174)**			**(7,519,857)**
Balance at			**75,182,667**			**60,868,620**			**57,339,372**

RSD loans with a foreign currency clause index are presented within loans and receivables in foreign currencies.

21. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

(b) Maturities of Loans and Receivables due from Customers

Maturities of loan and receivables due from customers per outstanding maturity as of December 31, 2015 and 2014 and January 1, 2014 , gross, are presented in the table below:

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Without defined maturity	245,398	978,481	1,474,384
Under 30 days	192,591	174,180	8,791,590
From 1 to 3 months	522,540	667,130	514,281
From3 to 12 months	1,811,660	7,449,797	5,959,297
Over a year	79,902,566	58,449,206	48,119,677
	82,674,755	**67,718,794**	**64,859,229**

Movements on the impairment allowance accounts during the year are presented below:

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Balance, beginning of year	6,850,174	7,519,857	6,408,335
Charge for the year (Note 11 (a))	8,487,638	10,000,813	6,666,805
Reversal of impairment allowance (Note 11 (a))	(7,068,328)	(7,899,291)	(5,143,992)
Write-off	(790,737)	(2,640,526)	(40,750)
Foreign exchange differences	13,341	(130,679)	(370,541)
Balance, end of year	**7,492,088**	**6,850,174**	**7,519,857**

(c) Concentration of Loans and Receivables due from Banks, Other Financial Institutions and Customers

Concentration of loans and receivables due from banks, other financial institutions and customers presented in gross amounts as of December 31, 2015 and 2014 and January 1, 2014, is significant with the following industries:

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Holding companies	362,762	50,829	789,637
Trade	6,365,007	6,584,396	7,078,306
Processing industry	12,943,236	12,179,630	12,642,664
Construction industry	7,191,068	2,447,075	2,431,123
Power generation and supply	9,371,229	4,185,645	1,860,403
Tourism and services industry	8,941,826	8,867,708	9,373,810
Agriculture and food industry	1,918,342	2,328,270	2,145,892
Retail customers (Note 34.2. e)	30,360,510	26,587,145	23,867,447
Domestic and foreign banks and other financial institutions	2,746,649	3,916,788	13,437,881
Public sector	1,939,212	1,378,536	753,412
Non-resident corporate customers	96,537	86,121	502
Agricultural producers	324,918	388,232	421,050
Other customers	2,154,659	1,782,012	2,641,034
Entrepreneurs	705,449	853,195	853,949
Balance at	**85,421,404**	**71,635,582**	**78,297,110**

22. INVESTMENTS IN SUBSIDIARIES

	2015	In RSD '000 2014
In RSD	93,560	93,560
Balance at December 31	**93,560**	**93,560**

As at January 15, 2014 under the agreement concluded with Steiermarkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH on the purchase and transfer of equity interest, the Bank paid the agreed amount and obtained a 75% equity interest in S-leasing d.o.o., Srbija. The Bank obtained the said equity interest upon payment for 25% of the interest to Steiermarkische Bank und Sparkassen AG and 50% to Immorent AG.

23. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

In RSD '000

	Land and buildings	Equipment	Equipment acquired under finance lease	Investment property	Investments in progress	Total	Intangible assets
COST							
Balance at January 1, 2014	**755,646**	**702,967**	**4,127**	**-**	**-**	**1,462,740**	**826,481**
Additions	-	-	-	-	258,951	258,951	-
Transfers	23,547	57,737	(2,446)	13,827	(258,898)	(166,233)	166,233
Disposal and retirement	2,225)	(65,309)	-	-	-	(67,534)	1
Balance at December 31, 2014	**776,968**	**695,395**	**1,681**	**13,827**	**53**	**1,487,924**	**992,715**
Additions	-	1,681	(1,681)	-	483,112	483,112	-
Transfers	14,418	62,500	41,108	229,806	(483,165)	(135,333)	135,333
Disposal and retirement	(13,299)	(50,219)	-	-	-	(63,518)	(11,464)
Balance at December 31, 2015	**778,087**	**709,357**	**41,108**	**243,633**	**-**	**1,772,185**	**1,116,584**
ACCUMULATED DERPECIATION/AMORTIZATION							
Balance at January 1, 2014	**230,002**	**523,788**	**1,587**	**-**	**-**	**755,377**	**414,616**
Charge for the year (Note 13)	18,884	60,325	94		-	79,303	188,748
Disposal and retirement	(287)	(64,350)	-	-	-	(64,637)	-
Balance at December 31, 2014	**248,599**	**519,763**	**1,681**	**-**	**-**	**770,043**	**603,364**
Charge for the year (Note 13)	19,157	58,490	663	5,125	-	83,435	173,831
Disposal and retirement	(4,062)	(47,177)	(1,681)			(52,920)	(11,465)
Balance at December 31, 2015	**263,694**	**531,076**	**663**	**5,125**	**-**	**800,558**	**765,730**
NET BOOK VALUE							
– at December 31, 2015	**514,393**	**178,281**	**40,445**	**238,508**	**-**	**971,627**	**350,854**
– at December 31, 2014	**528,369**	**175,632**	**-**	**13,827**	**53**	**717,881**	**389,351**

As of December 31, 2015 there were no mortgage liens assigned over the Bank's building properties to securitize repayment of borrowings.

As a result of incomplete land registers, as at December 31, 2015, the Bank did not have title deeds as proof of ownership (real estate folio excerpts) for buildings stated at the net book value of RSD 72,481 thousand (December 31, 2014: RSD 69,617 thousand). The Bank's management has taken all actions necessary to obtain the appropriate property titles for these buildings.

As of December 31, 2015 the net book value of the Bank's equipment mostly comprised computers and computer equipment, telecommunication equipment and office furniture.

As of December 31, 2015 the net book value of the Bank's intangible assets mostly comprised software and licenses. In the assessment of the Bank's management, there were no indications that property, plant, equipment and intangible assets had suffered impairment as of December 31, 2015.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

24. OTHER ASSETS

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
In RSD			
Other receivables:			
– receivables for accrued fees and commissions	32,925	26,832	73,823
– trade receivables	496	496	496
– other receivables from continuing operations	139,308	137,109	-
– advances paid	6,992	6,798	6,524
– receivables from employees	427	13,572	4,545
– inventories	129,949	122,578	142,740
– other receivables	119,344	96,231	181,614
– other investments	29,169	29,169	50
Prepayments:			
–other prepayments	359,553	216,352	84,507
	818,163	**649,137**	**494,299**
In foreign currencies			
Other receivables:			
– receivables for accrued fees and commissions	58	65	56
– advances paid	25,076	23,142	21,973
– receivables from employees	1,216	1,353	1,425
– other receivables	86,178	86,380	70,855
Prepayments:			
–other prepayments	51,680	49,189	4,212
	164,208	**160,129**	**98,521**
Gross other assets	**982,371**	**809,266**	**592,820**
Less: Impairment allowance	(330,747)	(303,142)	(263,094)
Balance at	**651,624**	**506,124**	**329,726**

Movements on the account of impairment allowance during the year are presented in the table below:

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Balance, beginning of year	303,142	263,094	269,430
Charge for the year (Note 11 (a))	83,528	81,232	28,131
Reversal of impairment allowance (Note 11 (a))	(112,701)	(414,237)	(423,372)
Foreign exchange effects	56,778	373,053	388,905
Balance, end of year	**330,747**	**303,142**	**263,094**

As at January 15, 2014 under the agreement concluded with Steiermarkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH on the purchase and transfer of equity interest, the Bank acquired a 19% equity interest in S Rent d.o.o., Srbija.

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS HELD FOR TRADING

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
In RSD			
Liabilities per derivatives held for trading	25,396	27,282	-
In foreign currencies			
Liabilities per derivatives held for trading	68,839	-	-
Balance at	**94,235**	**27,282**	**-**

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

In RSD '000

	December 31, 2105			December 31, 2104			January 1, 2014		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD									
Deposits and borrowings									
Transaction deposits	213,194	-	**213,194**	967,361	-	**967,361**	184,595	-	**184,595**
Deposits placed for loan approved	1,751	-	**1,751**	29,332	181,437	**210,769**	-	171,962	**171,962**
Earmarked deposits	969	-	**969**	10,003	-	**10,003**	149	-	**149**
Other deposits	2,877,610	771,570	**3,649,180**	2,629,315	646,437	**3,275,752**	1,174,335	583,069	**1,757,404**
Total	**3,093,524**	**771,570**	**3,865,094**	**3,636,011**	**827,874**	**4,463,885**	**1,359,079**	**755,031**	**2,114,110**
In foreign currencies									
Deposits and borrowings									
Transaction deposits	819,956	-	**819,956**	185,670	-	**185,670**	228,804	-	**228,804**
Deposits placed for loan approved	-	1,332,195	**1,332,195**	-	-	**-**	-	-	**-**
Earmarked deposits	60,927	3,648	**64,575**	53,415	-	**53,415**	179,287	-	**179,287**
Other deposits	5,856,677	1,762,800	**7,619,477**	1,824,448	1,317,245	**3,141,693**	2,064,012	1,222,085	**3,286,097**
Overnight deposits	2,736,587	-	**2,736,587**	-	-	**-**	-	-	**-**
Borrowings (Note 34.3)	-	13,824,816	**13,824,816**	-	10,566,128	**10,566,128**	-	7,903,827	**7,903,827**
Other financial liabilities	19,465	-	**19,465**	22,604	-	**22,604**	17,080	-	**17,080**
Total	**9,493,612**	**16,923,459**	**26,417,071**	**2,086,137**	**11,883,373**	**13,969,510**	**2,489,183**	**9,125,912**	**11,615,095**
Balance at	**12,587,136**	**17,695,029**	**30,282,165**	**5,722,148**	**12,711,247**	**18,433,395**	**3,848,262**	**9,880,943**	**13,729,205**

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

Breakdown of other deposits per type of customer is presented in the table below:

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Central bank	1,404	435	285
Domestic banks	5,780,163	2,905,463	1,380,338
Insurance companies	3,306,897	2,334,463	3,209,606
Pension funds	145,905	-	170,000
Finance lessors	703,357	1,014,494	828,366
Auxiliary activities within financial services and insurance	1,823,891	1,519,836	43,959
Trusts, investment and similar funds	14,881	-	85,881
Other crediting and financing service providers	8,786	5,424	-
Foreign banks	18,496,881	10,653,280	8,010,770
Balance at	**30,282,165**	**18,433,395**	**13,729,205**

Foreign banks' deposits mostly pertain to the deposit of Erste Group Bank AG, Austria in the amount of RSD 8,407,086 thousand and a deposit of European Investment Bank (EIB) in the amount of RSD 7,973,851 thousand.

27. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD '000

	December 31, 2105			December 31, 2104			January 1, 2014		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD									
Deposits and borrowings									
Transaction deposits	11,146,933	-	**11,146,933**	9,124,269	-	**9,124,269**	8,266,701	-	**8,266,701**
Revocable deposits	-	-	**-**	-	-	**-**	2,485,697	-	**2,485,697**
Savings deposits	633,783	490,220	**1,124,003**	679,361	487,215	**1,166,576**	825,761	486,990	**1,312,751**
Deposits placed for loan approved	14,881	193,501	**208,382**	311,256	835,895	**1,147,151**	365,293	235,718	**601,011**
Earmarked deposits	183,515	18,847	**202,362**	335,940	4,105	**340,045**	241,379	4,529	**245,908**
Other deposits	6,925,163	15,769	**6,940,932**	7,322,097	42,680	**7,364,777**	5,360,970	30,580	**5,391,550**
Other financial liabilities	-	-	**-**	95,265	-	**95,265**	90,290	-	**90,290**
Total	**18,904,275**	**718,337**	**19,622,612**	**17,868,188**	**1,369,895**	**19,238,083**	**17,636,091**	**757,817**	**18,393,908**
In foreign currencies									
Deposits and borrowings									
Transaction deposits	16,209,701	-	**16,209,701**	10,654,083	-	**10,654,083**	6,675,903	-	**6,675,903**
Revocable deposits	-	-	**-**	-	-	**-**	-	-	**-**
Savings deposits	8,047,168	14,905,351	**22,952,519**	8,058,764	15,496,647	**23,555,411**	7,927,892	12,745,974	**20,673,866**
Deposits placed for loan approved	409,179	2,109,870	**2,519,049**	150,389	639,263	**789,652**	102,125	337,287	**439,412**
Earmarked deposits	1,736,797	363,706	**2,100,503**	281,555	328,181	**609,736**	459,972	295,321	**755,293**
Other deposits	682,002	966,489	**1,648,491**	1,190,567	212,266	**1,402,833**	2,186,048	343,485	**2,529,533**
Overnight deposits	-	-	**-**	-	-	**-**	-	-	**-**
Borrowings per repo transactions	-	-	**-**	-	-	**-**	-	-	**-**
Borrowings	-	2,853,165	**2,853,165**	28,060	5,062,921	**5,090,981**	-	15,366,970	**15,366,970**
Other financial liabilities	389,353	-	**389,353**	261,906	-	**261,906**	42,674	-	**42,674**
Total	**27,474,200**	**21,198,581**	**48,672,781**	**20,625,324**	**21,739,278**	**42,364,602**	**17,394,614**	**29,089,037**	**46,483,651**
Balance at	**46,378,475**	**21,916,918**	**68,295,393**	**38,493,512**	**23,109,173**	**61,602,685**	**35,030,705**	**29,846,854**	**64,877,559**

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

Breakdown of other deposits per type of customer is presented in the table below:

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Holding companies	17,519	35	683,067
Public companies	2,272,964	4,912,915	2,228,844
Corporate customers	18,619,287	12,756,006	14,705,510
Public sector	2,988,419	3,856,156	4,155,507
Retail customers	36,207,139	32,678,613	27,265,025
Non-residents	2,635,578	2,875,153	12,365,261
Entrepreneurs	1,254,309	1,055,272	646,096
Agricultural producers	282,785	291,938	274,989
Other customers	4,017,393	3,176,597	2,579,908
Balance at	**68,295,393**	**61,602,685**	**64,904,207**

28. SUBORDINATED LIABILITIES

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
In foreign currencies			
Subordinated liabilities	1,824,946	2,063,751	2,191,301
Balance at	**1,824,946**	**2,063,751**	**2,191,301**

Balance of subordinated borrowings as of December 31, 2015 and 2014 is presented in more detail int he table below:

In RSD '000

Creditor	Currency	Loan amount	Maturity	Interest rate	December 31, 2015	December 31, 2014
Erste Group Bank AG, Austria	EUR	15,000,000	27-Dec-2021	Euribor+3.65% p.a.	1,824,392	1,814,375
Total		**15,000,000**			**1,824,392**	**1,814,375**

Subordinated liabilities relate to a subordinated long-term loan approved to the Bank by Erste GCIB Finance, Amsterdam on December 27, 2011 in the amount of EUR 15,000,000 for a period of 10 years with a 5-year grace period and interest rate equal to 3-month EURIBOR increased by 3.65% per annum. In accordance with the Agreement, the loan principal is to be repaid in 21 equal quarterly installment, the first of which is due upon grace period expiry.

The Bank can include its subordinated liabilities into the supplementary capital (Note 34.9) to the extent of up to 50% of the Bank's core capital after the National Bank of Serbia has determined, based on the documents and loan agreement submitted for inspection, that the conditions are met for the approval of inclusion of subordinated liabilities in the Bank's supplementary capital. The Supervision Department of the National Bank of Serbia issued the aforementioned approval on December 6, at the request of the Bank submitted on October 7, 2011.

Pursuant to the Agreement on Transfer and Assignment, on December 16, 2015 the creditor was changed and the new creditor became Erste Group Bank AG, Austria. All other terms of the loan agreement remained unaltered.

29. PROVISIONS

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Provisions for losses per off-balance sheet items (a)	205,727	200,995	138,835
Provisions for long-term employee benefits (b):			
– retirement benefits	73,656	82,641	82,380
– jubilee awards	116,503	133,114	126,200
Provisions for litigations (c)	118,109	90,525	70,320
Other long-term provisions	20,491	36,513	44,104
Balance at	**534,486**	**543,788**	**461,839**

(a) According to the Bank's internal policy, provisions for commitments and other risk-weighted off balance sheet items (guarantees, acceptances, undrawn loan facilities etc.) are made when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitments.

29. PROVISIONS (Continued)

Evidence based on which the Bank performs the individual assessment of impairment are: payments effected on the Bank's accounts with respect to commitments arising from guarantees, bills of guarantees, etc., late payments for other liabilities, and the customers has been classified in accordance with the Bank's internal classification criteria into default) status category.

Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets. Commitments and other risk-weighted off-balance sheet items, for which the Bank does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected, the Bank collectively assesses them for impairment, in a similar way as for balance sheet items, using the credit conversion factors for off-balance sheet items.

(b) Provision for retirement benefits has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation as at the reporting date, and it is stated in the amount of present value of the defined benefit obligation, determined by discounting estimated future outflows. The discounted rate used by the actuary was 4.4% (2014: 3.83%), representing the adequate rate under IAS 19 "Employee Benefits", in the absence of a developed market for high quality corporate bonds. The actuary also used mortality rate tables of the Republic of Serbia for the period from 2010 to 2012. the growth salary rate was assumed to equal 0.58% and the employee turnover rate to be 5.37% within 5 years before retirement.

(c) the Bank also formed provisions for litigations involving the Bank as a defendant, where the Bank's expert team epects negative outcomes.

Movements on provision accounts during the year are provided below:

			In RSD '000
	December 31, 2015	December 31, 2014	January 1, 2014
Provisions for losses per off-balance sheet exposures			
Balance, beginning of year	200,995	138,835	156,754
Charge for the year (Note 11 (a))	1,481,517	956,618	882,550
Reversal ofunused provisions (Note 11 (a))	(1,476,674)	(899,154)	(900,743)
Other movements	(111)	4,696	274
	205,727	**200,995**	**138,835**
Provisions for otehr long-term employee benefits			
Balance, beginning of year	215,754	208,580	178,166
Interest expenses and current service costs	23,870	25,926	24,127
Released during the year	(17,818)	(15,728)	(13,271)
Actuarial losses/(gains) on jubilee awards	(14,972)	(963)	14,366
Actuarial losses/(gains) on retirement benefits	(16,675)	(2,061)	5,193
	190,159	**215,754**	**208,581**
Provisions for litigations			
Balance, beginning of year	90,525	70,320	64,074
Charge for the year	52,247	40,630	10,762
Released during the year	(24,663)	(20,425)	(13,644)
Other movements	-	-	9,127
	118,109	**90,525**	**70,319**
Other long-term provisions			
Balance, beginning of year	36,513	44,104	19,657
Charge for the year	2,879	17,292	37,988
Released during the year	(18,901)	(24,883)	(13,541)
	20,491	**36,513**	**44,104**
Balance at	**534,486**	**543,788**	**461,839**

30. OTHER LIABILITIES

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
In RSD			
Trade payables	1,212	1,607	20,954
Advances received	11,382	5,035	6,068
Liabilities for net salaries and beenfits	-	-	2,653
Liabilities for taxes, contributions and other duties payable	5,190	637	56,347
Accruals:			
– accrued liabilities for unused annual leaves	32,795	76,630	130,794
– other accruals	292,324	278,817	139,184
Other liabilities	89,488	39,555	96,398
	432,391	**402,281**	**452,398**
In foreign currencies			
Fee and commission payables	24	26	-
Advances received	10,671	11,255	9,252
Accruals:			
– other accruals	4,959	2,735	2,148
Other liabilities	9,014	6,504	7,711
	24,668	**20,520**	**19,111**
Balance at	**457,059**	**422,801**	**471,509**

31. EQUITY

(a) Structure of the Bank's Equity

The total equity structure of the Bank is presented below:

	December 31, 2015	December 31, 2014	In RSD '000 January 1, 2014
Share capital - ordinary shares /i/	10,040,000	10,040,000	10,040,000
Share premium /ii/	124,475	124,475	124,475
Reserves from profit /iii/	4,425,448	3,091,087	2,534,108
Revaluation reserves /iv/	220,102	59,273	32,640
Retained earnings	-	1,071,176	568,777
Profit for the year	1,189,456	272,809	1,059,377
Other	-	(1)	-
Balance at	**15,999,481**	**14,658,819**	**14,359,377**

/i/ Share Capital

As of December 31, 2015 the Bank's subscribed and paid in capital comprised 1,004,000 ordinary shares with the par value of RSD 10,000 per share (December 31, 2015: 1,004,000 ordinary shares with the par value of RSD 10,000 per share). During 2015 and 2014 there were no changes in the share cpaital.

The major shareholder of the Bank is Erste Group, Vienna, with a shareholding of 74% at December 31, 2015. the shareholder structure of the Bank as of December 31, 2015 is presented below:

shareholder	**Share Count**	**In %**
Erste Group Vienna	742,960	74.00
Steiermärkische Bank und Sparkassen AG, Graz	261,040	26.00
Total	**1,004,000**	**100.00**

/ii/ Share Premium

Share premium amounting to RSD 124,475 thousand as at December 31, 2015 and 2014 resulted from a positive difference between the selling price of the shares and their nominal value.

31. EQUITY (Continued)

(a) Structure of the Bank's Equity (Continued)

/iii/ Reserves from Profit and Other Reserves

As of December 31, 2015 reserves from profit formed for estimated loss per risk-weighted balance sheet and off-balance sheer exposures amounted to RSD 4,425,448 thousand. As of December 31, 2014 the required reserve for estimated losses amounted to RSD 3,091,087 thousand. Pursuant to the Shareholder Assembly's Decision dated April 20, 2015, RSD 1,334,361 thousand was allocated to other reserves.

/iv/ Revaluation Reserves

Revaluation reserves amounting to RSD 220,102 thousand as of December 31, 2015 (December 31, 2014: RSD 59,273 thousand) were formed as a result of the market value adjustment of the securities available for sale, adjusted for the effects of deferred taxes arising from revaluation of these securities.

(b) Capital Adequacy and Performance Indicators – Compliance with the Prescribed Ratios

The Bank is required to maintain the scope and structure of its business operations and risk-weighted assets in compliance with the ratios prescribed by the Law on Banks and relevant decisions enacted by the National Bank of Serbia based on the aforesaid Law. As of December 31, 2015 the Bank was in full compliance with the prescribed values. The Bank achieved the following adequacy and performance indicators as of December 31, 2015:

Performance/adequacy indicators	Prescribed	Achieved
	Minimum	EUR
1. Capital	EUR 10 million	108,969,129
2. Capital adequacy ratio	Minimum 12%	17.88
3. The sum of Bank's investments	Maximum 60%	7.69
4. Exposure to the entities related to the Bank	unrestricted	13.42
5. The sum of all large and most significant exposures relative to own assets	Maximum 400%	109.75
6. Average monthly liquidity ratios:		
– in the first month of the reporting period	Minimum 1	1.43
– in the second month of the reporting period	Minimum 1	1.51
– in the third month of the reporting period	Minimum 1	1.39
7. Foreign exchange risk ratio	Maximum 20%	0.97
8.Exposure to a group of related entities	Maximum 25%	17.03
9.Exposure to an entity related to the Bank	unrestricted	4.88
10. Investments in a non-financial sector entity	Maximum 10%	0.20

32. OFF-BALANCE SHEET ITEMS

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
Managed funds (a)	710,319	738,810	755,714
Guarantees and other irrevocable commitments (b)	18,604,907	17,339,345	12,941,470
Other off-balance sheet items (c)	124,280,720	112,641,263	18,611,103
Balance at	**143,595,946**	**130,719,418**	**32,308,287**

Within other off-balance sheet items the Bank records mortgages, securities from custody operations, broken period interest and receivables per irrecoverable non-performing loans derecognized from the balance sheet assets in accordance with its internal bylaws.

32. OFF-BALANCE SHEET ITEMS (Continued)

(a) Managed Funds

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
Investments on behalf of third parties			
In RSD			
– short-term	12,635	9,721	8,642
– long-term	697,684	729,089	747,072
Balance at	**710,319**	**738,810**	**755,714**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 3,194 thousand and matured penalty interest of RSD 4,980 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 665,203 and long-term loans to agricultural producers in the amount of RSD 32,471 thousand.

(b) Guarantees and Other Irrevocable Commitments

In RSD '000

	December 31, 2015	December 31, 2014	January 1, 2014
In RSD			
Payment guarantees	1,200	540,550	1,181,763
Performance bonds	3,797,991	6,260,085	6,084,030
Acceptances	872	947	13,802
Irrevocable commitments for undrawn loan facilities	2,809,822	7,788,726	4,391,311
Other off-balance sheet items	75,083	114,288	41,039
	6,684,968	**14,704,596**	**11,711,945**
In foreign currencies			
Payment guarantees	527,918	110,793	103,178
Performance bonds	4,254,053	1,489,374	766,391
Acceptances	299	-	-
Irrevocable commitments for undrawn loan facilities	6,967,122	21,774	27,642
Letters of credit	168,552	1,012,808	286,428
Other off-balance sheet items	1,995	-	45,886
	11,919,939	**2,634,749**	**1,229,525**
Balance at	**18,604,907**	**17,339,345**	**12,941,470**

Irrevocable commitments relate to the undrawn loans approved that cannot be unilaterally cancelled such as current account overdrafts approved, corporate loans, multi-purpose framework loans and other irrevocable commitments.

Irrevocable commitments are usually indexed to fixed expiry dates or other provisions related to expiry. Since irrevocable commitments may expire before loans are drawn by customers, the total amount agreed upon does not represent definite future cash outflows.

The Bank monitors maturity periods of credit commitments and undrawn loan facilities because longer term commitments bear a greater degree of credit risk than short-term commitments.

As at December 31, 2015, the Bank's provisions for guarantees and other irrevocable commitments amounted to RSD 205,727 thousand (December 31, 2014: RSD 200,995 thousand).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

33. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with shareholders and other related parties in the ordinary course of business.

The Bank enters into transactions with its parent entity – majority shareholder –Erste Group, Vienna, its other shareholder and other members of Erste Group. Balances of receivables and payables as of December 31, 2015 and 2014 as well as income and expenses arising from transactions with entities within Erste Group are provided in tables below:

	2015		2014	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Receivables				
Financial assets at fair value through profit and loss, held for trading	46,224	-	43,652	-
Loans and receivables due from banks and and other financial institutions	412,654	120,215	529,411	579,932
Loans and receivables due from customers	-	84	-	1
Investments in subsidiaries	-	93,560	-	93,560
Other assets	4,789	28,030	4,824	56,220
	463,667	**241,889**	**577,887**	**729,713**
Liabilities				
Financial liabilities at fair value through profit and loss, held for trading	68,115	-	27,282	-
Deposits and liabilities due to banks and other financial institutions	8,407,493	467,935	42,138	121,530
Deposits and liabilities due to customers	-	619,168	-	1,728,260
Subordinated liabilities	1,824,946	-	249,113	1,814,750
Provisions	90	40	3	18
Other liabilities	2,620	39,365	192	656
	10,303,264	**1,126,508**	**318,728**	**3,665,214**
Off-balance sheet items				
Guarantees and other sureties issues	72,000	153,015	35,361	230,999
Irrevocable commitments	187,006	1,736	-	1,697
Other off-balance sheet items	11,263,947	-	10,106,620	-
	11,522,953	**154,751**	**10,141,981**	**232,696**

33. RELATED PARTY DISCLOSURES (Continued)

In RSD '000

	2015		2014	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	909	257	1,656	1,093
Interest expenses	(13,550)	(85,981)	(10,410)	(295,729)
Fee and commission income	53,331	28,704	27,484	37,964
Fee and commission expenses	(145,749)	-	(146,268)	(71)
Net gains on the financial assets held for trading	72,332	-	-	-
Other operating income	-	26,654	4,281	32,090
Other expenses	(83,395)	(487,303)	(115,833)	(455,263)

Fees on cross-border loans amounted to RSD 240,055 thousand in 2015 (2014: RSD 303,213 thousand).

Through cross-border loans the Bank gives the customers opportunity to borrow directly from abroad, while all the all activities in the approval process and administration of loans are performed by the Bank. Such services provide the customers more favorable terms of borrowings while the Bank earns fee income on related services.

(a) As of December 31, 2015 and 2014 loans due from related parties were not impaired.

(b) In its regular course of operations, the Bank enters into business relationships and arrangements with the members of the Executive Board, other key personnel and persons related to them. Balances at the end of the year and effects of those transactions are presented as follows:

In RSD '000

	Balance at December 31, 2015	Income / (Expenses) 2015	Balance at December 31, 2014	Income / (Expenses) 2014
Current account overdrafts, credit cards, consumer loans	741	128	743	112
Housing loans	41,442	4,203	42,336	5,016
Accrued fees	194	-	211	-
Other receivables	30	26	102	19
Total impairment allowances	(241)	2	(241)	13
Deposits	76,340	(1,786)	77,336	(2,087)
Other liabilities	383	(1,516)	1,319	(2)
Unused credit limit	534	-	231	-

(c) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2014 and 2013, are presented in the table below:

In RSD '000

	2015	2014
Salaries and benefits of the Management Board members	5,914	11,200
Salaries and benefits of the Executive Board members	79,322	89,468
Accrued income of the Executive Board members	20,492	36,513
Total	**105,728**	**137,181**

34. RISK MANAGEMENT

34.1. Introduction

The Bank manages risks inherent in banking operations through the processes of ongoing risk identification, measurement and monitoring, restriction and risk limit definition and application of other controls.

Due to the nature of its activities, the Bank is exposed to the following major risks: credit risk, liquidity risk and market risk (which includes equity price risk, foreign exchange risk and commodity risk). The Bank is also exposed to operating risk and concentration risk, which particularly entails the risk of Bank's exposure to a single entity or a group of related entities, interest rate risk, risk of Bank's investments in other entities and own fixed assets, counterparty country risk and other risks the Bank monitors on an ongoing basis.

The Bank's risk management is a comprehensive process that includes identification, assessment, rating and control of all types of business risks (credit, interest rate, foreign exchange and other market risks, investment and operational risks). The aim of the risk management process is to establish an adequate system for identifying, measuring, assessing and monitoring the risks the Bank is exposed to in its business operations, as well as an adequate response in order to minimize potential adverse effects to the Bank’s capital and financial performance

The Bank has adopted policies and procedures that provide control and application of internal by- laws of the Bank related to risk management, as well as procedures related to the Bank’s regular reporting on the risk management. The processes of risk management are critical to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities. This system of risk management provides timely notification of the management of all risks that are present or may occur, and provides adequate and timely response in case those risks occur.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank’s strategic planning process.

The Management Board and the Executive Board are ultimately responsible for identifying and controlling risks while the operational responsibility is delegated to the Risk Management Division. In addition, the Bank has established separate independent bodies for managing and monitoring risks.

Key roles in the risk management within the Bank belong to the following units/bodies:

Management Board and Executive Board

The Management Board and Executive Board are responsible for the overall risk management approach and for approving the risk management strategies and principles. Their decisions are made based on the proposals of the Credit Risk Management Division and Strategic Risk Management Department, Assets and Liabilities Management Committee and other relevant organizational units of the Bank.

Assets and Liabilities Management Committee (ALCO)

Assets and Liabilities Management Committee (ALCO) has the overall responsibility for the development of a comprehensive risk management strategy and implementation of the principles, framework, policies and limits. ALCO is responsible for fundamental findings in respect of risks and for managing and monitoring of relevant decisions related to risk, principally for liquidity, interest rate, foreign exchange and other market risks.

ALCO has and advisory role and its decisions are sent in the form of proposals for approval to the Executive Board.

Operational Risk Management Committee

The role of the Operational Risk Management Committee is to discuss all the relevant matters of operational risks management and to propose and supervise implementation of remedy measures and actions for risk mitigation.

Asset and Liability Management Unit

Asset and Liability Management Unit is organized as an independent organizational unit that is directly responsible to the Executive Board of the Bank. Also, it is primarily responsible for funding and liquidity of the Bank. Asset and Liability Management Unit prepares reports related to assets and liabilities management for the purposes of the Bank’s units as well as a report for the Asset and Liability Management Committee.

34. RISK MANAGEMENT (Continued)

34.1. Introduction (Continued)

Internal Audit

Internal Audit is established with the aim to ensure that the Bank's operations take place in accordance with the standards providing the function of an independent, objective assurance and advisory activities based on best banking practices. Through systematic and disciplined approach, the Internal Audit helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control and managerial processes.

The Bank's Internal Audit continuously supervises the process of risk management within the Bank through checkup of adequacy of procedures, control mechanisms in place and compliance of the Bank with the adopted procedures. The Internal Audit reviews results of its work with the Bank's management and reports to the Audit Committee and Management Board on the findings identified and recommendations given.

Risk Management and Reporting Systems

In accordance with the Law on Banks, Erste Bank a.d. Novi Sad (the "Bank") has established an internal organization that defines the organizational units competent and responsible for risk management, the objective of the risk management system is to identify and quantify the risks the bank is exposed to in performance of its business activities.

The functions of risk monitoring and risk management are the responsibility of the Credit Risk Management Division and Strategic Risk Management Unit, as separate organizational units within the Bank. Risk management policies and strategy as well as capital management strategy are linked to the Bank's overall strategy and include definition of all risk types, manners of managing those risks and the level of risk the Bank is willing to accept in order to achieve is business goals. Special attention is paid to full compliance with the relevant regulations of the National Bank of Serbia ("NBS").

The responsibilities of the Credit Risk Management Division and Strategic Risk Management Unit include the following:

- Identification and measurement or assessment of the Bank's exposure to certain types of risks;
- Risk monitoring, including monitoring and control, analysis and reporting on the individual risk levels, their causes and consequences;
- Measurement and evaluation as well as management of the Bank's risk profile and capital adequacy;
- Monitoring of parameters that affect the Bank's risk exposure position, primarily by including management and optimization of the quality of assets and cost of risks;
- Development and application of quantitative risk management models as elements in the process of advanced business decision making and risk pricing;
- Development of strategies and proposed Bank's exposure limits per risk types and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Bank's financial position;
- Assessing risks of new product introduction and activity outsourcing;
- Development of methodologies, procedures and policies for risk management in accordance with relevant legislation, standards of Erste Group, good business practice and special needs of the Bank;
- Development and implementation of various technical platforms and tools.

Given the diversity of the areas covered, in order to efficiently perform its roles, the risk management function is divided between the Strategic Risk Management Unit and Credit Risk Management Division, which consists of the following organizational units:

- Corporate Risk Management Department;
- Retail Risk Management Department;
- Workout Department.

Information gathered from all business activities are examined and processed in order to identify, analyze and control the risks the Bank is or may be exposed to.

The Bank and its operations are particularly exposed to: credit risk, concentration risk, market risk, liquidity risk, and operational risk. The obtained information is presented and explained to the Management Board, Executive Board, ALCO and the heads of all business units. Reports are sent to the competent authorities on a daily, weekly, monthly and quarterly bases and at their request.

An exhaustive report on risks that includes all the information necessary for the assessment and conclusion on the risks the Bank is exposed to is submitted to the Management Board on a quarterly basis.

34. RISK MANAGEMENT (Continued)

34.2. Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank.

The Bank's credit risk depends on the creditworthiness of tis borrowers, their regularity and timeliness in liability settlement and quality of collaterals securitizing the Bank's loans and receivables. Credit risk identified, measured, assessed and monitored in accordance with the Bank's internal by-laws on credit risk management and relevant decisions governing the classification of the Bank's balance sheet assets and off-balance sheet items and capital adequacy.

The Bank's business policy requires and stipulates maximum protection of the Bank against credit risk exposure and the most significant of all banking risks.

The Bank controls and manages credit risk by establishing rigorous process for determining minimum credit capacity of the debtor in the process of loan approval as well as by regular monitoring over the entire contractual relationship duration, by defining different levels of decision making upon loan approval (reflecting the knowledge and experience of the employees) and by setting up limits to determine the risk level it is willing to accept at the level of individual borrowers, geographic regions and industries, and by monitoring such risk exposures accordingly.

By its internal by-laws, policies and procedures, the Bank has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level.

The Bank's Risk Management Strategy, crediting policies and credit risk management policies and procedures define the process of credit risk management at the individual loan level, and at the loan portfolio level, i.e., identification, measurement and monitoring (control) of loans, particularly those with high risk levels.

The process of loan quality monitoring enables the Bank to estimate potential losses arising from the risks the Bank is exposed to and to take remedial measures.

Credit Risk Related Risks

Credit risk includes residual risk, downgrade risk, settlement/delivery risk, counterparty risk and credit foreign exchange risk. To overcome the credit risk related risks, the Bank uses the same control processes and procedures as those applied to the credit risk.

Counterparty Risk

The Bank operates with derivative financial instruments, which leads to its exposure to counterparty risk, the risk of counterparty non-fulfilment of obligations in the transaction before the final alignment of cash flows from the same transaction.

Derivatives' credit risk is limited by determining the maximum far value for each derivative financial instrument, having in mind their type, maturity and credit quality of clients.

Loan Concentration Risk

Concentration risk represents a risk of incurring losses arising from the Bank's large exposure to a certain group of borrowers or a single borrower. Credit risk concentration arises when a significant number of borrowers belong to the same industry or the same geographic area, or have similar economic characteristic, are exposed to the same factors affecting their income and expenses, which may influence their contractual liability settlement in the event of changes in the economic, political or other circumstances that affect them equally. In order to create and maintain a safer loan portfolio and minimize the concentration risk, the Bank defines safety measures by determining maximum exposure levels and credit limits and by regular monitoring of the compliance with the limits set. Moreover, on a regular annual basis the Bank performs detailed and comprehensive analyses of credit risk (and other risk) concentration per different dimensions (exposure classes, industries, collaterals, products, etc.).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

34. RISK MANAGEMENT (Continued)

34.2. Credit Risk (Continued)

(a) Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items

Maximum credit risk exposure as of December 31, 2015 and 2014 is presented in the table below in gross amounts without taking into account any collateral in accordance with the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items:

a) Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items

In RSD '000

	December 31, 2015	December 31, 2014
Credit risk exposure per balance sheet assets		
Financial assets available for sale	169,944	189,149
Loans and receivables due from banks and other financial institutions	2,246,544	3,916,766
Loans and receivables due from customers	82,052,531	67,173,383
Other assets	693,637	613,411
Total	**85,162,656**	**71,892,709**
Credit risk exposure per off-balance sheet items		
Payment guarantees	529,118	651,343
Performance bonds	8,052,044	7,749,459
Unsecured letters of credit	168,552	1,012,808
Acceptances	1,171	947
Irrevocable commitments	9,776,944	7,810,500
Other off-balance sheet items	77,078	114,288
Total	**18,604,907**	**17,339,345**
Total credit risk exposure	**103,767,563**	**89,232,054**

Where financial instruments are recorded at fair value, the amounts presented above correspond to the current credit risk exposure, but not the maximum risk exposure that might arise in the future as a result of changes in fair value.

Risk concentration is managed by setting up limits in respect of the individual borrowers, geographic areas and industries.

The Bank's maximum credit risk exposure to a borrower or a group of borrowers in accordance with the NBS Decision on Risk Management in Banks (Official Gazette of RS, nos. 45/2011, 94/2011, 119/2012, 123/2012 i 23/2013 – the other decision, 43/2013, 92/2013, 33/2015 and 61/2015) amounted to RSD 2,259,321 thousand as of December 31, 2015 (2014: RSD 10,962,150 thousand), without taking into account deductibles (collaterals or other credit risk hedges) or RSD 2,257,179 thousand (2014: RSD 1,851,559 thousand) after collateral effects.

The following tables provide the breakdown of the maximum Bank’s credit risk exposure according to the concentration per geographic area as of December 31, 2015 and 2014, before takin into account any collateral or any other credit risk hedges:

In RSD '000

	Financial assets available for sale	Financial assets held to maturity	Loans and receivables due from banks and other financial institutions	Loans and receivables due from customers	Other assets	Guarantees and other irrevocable commitments	Total 2015
Serbia	137,026	-	819,509	81,955,944	630,988	17,798,626	101,342,093
EU	-	-	1,427,035	96,549	12,391	795,242	2,331,217
Other countries	32,918	-	-	38	50,258	11,039	94,253
Total	**169,944**	**-**	**2,246,544**	**82,052,531**	**693,637**	**18,604,907**	**103,767,563**

In RSD '000

	Financial assets available for sale	Financial assets held to maturity	Loans and receivables due from banks and other financial institutions	Loans and receivables due from customers	Other assets	Guarantees and other irrevocable commitments	Total 2014
Serbia	136,786	-	501,377	67,087,224	537,780	16,652,660	84,915,827
EU	19,890	-	3,414,483	86,134	38,776	565,727	4,125,010
Other countries	32,473	-	906	25	36,855	120,958	191,217
Total	**189,149**	**-**	**3,916,766**	**67,173,383**	**613,411**	**17,339,345**	**89,232,054**

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

34. RISK MANAGEMENT (Continued)

34.2. Credit Risk (Continued)

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal loan classification.

Standard quality level relates to clients with the average probability of loan repayment and increased risk of non-settlement. Sub-standard quality level refers to customers with the risk of non-performing and require reorganization and loan restructuring. The following tables present the quality of portfolio (gross loans and receivables and off-balance sheet exposures) per loan type and based on the Bank's classification system, as at December 31, 2015 and 2014:

In RSD '000

	Neither past due nor impaired								
	High quality	Standard quality	Sub-standard quality	Past due and collectively impaired	Individually impaired	Total 2015	Individual impairment allowance	Collective impairment allowance	Total impairment allowance
Financial assets available for sale	16,317	57,093	3,560	3,786	89,188	**169,944**	89,188	30,260	**119,448**
Loans and receivables due from banks and other fin. institutions	1,782,103	464,435	-	6	-	**2,246,544**	-	13,298	**13,298**
Loans and receivables due from customers	62,278,584	10,885,562	318,196	2,195,498	6,374,691	**82,052,531**	4,479,587	3,012,501	**7,492,088**
Other assets	258,260	150,130	1,156	92,931	191,160	**693,637**	194,570	92,659	**287,229**
	64,335,264	**11,557,220**	**322,912**	**2,292,221**	**6,655,039**	**85,162,656**	**4,763,345**	**3,148,718**	**7,912,063**

In RSD '000

	Neither past due nor impaired					
	High quality	Standard quality	Sub-standard quality	Past due and collectively impaired	Individually impaired	Total 2015
Payment guarantees	326,831	61,209	-	141,078	-	**529,118**
Performance bonds	6,675,211	1,046,397	43,532	170,066	116,838	**8,052,044**
Acceptances	223	-	649	-	299	**1,171**
Letters of credit	168,552	-	-	-	-	**168,552**
Unused commitments	8,537,603	1,062,275	732	77,615	98,719	**9,776,944**
Other off-balance sheet items	71,616	5,462	-	-	-	**77,078**
Total	**15,780,036**	**2,175,343**	**44,913**	**388,759**	**215,856**	**18,604,907**

In RSD '000

	Neither past due nor impaired								
	High quality	Standard quality	Sub-standard quality	Past due and collectively impaired	Individually impaired	Total 2014	Individual impairment allowance	Collective impairment allowance	Total impairment allowance
Financial assets available for sale	16,317	76,297	840	6,507	89,188	**189,149**	89,188	27,904	**117,092**
Loans and receivables due from banks and other fin. institutions	3,416,819	499,921	-	26	-	**3,916,766**	-	18,033	**18,033**
Loans and receivables due from customers	47,793,808	9,280,756	760,164	2,365,731	6,972,924	**67,173,383**	4,210,699	2,639,475	**6,850,174**
- of which: retail	*24,462,613*	*677,741*	*18,817*	*2,024,025*	*852,874*	***28,036,070***	*297,996*	*1,969,980*	***2,267,976***
- of which: corporate	*23,331,195*	*8,603,015*	*741,347*	*341,706*	*6,120,050*	***39,137,313***	*3,912,703*	*669,495*	***4,582,198***
Other assets	213,203	121,991	267	89,453	188,497	**613,411**	169,950	88,062	**258,012**
	51,440,147	**9,978,965**	**761,271**	**2,461,717**	**7,250,609**	**71,892,709**	**4,469,837**	**2,773,474**	**7,243,311**

In RSD '000

	Neither past due nor impaired					
	High quality	Standard quality	Sub-standard quality	Past due and collectively impaired	Individually impaired	Total 2014
Payment guarantees	384,292	7,305	27,953	231,793	-	651,343
Performance bonds	6,889,047	425,171	32,069	396,172	7,000	7,749,459
Acceptances	-	-	649	-	298	947
Letters of credit	1,003,275	9,533	-	-	-	1,012,808
Unused commitments	6,454,346	1,298,914	3,088	54,152	-	7,810,500
Other off-balance items	113,645	125	-	518	-	114,288
Total	**14,844,605**	**1,741,048**	**63,759**	**682,635**	**7,298**	**17,339,345**

34. RISK MANAGEMENT (Continued)

34.2. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

Aging Analysis of Loans and Receivables Due from Customers

The aging analysis of loans and receivables due from customers in the default status and collectively impaired as of December 31, 2015 and 2014 is presented below:

In RSD '000

	Within 30 days	From 31 to 90 days	Over 91 days	Total 2015
Financial assets available for sale	3,786	-	-	**3,786**
Loans and receivables due from banks and other financial institutions	-	-	6	**6**
Loans and receivables due from customers	1,091,668	62,410	1,041,420	**2,195,498**
Other assets	12,725	4,421	75,785	**92,931**
Total	**1,108,179**	**66,831**	**1,117,211**	**2,292,221**

	Within 30 days	From 31 to 90 days	Over 91 days	Total 2014
Financial assets available for sale	6,507	-	-	**6,507**
Loans and receivables due from banks and other financial institutions	-	-	26	**26**
Loans and receivables due from customers	1,738,658	38,027	589,046	**2,365,731**
Other assets	16,657	1,684	71,112	**89,453**
Total	**1,761,822**	**39,711**	**660,184**	**2,461,717**

Collaterals and Other Credit Risk Hedges

The amount and type of the collateral required depends on an assessment of the credit risk for each customer. Terms securitizing each loan are determined by the borrower creditworthiness, credit risk exposure type, loan maturity and the loan amount. The Bank's internal methodology defines collateral types and their valuation inputs.

Collaterals

In RSD '000

	Cash deposits held with the Bank	Guarantees	Mortgages assigned over residential property	Mortgages assigned over other property	Total 2015
Loans and receivables due from banks and other fin. institutions	350,208	-	6,106	82,750	**439,064**
Loans and receivables due from customers	2,869,307	3,415,413	20,862,482	38,280,386	**65,427,588**
Total	**3,219,515**	**3,415,413**	**20,868,588**	**38,363,136**	**65,866,652**

In RSD '000

	Cash deposits held with the Bank	Guarantees	Mortgages assigned over residential property	Mortgages assigned over other property	Total 2014
Loans and receivables due from banks and other fin. institutions	209,016	-	-	-	**209,016**
Loans and receivables due from customers	1,656,973	4,367,526	15,635,884	28,993,145	**50,653,528**
Total	**1,865,989**	**4,367,526**	**15,635,884**	**28,993,145**	**50,862,544**

Standard collaterals accepted by the Bank include mortgages assigned over property, pledge liens instituted over movable assets and receivables, deposits, pledges of equity investments, shares and bonds, bank guarantees and RS Government guarantees, and other types as defined by the collateral catalogue. The Bank regularly monitors market values of collaterals, which is taken into account upon review of the adequacy of impairment allowances of balance sheet assets and provisions for losses per off-balance sheet items.

34. RISK MANAGEMENT (Continued)

34.2. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

Upon loan approval, in order to ensure a secondary source of loan repayment, the Bank takes over collaterals in accordance with the assessed credit risk, collateral catalogue and other internal by-laws governing the conditions for valuation of collaterals. The fair market values of collaterals are regularly monitored and updated.

Assessment of Impairment of Financial Assets

The most significant considerations in assessing loan impairment are; existence of the material arrears in loan principal or interest repayment of over 90 days, identified difficulties in the borrower's capacity to service debts (adequate cash flow generation), deteriorated credit rating of the borrower, the borrower's bankruptcy or breach of contractually defined terms or any other criterion causing the borrower to migrate to the default status. The Bank assesses impairment on two levels, individual and collective, depending on the materiality of receivables in the default status. The Bank's senior management assess the adequacy of the assessed impairment allowances of loans and receivables on a quarterly basis.

Individual Impairment Allowance Assessment

The Bank individually assesses impairment allowance of each individually significant loan taking into account sustainability of the borrower's business plan, the borrower's ability to improve performance in the event of financial difficulties, values at which collaterals can be realized and periods of collateral realization, availability of alternative financial support to the borrower, possibilities of collection of matured receivables, and the timing of the expected cash flows. Individual impairment assessment is performed at least quarterly and more frequently, if necessary.

Collective (Group) Impairment Allowance Assessment

Impairment is assessed on a collective (group) basis for loans that are not individually significant and for individually significant loans where there is no objective evidence of individual impairment. Collective assessment is performed monthly. Impairment losses are assessed taking into account the following information: historically known losses incurred at the loan portfolio level, prevailing economic conditions and delays in settlement of matured loans.

Financial guarantees and letters of credit are assessed for impairment and provisions are made in a manner similar to that for loans, except for the estimates of potential conversion of off-balance sheet items into balance sheet exposures per particular receivable.

Special Reserves for Estimated Losses

For both corporate and retail loans, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off-Balance Sheet Items (see Note 2.7.). Financial guarantees and letters of credit are assessed for impairment and provisions are made in a manner similar to that for loans.

(c) Non-Performing Loans and Default Occurrence

In accordance with its internal rules, the Bank pays special attention to the supervision of loans and receivables from the non-performing status borrowers (non-performing loans, NPLs) where default has occurred. The Bank regularly monitors the total outstanding balances and trends of these receivables in order to promptly respond and enable collection and determine adequate impairment allowance amount in a timely manner. Non-performing loans and receivables are monitored at the Bank level per product criterion (for individuals) and per industry. In determining the default event, the Bank takes into account the number of days in arrears, restructuring, write-off of receivables, bankruptcy or liquidation instigated over the borrower and other indicators of reduced loan recoverability.

As of December 31, 2015, the Bank's non-performing status balance sheet receivables as per the Bank's internal methodology amounted to RSD 8,801,579 thousand (2014: RSD 9,516,921 thousand) while the related impairment allowance amounted to RSD 6,565,374 thousand (2014: RSD 6,116,302 thousand).

In addition, as of December 31, 2015, the Bank's non-performing status off-balance sheet receivables as per the Bank's internal methodology amounted to RSD 223,429 thousand (2014: RSD 12,193 thousand), while the related impairment provision amounted to RSD 28,218 thousand (2014: RSD 4,923 thousand).

34. RISK MANAGEMENT (Continued)

34.2. Credit Risk (Continued)

(d) Restructured Loans

In accordance with the Bank's methodology, the Bank pays special attention to loans and receivables that are subject of restructuring due to the increased level of credit risk. These are loans and receivables where the Bank performed restructuring and changed the originally contracted loan terms due to the borrower's inability to settle its liabilities in accordance with the contractually agreed conditions and terms due to problems in business operations and deteriorated financial indicators, i.e. significant deterioration in the borrower's creditworthiness. On the other hand, loan rescheduling entails changes to the initially agreed loan terms that are not due to the deteriorated financial position of the borrower, i.e. alleviation of the deteriorating financial position and does not constitute restructuring. Rescheduling is a result of an altered market situation (customers, suppliers, competitors) and the need to adjust the current loan repayment schedule and terms to the newly arisen situation.

In RSD '000

	Rescheduled Loans				**Restructured Loans**			
	December 31, 2015		**December 31, 2014**		**December 31, 2015**		**December 31, 2014**	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Total	5,458,180	5,115,451	4,832,713	4,585,147	2,451,855	967,986	1,797,319	747,385

(e) LTV Ratio

The table below represent the so-called LTV ratio for housing loans, which represent a portion of the total retail loans approved in the amount of RSD 30,360,510 thousand (Note 21 (c)):

In RSD '000

	December 31, 2015	**December 31, 2014**
Less than 50%	2,526,344	2,255,891
50% - 70%	3,107,173	2,631,959
71% - 100%	4,827,203	3,990,043
101% - 150%	2,190,995	2,141,928
Over 150%	1,191,881	743,558
Other	179,357	170,275
Total exposure	**14,022,953**	**11,933,654**
Average LTV ratio	71.18%	75.25%

34.3. Liquidity Risk and Financial Assets Management

Liquidity risk is the risk that the Bank would not be able to discharge its liabilities when they fall due. To reduce or to limit this risk, management has arranged diversified funding sources, manages assets considering their liquidity, and monitors Bank's future cash flows and liquidity on a daily basis.

This involves estimating expected RSD and foreign currency cash flows on daily basis and availability of highly liquid buffers that may be used to ensure additional funding, if required. The Bank manages its assets and liabilities in such a way that it can meet its due liabilities at all time, as well as to have customers disposing their funds held with the Bank in accordance with agreed terms.

Liquidity risk management in the Bank is defined by policies, procedures and rulebooks approved by the Management Board and Executive Board, which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. Policies, procedures and regulations are reviewed when necessary or at least once a year.

Liquidity risk management process is organized through the Asset and Liability Management Committee ("ALCO"), Market and Liquidity Risk Management Department and Asset and Liability Management Unit.

ALCO and Operating Liquidity Management Committee ("OLC") are responsible for liquidity risk monitoring, management and recommending to the Executive Board measures and activities for liquidity maintenance, maturity matching, planning of funding reserves and other measures relevant to the financial stability of the Bank. ALM Unit and Market and Liquidity Risk Management Department monitor the liquidity ratio on a daily basis, so that it is maintained within the limits prescribed by NBS and the Bank's Liquidity Risk Management Policy and Contingency (Liquidity Crisis) Financing Plan ("LCFP"). In addition to monitoring this ratio, the liquidity risk management policy and LCFP define other ratios and their limits and persons/units in charge of monitoring of and reporting on those ratios. A brief summary of the liquidity ratios is presented every two week at OLC meetings, and more frequently in case limits are exceeded or liquidity status is changed.

The Bank maintains a portfolio of highly liquid securities and diverse assets that can be easily converted to cash in the event of unforeseen and adverse fluctuations of the Bank's cash flows. In addition, the Bank maintains obligatory RSD and foreign currency reserves in accordance with NBS requirements.

34. RISK MANAGEMENT (Continued)

34.3. Liquidity Risk and Financial Assets Management (Continued0

Liquidity level is expressed using the liquidity ration that represents the sum of first-class assets(cash balances, gold and other precious metals, funds held on accounts with other banks with assigned credit rating of a selected credit rating agency corresponding to credit rating quality 3 or higher, as determined in accordance with the Decision on Capital Adequacy, (investment rank), deposit held with NBS, cheques and other monetary receivables in settlement, irrevocable lines of credit approved to the Bank, shares and debt instruments quoted on the stock exchange, 90% of the fair value of securities denominated in RSD with no currency clause index, issued by the Republic of Serbia with minimum maturities of 3 months, i.e., 90 days, classified by the Bank as trading securities or securities available for sale) and second-class assets (other receivables maturing within a month) relative to the sum of liabilities per demand deposits or those without specified maturity (40% demand deposits due to banks, 20% demand deposits due to other depositors, 10% savings deposits, 5% guarantees and other sureties and 20% of undrawn irrevocable loan facilities) and liabilities with fixed contractual maturities within a month.

In addition to the liquidity ratio, the Bank monitors he rigid or cash liquidity ratio as well.

Cash liquidity ratio represent the Bank's first-class liquid receivables relative to the sum of the Bank's liabilities per demand deposits or liabilities without specified maturity and liabilities with fixed contractual maturities within a month from the ratio calculation date.

During 2015 and 2014 the Bank had daily liquidity ratios above the legally prescribed level.

Liquidity ratio in 2015 and 2014

	2015	2014
Average during the year	1.79	3.2
Maximum	2.57	4.59
Minimum	1.13	1.65
At December 31	1.21	1.65

Cash liquidity ratio in 2015 and 2014

	2015	2014
Average during the year	1.60	1.91
Maximum	2.34	2.78
Minimum	0.98	1.09
At December 31	1.15	1.37

Maturity Analysis of the Bank's Financial Liabilities

The table below provides the Bank's most significant financial liabilities per maturities outstanding as at December 31, 2015 and 2014, based on the non-discounted contractual payments.

The Bank expects that most of its depositors will not demand payment of deposits at the contractually defined maturity dates.

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2015
Liabilities per borrowings, deposits and securities	20,753,959	11,728,642	31,000,407	27,421,342	11,216,780	102,121,131
Subordinated liabilities	555	17,018	137,374	1,550,781	355,527	2,061,254
Total	**20,754,514**	**11,745,660**	**31,137,781**	**28,972,123**	**11,572,307**	**104,182,385**

In RSD '000

	Within a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2014
Liabilities per borrowings, deposits and securities	11,294,888	7,750,000	28,563,363	26,913,883	8,620,445	83,142,579
Subordinated liabilities	-	16,539	299,630	206,190	1,843,195	2,365,554
Total	**11,294,888**	**7,766,539**	**28,862,993**	**27,120,073**	**10,463,640**	**85,508,133**

34. RISK MANAGEMENT (Continued)

34.3. Liquidity Risk and Financial Assets Management (Continued0

Maturity Analysis of the Bank's Financial Liabilities (Continued)

The table below provides the Bank's guarantees, letters of credit and other irrevocable commitments per maturities outstanding as at December 31, 2015 and 2014:

In RSD '000

	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2015
Contingent liabilities	210,976	542,602	1,322,190	3,783,978	2,842,487	48,653	8,750,886
Irrevocable commitments and letters of credit	17,215	79,674	205,241	3,539,024	4,329,939	1,682,928	9,854,021
Total	**228,191**	**622,276**	**1,527,431**	**7,323,002**	**7,172,426**	**1,731,581**	**18,604,907**

In RSD '000

	Up to 14 days	From 15 days to a month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2014
Contingent liabilities	404,656	118,666	1,911,603	4,004,065	2,926,592	18,975	9,414,557
Irrevocable commitments and letters of credit	66,847	30,196	258,251	1,891,099	3,160,201	2,518,194	7,924,788
Total	**471,503**	**148,862**	**2,169,854**	**5,895,164**	**6,116,793**	**2,537,169**	**17,339,345**

The Bank expects that not all contingencies and commitments would be withdrawn prior to expiry of their maturity.

For financing small and medium enterprises and small and medium infrastructure projects implemented by municipalities the Bank has used the funds of the European Investment Bank ("EIB"), the European Bank for Reconstruction and Development ("EBRD") and German Development Bank ("KfW").

The Bank has executed three agreements with EIB - in 2010, 2012 and in 2015 for the aggregate amount of EUR 125 million.

Under the agreement executed with EBRD in 2012 the Bank obtained funds for financing small and medium enterprises in the amount of EUR 10 million.

By executing an agreement with KfW at the end of 2012, the Bank obtained funds totaling EUR 10 million for financing micro businesses, SME and energy efficiency projects and renewable energy projects.

By executing an agreement with KfW at the end of 2012, and another one in 2014, the Bank obtained funds in the aggregate amount of EUR 30 million for financing micro businesses, SME and energy efficiency projects and renewable energy projects.

For financing corporate loans, on December 3, 2015 the Bank executed an agreement on a long-term loan with Erste Group Bank AG for the amount of EUR 100 million.

The Bank's borrowings received from foreign creditors amounted to RSD 13,824,816 thousand as of December 31, 2015 (2014: RSD 10,566,128 thousand) (Note 26).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

34. RISK MANAGEMENT (Continued)

34.3. Liquidity Risk and Financial Assets Management (Continued0

Maturity Analysis of the Bank's Financial Liabilities (Continued)

In RSD '000

Creditor	Currency	Loan amount	Maturity date	December 31, 2015	December 31, 2014
Erste Group Bank AG	CHF	10,000,000	July 15, 2019	1,125,230	-
Erste Group Bank AG	EUR	20,000,000	December 3, 2020	2,432,522	-
Erste Group Bank AG	EUR	5,000,000	December 3, 2020	608,131	-
EIB_EUR 25mn_tranche 1	EUR	5,099,200	October 17, 2017	620,196	925,186
EIB_EUR 25mn_tranche 2	EUR	9,055,247	December 19, 2023	1,101,354	1,163,764
EIB_EUR 25mn_tranche 3	EUR	4,295,758	December 19, 2023	522,476	535,845
EIB_EUR 25mn_tranche 4	EUR	3,300,000	January 12, 2024	401,366	399,162
EIB_EUR_50mn_tranche 1	EUR	12,097,500	October 21, 2025	1,471,372	1,463,293
EIB_EUR_50mn_tranche 2	EUR	11,846,000	December 22, 2025	1,440,783	1,432,872
EIB_EUR_50mn_tranche 3	EUR	16,223,576	June 30, 2026	1,973,210	1,962,376
EIB_EUR_50mn_tranche 4	EUR	3,610,014	December 18, 2026	439,072	436,661
EBRD	EUR	5,714,286	August 12, 2017	695,006	1,036,785
KfW	EUR	8,000,000	December 30, 2019	973,009	1,209,583
Deferred interest liabilities				21,089	601
				13,824,816	**10,566,128**

34. RISK MANAGEMENT (Continued)

34.3. Liquidity Risk and Financial Assets Management (Continued)

Maturity Analysis of the Bank's Financial Liabilities (Continued)

Liquidity Gap Analysis – Financial Assets and Liabilities

The table below provides an analysis of the maturity matching/mismatching of assets and liabilities based on contractual terms of payment. Contractual maturities of assets and liabilities are determined based on the remaining period at the reporting date to the contractual maturity date. Maturity matching of financial assets and liabilities as of December 31, 2015 is based on the non-discounted contractual cash flows and presented as follows:

In RSD '000

	Up to 14 days	15 days to a months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2015
ASSETS							
Cash and cash funds held with the central bank	18,523,428	-	-	-	-	-	18,523,428
Financial assets at fair value through profit and loss, held for trading	1,760,588	515,535	1,279,744	1,448,198	3,301,944	57,463	8,363,472
Financial assets available for sale	525,052	-	-	357,993	1,743,017	820,210	3,446,272
Financial assets held to maturity	-	-	-	1,648,150	4,132,543	1,227,719	7,008,412
Loans and receivables due from banks and other financial institutions	2,379,496	-	108	41,489	312,258	-	2,733,351
Loans and receivables due from customers	1,679,445	212,188	956,782	8,191,760	30,813,096	33,329,396	75,182,667
Investments in subsidiaries	-	-	-	-	-	93,560	93,560
Intangible assets	-	-	-	-	-	350,854	350,854
Property, plant and equipment	-	-	-	-	-	733,119	733,119
Investment property	-	-	-	-	-	238,508	238,508
Current tax assets	1,116	-	-	-	-	-	1,116
Deferred tax assets	-	-	161,382	-	-	-	161,382
Other assets	193,151	416,931	17	456	10,419	30,650	651,624
Total assets	**25,062,276**	**1,144,654**	**2,398,033**	**11,688,046**	**40,313,277**	**36,881,479**	**117,487,765**

34. RISK MANAGEMENT (Continued)

34.3. Liquidity Risk and Financial Assets Management (Continued)

Maturity Analysis of the Bank's Financial Liabilities (Continued)

Liquidity Gap Analysis – Financial Assets and Liabilities (Continued)

In RSD '000

	Up to 14 days	15 days to a months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2015
LIABILITIES AND EQUITY							
Financial liabilities at fair value through profit and loss, held for trading	94,235	-	-	-	-	-	94,235
Deposits and other liabilities to banks, other fin. institutions and the central bank	6,675,546	4,063,783	902,135	2,146,253	7,750,628	8,743,820	30,282,165
Deposits and other liabilities to customers	36,712,600	4,528,398	4,870,944	14,865,375	6,457,510	860,566	68,295,393
Subordinated liabilities	555	-	-	-	-	1,824,391	1,824,946
Provisions	-	-	534,486	-	-	-	534,486
Other liabilities	452,350	-	4,709	-	-	-	457,059
Total liabilities	43,935,286	8,592,181	6,312,274	17,011,628	14,208,138	11,428,777	101,488,284
Total equity	**-**	**-**	**-**	**-**	**-**	**15,999,481**	**15,999,481**
Total liabilities and equity	**43,935,286**	**8,592,181**	**6,312,274**	**17,011,628**	**14,208,138**	**27,428,258**	**117,487,765**
Liquidity GAP at December 31, 2015	**(18,873,010)**	**(7,447,527)**	**(3,914,241)**	**(5,323,582)**	**26,105,139**	**9,453,221**	
at December 31, 2015	**39,776,093**	**(11,227,359)**	**(11,969,556)**	**(14,484,647)**	**(3,885,962)**	**1,791,430**	

34. RISK MANAGEMENT (Continued)

34.4. Market Risks

Market risk is the risk that changes in the value of balance sheet and off-balance sheet items arising from movements in market prices will have negative effects on the Bank's financial result and equity.

The Bank's operations are, among other risks, exposed to market risks, including foreign exchange risk, price risk on debt and equity securities and commodity risk.

The general price risk on debt securities is the risk of debit securities price changes due to changes in the general level of interest rates.

To calculate the capital requirements of the general price risk, the Bank applies the maturity method.

Maturity method is based on the classification of all net positions in debt securities into maturity classes or zones according to the outstanding maturity and coupon (interest) rate as per the table prescribed by the NBS Decision governing the Bank's capital adequacy.

The Bank calculates capital requirements for market risks arising from items of trading book using the methodology and guidelines prescribed by the NBS Decision governing the Bank's capital adequacy.

Market risk management in the Bank is defined by policies, procedures and rulebooks approved by the Management Board and Executive Board, which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. Policies, procedures and regulations are reviewed when necessary or at least once a year.

Market risk management process is organized through the Asset and Liability Management Committee ("ALCO"), Market and Liquidity Risk Management Department and Asset and Liability Management Unit.

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Market and Liquidity Risk Management Department. ALM Unit and Market Risk Management Department monitor foreign exchange ratio on a daily basis with ALM Unit reporting to ALCO on a monthly basis.

Furthermore, the Market and Liquidity Risk Management Department monitors and manages market risks through control of the set trading book limits, changes to the currently effective and definition of new limits and through assessment of the relevant risks arising from the introduction of new products and complex transactions.

35.4.1 Interest Rate Risk

Interest risk is the risk of an adverse impact on the Bank's financial result and capital due to changes in market interest rates. The Bank is exposed to this risk based on items from the banking book, and it assesses the aforementioned risk in the aggregate and per each significant foreign currency for whose definition it has established criteria. In accordance with these criteria, the Bank considers RSD and EUR to be materially significant currencies.

In determining interest rates the Bank considers market interest rates and their movements to which the Bank's interest rates are regularly adjusted. Interest rate changes result in increases or decreases in interest margins. Interest risk management has as its goal optimization of this influence, increasing the net interest revenue on one end and economic value of equity on the other.

ALCO manages maturity matching of assets and liabilities based on the Group's guidelines, macroeconomic analyses and forecasts, forecasts of the liquidity, analyses and forecasts of interest rate market trends for different segments of assets and liabilities.

34. RISK MANAGEMENT (Continued)

34.4. Market Risks (Continued)

35.4.1 Interest Rate Risk (Continued)

The following table shows the bank's exposure to the interest rate risk (Repricing Gap) as of December 31, 2015. Assets and liabilities and currency swaps as off-balance sheet items are categorized by the earlier of interest repricing date and maturity date.

In RSD '000

Category	Within a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over a year	Total non-interest bearing	Total
Cash	-	-	-	-	-	2,259,336	2,259,336
Obligatory reserve	5,053,944	-	-	-	-	7,210,148	12,264,092
Liquidity surpluses	4,000,000						4,000,000
Securities	8,837,123	-	2,006,143	-	7,996,195	-	18,839,461
Reverse repo	500,000						500,000
Loans due from banks	6,500	-	-	-	-	-	6,500
Loans due from customers	53,671,506	7,947,757	1,722,834	1,219,613	9,410,529	-	73,972,239
Other assets	-	-	-	-	-	5,646,137	5,646,137
Total balance sheet assets	**72,069,073**	**7,947,757**	**3,728,977**	**1,219,613**	**17,406,724**	**15,115,621**	**117,487,765**
FX Swaps	1,991,255	-	-	-	-	-	1,991,255
Total assets	**74,060,328**	**7,947,757**	**3,728,977**	**1,219,613**	**17,406,724**	**15,115,621**	**119,479,020**
Liabilities to financial institutions	10,040,423	6,369,007	9,216,261	154,281	2,172,095	-	27,952,067
Demand deposits	2,768,937	5,537,874	8,306,811	3,570,077	13,687,465	-	33,871,164
Term deposits	7,756,382	5,644,646	6,430,478	10,588,979	6,060,508	-	36,480,993
Other liabilities	-	-	-	-	-	3,184,059	3,184,059
Equity	-	-	-	-	-	15,999,481	15,999,481
Total balance sheet liabilities and equity	**20,565,742**	**17,551,527**	**23,953,550**	**14,313,337**	**21,920,068**	**19,183,540**	**117,487,764**
FX Swaps	1,992,836	-	-	-	-	-	1,992,836
Total liabilities and equity	**22,558,578**	**17,551,527**	**23,953,550**	**14,313,337**	**21,920,068**	**19,183,540**	**119,480,600**
Net interest rate risk exposure at December 31, 2015	**51,501,750**	**(9,603,770)**	**(20,224,573)**	**(13,093,724)**	**(4,513,344)**	**(4,067,919)**	**(1,580)**
Net interest rate risk exposure at December 31, 2014	**39,776,094**	**(11,227,359)**	**(11,969,556)**	**(14,484,647)**	**(3,885,962)**	**1,791,430**	**-**

34. RISK MANAGEMENT (Continued)

34.4. Market Risks (Continued)

35.4.1 Interest Rate Risk (Continued)

Interest rate risk is also monitored by sensitivity analysis - scenario analysis, i.e. by observing the effect of interest rate fluctuations on the Bank's income and expenses.

The following table presents the income statement's sensitivity to the reasonably anticipated changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of assumed changes in interest rates on the net interest income in one year and on financial assets and liabilities based on interest rates as at December 31, 2015 and 2014 .

In RSD '000

Currency	Changes in percentage points	Income statement sensitivity 2015	Changes in percentage points	Income statement sensitivity 2014
Increase in percentage:				
RSD	1%	105,729	1%	95,052
EUR	1%	238,224	1%	146,226
Decrease in percentage:				
RSD	1%	(105,664)	1%	(95,046)
EUR	1%	36,367	1%	(11,201)

35.4.2. Foreign Exchange Risk

Foreign exchange risk is the risk of change of the value of financial instruments and adverse effects on the Bank's financial result and equity due to the fluctuations in foreign exchange rates. Banking operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

The Bank manages foreign exchange risk striving to prevent adverse effects of changes of cross- currency rates and foreign exchange rates to RSD (foreign exchange losses) on the Bank's financial result, as well as on the customers' ability to repay loans in foreign currencies.

For the purposes of protection against the foreign exchange risk, the Bank monitors the changes in foreign currency exchange rate on the financial market on a daily basis, carries out the policy of low level exposure to foreign exchange risk and contracts loans with a foreign currency clause index with its customers.

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign exchange risk, as well as risk per specific currency. The Market and Liquidity Risk Management Department daily monitor movements of the foreign exchange ratio and internally set foreign currency positions per currency. Positions are monitored on a daily basis to ensure that positions are maintained within established limits.

In accordance with the National Bank of Serbia's requirements, the Bank regularly maintains its foreign currency position - foreign exchange risk indicator within maximum regulatory limits, determined relative to the capital, based on which the Bank is obligated to ensure that its total net open foreign currency position does not exceed 20% of its regulatory capital.

During 2015, the Bank continuously paid attention to keep the foreign exchange risk indicator within the prescribed limit. The foreign currency indicator, at the end of each working day, was lower than 20% of the Bank's capital.

The following table presents the Bank's significant exposures as of December 31, 2015 of its monetary assets and liabilities, not held for trading.

The above presented analysis calculates the effect of the reasonable changes in the exchange rates to RSD with other variables held constant. Negative amounts suggest potential decreases of profit in the income statement or equity, while the positive amounts suggest increases.

In RSD '000

Currency	RSD deprecation in 2015	Effect on profit and loss before taxes 2015	RSD deprecation in 2014	Effect on profit and loss before taxes 2014
EUR	2%	(1,708)	2%	5,549
CHF	2%	87	2%	(238)
USD	2%	(845)	2%	(66)

The following table presents the Bank's exposure to foreign exchange risk as at December 31, 2015 and 2014. The table includes assets and liabilities at their carrying amounts.

34. RISK MANAGEMENT (Continued)

34.4. Market Risks (Continued)

35.4.2. Foreign Exchange Risk (Continued)

In /RSD '000

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in RSD	Total
ASSETS							
Cash and cash funds held with the central bank	7,941,036	62,009	121,963	76,117	8,201,125	10,322,303	18,523,428
Financial assets at fair value through profit and loss, held for trading	6,504,761	-	-	-	6,504,761	1,858,711	8,363,472
Financial assets available for sale	1,245,699	10,672	-	-	1,256,371	2,189,901	3,446,272
Financial assets held to maturity	-	-	-	-	-	7,008,412	7,008,412
Loans and receivables due from banks and other financial institutions	908,287	760,077	177,824	253,950	2,100,138	633,213	2,733,351
Loans and receivables due from customers	56,692,769	511,492	1,772,221	-	58,976,482	16,206,185	75,182,667
Investments in subsidiaries	-	-	-	-	-	93,560	93,560
Intangible assets	-	-	-	-	-	350,854	350,854
Property, plant and equipment	-	-	-	-	-	733,119	733,119
Investment property	-	-	-	-	-	238,508	238,508
Current tax assets	-	-	-	-	-	1,116	1,116
Deferred tax assets	-	-	-	-	-	161,382	161,382
Other assets	68,441	1,504	(13,817)	68	56,196	595,428	651,624
Total assets	**73,360,993**	**1,345,754**	**2,058,191**	**330,135**	**77,095,073**	**40,392,692**	**117,487,765**
LIABILITIES AND EQUITY							
Financial liabilities at fair value through profit and loss, held for trading	68,838	-	-	-	68,838	25,397	94,235
Deposits and other liabilities due to banks, other financial institutions and the central bank	25,206,522	66,758	1,135,204	8,587	26,417,071	3,865,094	30,282,165
Deposits and other liabilities due to customers	44,406,100	3,054,654	920,212	291,831	48,672,797	19,622,596	68,295,393
Subordinated liabilities	1,824,946	-	-	-	1,824,946	-	1,824,946
Provisions	148,446	1,394	-	-	149,840	384,646	534,486
Other liabilities	99,750	1,673	3,276	4	104,703	352,356	457,059
Total liabilities	**71,754,602**	**3,124,479**	**2,058,692**	**300,422**	**77,238,195**	**24,250,089**	**101,488,284**
Total equity	-	-	-	-	-	15,999,481	15,999,481
Total liabilities and equity	**71,754,602**	**3,124,479**	**2,058,692**	**300,422**	**77,238,195**	**40,249,570**	**117,487,765**
Net foreign currency position at:							
– December 31, 2015	**1,606,391**	**(1,778,725)**	**(501)**	**29,713**	**(143,122)**		
– December 31, 2014	**2,251,115**	**(39,559)**	**(8,623)**	**15,749**	**2,218,682**		

34. RISK MANAGEMENT (Continued)

34.5. Bank's Exposure Risks

This is a risk of the Bank's exposures to a single entity or a group of related entities and exposures to an entity related to the Bank.

Monitoring the exposure risk is mandatory part of the procedures in the loan approval stage in the sense that a committee that approves a loan has at its disposal information on the total Bank's exposure to a customer or a group of related customers relative to the Bank's capital.

During 2015, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities stipulated by the relevant procedures and decisions on loan approval, the Bank kept the adequacy of its loans and receivables and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 31(b)) and with the internal limits.

In accordance with the Risk management policies, the Bank's management approves the exposures and limits, i.e. the loan concentration on certain legal entities or a group of related entities, and parties related to the Bank.

The procedures of exposure risk management are the subject of internal audit and the compliance function.

34.6. Bank's Investment Risks

The Bank's investment risks include the Bank's equity investments held in other entities and investments made into the Bank's own fixed assets.

In accordance with the National Bank of Serbia legislation, the level of the Bank's investment and the level of regulatory capital is being monitored in order to ensure that the Bank's investments in a single non-financial sector entity do not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in tangible assets cannot exceed 60% of its regulatory capital.

The Bank's investment risk exposure arising on investments into other legal entities and property and equipment is monitored by the organizational unit or the Bank's body competent for procurement of tangible assets and investing in legal entities familiar with the current exposure and the amount of capital for the purposes of acting in timely manner in accordance with the prescribed limits.

During 2015, the Bank maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

The procedures of exposure risk management are subject to internal audit and the compliance control function.

34.7. Country Risk

Country risk is the risk related to the country of origin of a counterparty the Bank is exposed to and includes adverse effects which may influence the financial result and capital of the Bank, as the Bank might not be able to collect receivables from this counterparty, as a result of political, economic or social situation in the country of its origin.

The Bank mostly approves funds to the customers from the Republic of Serbia, while it is exposed to the country risk in the portion of assets it keeps on the accounts with foreign banks.

The Bank monitors its exposure on geographic basis by applying the limits determined by the parent bank and based on country ratings. The Bank's exposure to the country risk is low, due to insignificant participation of nonresidents in the total loan portfolio of the Bank.

34.8. Operational Risk

Operational risk is the risk of the adverse effects on the Bank's financial result and equity due to failures in the employees performance, inadequate internal procedures and processes, inadequate information and other systems in the Bank or unforeseen external events.

The Bank has established a comprehensive system of managing operational risk through the identification and recording, evaluation and monitoring of operational risks in all material products, activities, processes and systems. Operational risk management is the responsibility of all employees of the Bank.

Committee for Operational Risk Management of the Bank, in addition to an independent department for operational risk management and other control functions, actively contributes to the improvement of operational risk management function.

34. RISK MANAGEMENT (Continued)

34.8. Operational Risk (Continued)

Reporting system for operational risk events is used for early identification of operational risk events, while the approximation process provides completeness, coherence and comprehensiveness of operational risk events that have occurred in the Bank. Operational risk events are collected in a single database and further analyzed and monitored. Also, the Bank collects and external data on operational risk events.

The Bank manages the risk by increasing the awareness of the employees of operational risk management, implementation of the solid system of controls and monitoring and adequate prevention and detection of corrective measures in order to decrease the level of operational risk to the acceptable level.

The Bank has defined and regularly reviews and updates internal acts which govern the Bank's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

Other activities the Bank uses to reduce the opportunities for operational risk occurrence involve business continuity management (BCM), continuous improvement of internal control mechanisms, information security, training of all employees of the Bank, ongoing monitoring and reporting on the occurrence of operational risk, i.e., assessment of operational risk exposures that may arise from the use of qualitative assessment methods (such as, self-assessment, key risk indicators, scenario analysis, etc.).

The Bank is insured from the usual risks and specific banking risks through the Program of insurance from operational risks. The usual risks include damages to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Bank's internal and external frauds, technological risks and civil responsibility. Continuous assessment of risk arising in the process of introducing new products / services as well as activities, that occur when entrusting third parties is carried out. The Bank has calculated the capital requirement for operational risk using the basic indicator approach since December 31, 2011.

34.9. Capital Management

The Bank permanently manages its capital, which is a broader concept than "capital" on the face of the balance sheet, in order to:

- comply with the capital requirements set by the National Bank of Serbia;
- to ensure that the level and composition of capital that can support the expected growth in placements;
- ensure the possibility of a long-term going concern of operations with providing of profit to shareholders and benefits to other stakeholders; and
- provide a solid capital base to support the development of its business.

The Bank manages the capital structure and performs adjustments in accordance with changes in economic conditions and risk related to the Bank's operations. The Bank's management monitors regularly the Bank's capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on the achieved values of ratios.

In accordance with the Law on Banks and relevant decisions of the National Bank of Serbia, banks are obliged to maintain minimal capital in the amount of EUR 10 million, in Dinar counter value translated at the official median exchange rate, a capital adequacy ratio of at least 12%, as well as to comply the volume and structure of its operations with ratios prescribed by the Decision on Risk Management (Official Gazette of the Republic of Serbia, nos. 45/2011, 94/2011, 119/2012 and 123/2012, 23/2013, 43/2013 and 92/2013) and the Decision on Capital Adequacy (Official Gazette of the Republic of Serbia, nos. 46/2011, 6/2013 and 51/2014).

The Decision on the Capital Adequacy of Banks, adopted by the National Bank of Serbia, establishes the method of calculating the capital adequacy. The Bank's total capital comprises core capital (Tier 1) and supplementary capital (Tier 2 capital), and by prescribed deductible items, while the risk weighted on balance sheet assets and off- balance sheet items are determined in accordance with the prescribed risk weights for all types of assets.

Tier 1 capital is defined by the aforementioned Decision and must be at least 50% of the total capital. The capital adequacy ratio of the Bank is equal to the ratio of the Bank's capital and the sum of the risk-weighted assets, capital requirement in relation to foreign currency risk which is multiplied by the reciprocal value of the capital adequacy ratio (the prescribed 12%) and capital requirements in relation to other market risks multiplied with the reciprocal value of the capital adequacy ratio.

The Bank conducts a process of internal capital adequacy assessment process (ICAAP), determines available internal capital and makes its distribution, and develops a strategy and plan for capital management in accordance with the Decision on Risk Management.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

34. RISK MANAGEMENT (Continued)

34.9. Capital Management (Continued)

In accordance with the Law on Banks and Decision on the Recovery Plan for the Bank and Banking Group, (Official Gazette of RS no. 71/2015) the Bank prepared and submitted to the National Bank of Serbia the Recovery Plan, which is vital for the achievement of the Bank's financial resilience and achievement of stability on the event of severe financial disorders.

The table below summarizes the structure of the Bank's capital as at December 31, 2015 and 2014 as well as the capital adequacy ratio:

		In RSD '000
	December 31, 2015	**December 31, 2014**
Core capital – Tier 1 (Note 31. (a))		
The nominal value of paid-in shares, other than preferred	10,040,000	10,040,000
Share premium	124,475	124,475
Reserves from profit	4,425,448	3,091,086
Prior years' retained earnings	-	1,071,176
Intangible assets	(350,852)	(389,351)
Unrealized losses on securities available for sale	(1,838)	(2,234)
Reserves from profit for estimated losses on balance sheet assets and off-balance sheet items	(2,125,998)	(2,589,425)
	12,111,235	**11,345,727**
Supplementary capital – Tier 2		
Portion of the Bank's revaluation reserves	193,306	60,863
Subordinated liabilities	1,042,509	1,330,541
	1,235,815	**1,391,404**
Deductible items		
Direct or indirect investments in banks and other financial sector entities in the amount exceeding 10% of the capital of these banks or other entities	93,560	93,560
The amount of excess of qualifying interests in non-financial sector entities	-	-
Required reserves for estimated losses on balance sheet assets and off-balance sheet items of banks according to the Decision on the capital adequacy of banks, Article 427, Paragraph 1.	-	-
	93,560	**93,560**
Total (1):	**13,253,490**	**12,643,571**
Risk-weighted on-balance and off-balance sheet assets		
Capital requirement for credit risk, counterparty risk and settlement/delivery risk ,	7,797,011	6,400,158
Capital requirement for price risk	103,527	69,860
Capital requirement for foreign exchange risk	15,454	35,367
Capital requirement for operational risk	960,028	899,944
Capital adequacy ratio (1/2 x 100)	**17.88**	**20.49**

34. RISK MANAGEMENT (Continued)

34.10. Fair Value of Financial Assets and Liabilities

It is a policy of the Bank to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different from their carrying amounts.

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot be reliably determined in the absence of an active market. The Bank's management assesses its overall risk exposure, and in instances in which it estimates that the book value of assets may not have been realized, it recognizes a provision.

In the opinion of the Bank's management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

Financial Instruments whose Fair Value approximates Their Carrying Value

It is assumed that the carrying values of liquid financial assets and liabilities or with short-term maturities (up to 3 months) approximate their fair value. This assumption also relates to demand deposits, savings deposits without maturity period and financial instruments with variable interest rates.

Fixed-rate Financial Instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt instruments the fair values are calculated based on quoted market prices. For those instruments issued where quoted market prices are not available, a discounted cash flow model based on current interest rate yield curve appropriate for the remaining term to maturity is used.

Financial Instruments Measured at Fair Value

Financial instruments, such as securities available for sale, are measured at fair value based on available market information, i.e., quoted market prices on the reporting date.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

34. RISK MANAGEMENT (Continued)

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

The following table shows fair values of financial instruments recognized at fair value in the financial statements:

	2015				2014			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS	**1,189,653**	**10,479,036**	**101,927**	**11,770,616**	**304,947**	**8,261,751**	**43,652**	**8,610,350**
Financial assets held for trading	**1,178,285**	**7,083,260**	**101,927**	**8,363,472**	**304,491**	**5,729,026**	**43,652**	**6,077,169**
Republic of Serbia Treasury bills	1,178,285	988,077	-	**2,166,362**	304,491	1,498,708	-	**1,803,199**
Quoted bonds	-	6,095,183	-	**6,095,183**	-	4,230,318	-	**4,230,318**
Other	-	-	101,927	**101,927**	-	-	43,652	**43,652**
Financial assets available for sale	**11,368**	**3,395,776**	**-**	**3,407,144**	**456**	**2,532,725**	**-**	**2,533,181**
Republic of Serbia Treasury bills	-	3,395,776	-	**3,395,776**	-	2,499,566	-	**2,499,566**
Quoted shares	11,368	-	-	**11,368**	456	33,159	-	**33,615**
FINANCIAL LIABILITIES								
Financial liabilities at fair value through profit and loss held for trading	-	-	94,235	94,235	-	-	27,282	27,282

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

34. RISK MANAGEMENT (Continued)

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

The following table presents carrying and fair values of the financial instruments that are not recognized at fair value in the financial statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

	2015		2014	
FINANCIAL ASSETS	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Securities held to maturity	7,008,412	7,008,412	6,509,844	6,601,540
Loans and receivables due from banks	2,733,351	2,921,793	3,898,755	3,992,013
Loans and receivables due from customers	75,182,667	80,365,895	60,868,620	61,377,294
FINANCIAL LIABILITIES				
Deposits due to banks	30,282,165	30,136,281	18,433,395	18,256,041
Deposits due to customers	68,295,393	67,966,381	61,602,685	61,009,985

O Fair values for those financial instruments which are not recognized at fair value in the financial statements are determined by application of Group standard – QRM, which is based on the method of discounting.

In 2015 there were no reclassifications of financial assets from one category to another.

35. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Bank has executed operating lease contract on the lease of computer equipment and automobiles used by the Bank.

The minimum future payments of non-cancelable operating lease liabilities are presented in the table below:

	2015	2014
Within a year	78,701	114,386
From 1 to 5 years	38,024	101,441
	116,725	215,827

(b) Litigation

As of December 31, 2015 the Bank was involved in 75 legal suits as a defendant, the aggregate value of which amounted to RSD 482,472 thousand. Penalty interest claimed in legal suits filed against the Bank totaled RSD 375,070 thousand.

Based on the expert estimate made by the Bank's legal representatives, the Bank made provisions for potential litigation losses in the amount of RSD 118,109 thousand as of December 31, 2015 (December 31, 2014: RSD 90,525 thousand) for legal suits expected to be lost by the Bank.

(c) Taxation Risks

The Republic of Serbia tax legislation is in the process of ongoing reviews and changes occur frequently. In different circumstances, tax authorities may apply different approaches to certain matters and entities may be assessed additional taxes, penalties and interest. The Bank's management believes that the Bank's tax liabilities recorded in these financial statements are appropriately stated in accordance with the effective regulations.

36. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

In accordance with Article 18 of the Law on Accounting, the Bank reconciled its balances of payables and receivables with its debtors and creditors and has valid documentation thereof.

The Bank sent its customers outstanding item statements (OIS) as of October 31, 2015. After the exchange of OIS forms with the clients, the following receivables and liabilities remained unreconciled:

The aggregate amount of unreconciled OIS forms amounted to RSD 12,359,614 thousand.

The most common reasons for non-reconciliation of balances include inaccurate address of the customer – the customer has moved to another location without informing the Bank of such a change or the customer does not exist at the address registered with the Serbian Business Registers Agency or the Bank (RSD 2,479,249 thousand),contested OIS balances (RSD 187,950 thousand), and unresponded OIS forms - neither confirmed nor contested (RSD 9,629,522 thousand).

The aggregate amount of reconciled OIS forms (verified) amounted to RSD 64,358,173 thousand.

37. SEGMENT REPORTING

Management of the Bank views operating segments in accordance with the methodology and segmentation defined at the entire Erste Group level and, on such basis, makes decisions in respect of, allocates resources to and assesses performance of individual segments. The report on segment results is aligned with FINREP methodology for financial reporting used within Erste Group where there are departures in certain items from the result as stated under the local NBS methodology.

a) Structure of Operating Segments

Segment report is comprised of six basic segments reflecting the governance structure of Erste Bank a.d., Novi Sad.

b) Definition of Operating Segments

Retail Segment

This segment comprises business activities within the scope of responsibilities of the Sales Managers from the Sales Network of the Retail Department. Target customers are mostly individuals, entrepreneurs and freelance professionals. Operations of the segment are mostly managed by the Bank, which is focused on the simplicity of products offered – investment products, current accounts, savings, credit cards and additional products such as leases, insurance, and social security products.

Small and Medium Enterprises (SME)

This segment includes legal entities within the scope of responsibilities local corporate commercial centers, mostly comprised of companies with annual turnover of EUR 1 million to EUR 25 million. In addition, there are clients performing public activity or participating in the work of the public sector.

Commercial Reals Estate Funding (CRE)

This segment refers to operations involving investments in real estate for the purpose of generating income from lease out of certain properties or entire real estate complexes, development and construction of properties and complexes for realization of capital gains through the sale of individual constructed properties and property complexes, services of asset management, construction services and construction for the Bank's own purposes.

37. SEGMENT REPORTING (Continued)

Large Corporate Clients (LC)

This segment includes clients with consolidated annual turnover above EUR 25 million.

Financial Markets Segment (GM)

This segment involves activities comprised of trading and market service rendering. Trading and market services are activities related to the risk assumption and management within the Bank's trading book for the purposes of market creation, short-term liquidity management, custody operations, commercial operations and all other activities performed in the capital market. Specific income and gains on the fair value adjustment that are not directly related to the client transactions (which may also be operations of matching assets and liabilities) and general risk premiums as fees for the work done also belong to this segment.

Other

This segment encompasses all the activities of asset and liability management and internal service rendering on a non-profit basis. It also includes the Bank's available capital (defined as the difference between the total average capital in accordance with IFRS and average economic capital allocated to the operating segments).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

	Retail		SME		Commercial real Estate Funding		Large Corporate Clients		Financial Markets		Other		Bank	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
B. Profit and Loss statement														
Net interest income	2,916,504	2,481,748	1,178,249	1,038,672	148,608	153,260	488,581	398,906	285,679	170,789	256,097	334,795	5,273,718	4,578,169
Dividend income	-	-	-	-	-	-	-	-	-	-	44	125	44	125
Net result from equity method investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rental income from investment properties & other operating lease	-	-	-	-	-	-	-	-	-	-	36,936	4,607	36,936	4,607
Net fee and commission income	994,952	996,430	255,191	244,583	12,195	10,112	389,897	445,141	32,761	16,891	(166,960)	(143,396)	1,518,035	1,569,761
Trading Result	57,380	56,385	30,400	33,183	7,865	6,932	9,328	14,323	208,533	187,768	66,608	27,993	380,113	326,585
General administrative expenses	(3,626,053)	(3,439,935)	(554,020)	(501,282)	(67,464)	(47,757)	(204,471)	(261,482)	(142,234)	(165,180)	(9,566)	5,199	(4,603,809)	(4,410,437)
Impairment/reversal on financial instruments not measured at FV through pl	(400,831)	(323,295)	(585,680)	(1,020,077)	(122,598)	(52,789)	(218,976)	(380,928)		(357)	26,327	(3,113)	(1,301,758)	(1,780,559)
Realised gains/losses from FI not measured at FV through pl	-	-	-	-	-	-	-	-	-	-	3,478	5,829	3,478	5,829
Other operating result	(8,815)	(5,008)	(20,136)	(15,849)	7,999	(14,459)	2,043	(26,256)	-	-	(71,446)	(66,880)	(90,354)	(128,452)
Profit/Loss before tax from continuing operations	**(66,864)**	**(233,675)**	**304,004**	**(220,771)**	**(13,395)**	**55,300**	**466,402**	**189,703**	**384,739**	**209,912**	**141,518**	**165,159**	**1,216,403**	**165,628**
Taxes on income	1,481	(151,212)	(6,734)	(142,862)	297	35,785	(10,249)	122,758	(8,606)	135,835	(3,136)	106,876	(26,947)	107,180
Profit/Loss for the year	**(65,382)**	**(384,887)**	**297,270**	**(363,634)**	**(13,099)**	**91,085**	**456,152**	**312,462**	**376,133**	**345,748**	**138,382**	**272,034**	**1,189,456**	**272,808**
Net profit attributable to minority interest [non-controlling interests]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit attributable to owners of the parent	**(65,382)**	**(384,887)**	**297,270**	**(363,634)**	**(13,099)**	**91,085**	**456,152**	**312,462**	**376,133**	**345,748**	**138,382**	**272,034**	**1,189,456**	**272,808**
Operating income	3,968,835	3,534,563	1,463,839	1,316,437	168,667	170,304	887,806	858,370	526,973	375,449	192,725	224,124	7,208,846	6,479,247
Operating expense	(3,626,053)	(3,439,935)	(554,020)	(501,282)	(67,464)	(47,757)	(204,471)	(261,482)	(142,234)	(165,180)	(9,566)	5,199	(4,603,809)	(4,410,437)
Operating result	**342,782**	**94,628**	**909,819**	**815,155**	**101,203**	**122,547**	**683,335**	**596,888**	**384,739**	**210,269**	**183,159**	**229,323**	**2,605,037**	**2,068,811**
A. Statement of financial position														
Total assets	32,645,721	29,551,271	21,393,945	19,059,215	8,193,815	1,703,994	15,096,151	12,625,869	8,529,394	6,565,599	31,628,738	28,246,572	117,487,765	97,752,521
	43,820,939	39,073,249	13,285,951	14,667,759	2,396,726	1,474,860	11,152,025	4,535,418	2,828,082	17,028	28,004,560	23,325,387	101,488,284	83,093,702
Total equity (incl. Shareholders' equity and minorities)	2,217,690	2,037,217	1,593,950	1,407,741	252,204	170,340	1,308,801	1,161,204	1,141,165	867,010	9,485,672	9,015,307	15,999,481	14,658,818
C. Key ratios/Parameters														
C/I Ratio	91%	97%	38%	38%	40%	28%	23%	30%	27%	44%	5%	-2%	64%	68%
L/D ratio (net)	70%	70%	165%	132%	343%	117%	136%	279%	105%	40546%	8%	0%	102%	89%
	-3%	-20%	20%	-26%	-7%	55%	36%	28%	39%	57%	1%	3%	8%	2%

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS for the year ended December 31, 2015

38. ADDITIONAL INFORMATION ON CASH FLOWS

In RSD '000

	December 31, 2015	December 31, 2014
Cash	2,259,335	2,432,583
Gyro account	5,053,944	5,961,360
Loans due from banks	1,412,985	2,023,808
Balance at	**8,726,264**	**10,417,751**

Obligatory reserves held with the National Bank of Serbia is not available for everyday business transactions of the Bank and that is why it is not a part of cash flows (Note 16).

39. EVENTS AFTER THE EPORTING PERIOD

On January 22, 2016, the Bank executed an agreement on the sale of receivables with EOS Matrix d.o.o., Beograd and annexed the agreement on January 27, 2016, whereby the Bank sold a portion of the loan portfolio amounting to RSD 1,480,734 thousand and the selling price the Bank received in the transaction under the said agreement amounted to RSD 41,778 thousand. Payment of the agreed price was made to the Bank's account on January 27, 2016.

40. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia for major currencies as determined in the interbank foreign exchange market and used in the translation of the statement of financial position components denominated in foreign currencies into dinars (RSD) as of December 31, 2015 and 2014 were as follows:

In RSD

	2015	2014
EUR	121,6261	120,9583
USD	111,2468	99,4641
CHF	112,5230	100,5472

Novi Sad, February 26, 2016

Approved by the Management of Erste Bank a.d. Novi Sad

Stevan Čomić Head of the Accounting and Controlling Division	Frank Michael Beitz Executive Board Member	Slavko Carić Executive Board Chairman