ERSTE BANK A.D. NOVI SAD

SEPARATE FINANCIAL STATEMENTS AND NOTES TO THE SEPARATE FINANCIAL STATEMENTS
Year Ended December 31, 2016

CONTENTS

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This is an English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF ERSTE BANK A.D. NOVI SAD

We have audited the accompanying separate financial statements of Erste Bank a.d, Novi Sad (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate 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 separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Other matter

The separate financial statements of the Bank for the year ended 31 December 2015 were audited by another auditor who expressed an unqualified opinion on those statements on 23 March 2016.

Belgrade, 17 March 2017

PREDUZEĆE ZA REVIZIJU
Ernst & Young
d.o.o. II
BEOGRAD

Jelena Čvorović

Stephen Fish
Ernst & Young d.o.o. Beograd

Jelena Čvorović
Authorised Auditor

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

POSITION	Note	2016	*(In RSD '000)* 2015
Interest income	4	7,049,967	6,772,486
Interest expenses	4	(1,227,200)	(1,503,663)
Net interest income		5,822,767	5,268,823
Fee and commission income	5	2,143,153	2,254,600
Fee and commission expenses	5	(685,132)	(605.042)
Net fee and commission income		1,458,021	1,649,558
Net gains on the financial assets held for trading	6	198,957	190,700
Net gains on risk hedges	7	1,238	1,836
Net gains on the financial assets available for sale	8	-	144
Net foreign exchange gains and positive currency clause effects	9	203,037	127,476
Other operating income	10	258,681	255,596
Net losses from impairment of financial assets and credit-risk-weighted off-balance sheet assets	11	(630,331)	(1,397,374)
Total net operating income		7,312,370	6,096,759
Cost of salaries, contributions and other personel expenses	12	(1,802,560)	(1,646,854)
Depreciation costs	13	(263,278)	(257,267)
Other expenses	14	(3,089,221)	(2,976,235)
PROFIT BEFORE TAX		2,157,311	1,216,403
Income tax	15	(2,205)	(1,557)
Loss from deferred tax	15	(90,186)	(25,390)
PROFIT FOR THE YEAR	31	2,064,920	1,189.456

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

Novi Sad, March 15, 2017

Stevan Čomić
Head of the Accounting and Controling Division

Frank Michael Beitz
Executive Board Member

Slavko Carić
Executive Board Chairman

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

(In RSD '000)

Position	Note	2016	2015
PROFIT FOR THE YEAR	31	2,064,920	1,189,456
Components of other comprehensive income that can not be reclassified to profit or loss:			
Acturial profit/(loss) (note 29)		(2,548)	16,675
Other		-	9,622
Components of other comprehensive income that can be reclassified to profit or loss:			
Positive effects of changes in fair value of financial assets available for sale		78,298	157,876
Unrealized losses from financial assets available for sale		(474)	396
Loss from taxes related to other comprehensive income (note 15c, 15d)		(11,673)	(23,741)
Total other comprehensive income		63,603	160,828
TOTAL RESULT OF PERIOD		2,128,523	1,350,284

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Novi Sad, March 15, 2017

Stevan Čomić
Head of the Accounting and Controling Division

Frank Michael Beitz
Executive Board Member

Slavko Carić
Executive Board Chairman

BALANCE SHEET AS AT 31 DECEMBER 2016

ASSETS	Note	31.12.2016.	*(In RSD '000)* 31.12.2015.
Cash and balances with Central bank	16	19,246,670	18,523,428
Financial assets held for trading	17	13,048,357	8,363,472
Cash and balances with Central bank	18	7,182,702	3,446,272
Financial assets held to maturity	19	8,635,103	7,008,412
Loans and receivables to banks and other financial institutions	20	1,211,439	2,733,351
Loans and receivables to customers	21	91,213,913	75,182,667
Investments in subsidaires	22	93,560	93,560
Intangible assets	23	278,845	350,854
Property, plant and equipment	23	811,073	733,119
Investment property	23	232,417	238,508
Current tax asset		-	1,116
Deferred tax asset	15	59,523	161,382
Fixed assets held for sale and assets of discontinued operations		56,294	-
Other assest	24	846,585	651,624
TOTAL ASSETS		142,916,481	117,487,765
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities carried at fair value trough profit and loss held for trading	25	54,690	94,235
Deposits and other liabilities to banks, other financial institutions and Central Bank	26	36,709,919	30,282,165
Deposits and other liabilities to other customers	27	84,903,330	68,295,393
Subordinated liabilities	29	1,764,606	1,824,946
Provisions	30	670,642	534,486
Current tax liabilities	15	1,090	-
Other liabilities	31	684,202	457,059
TOTAL LIABILITIES		124,788,479	101,488,284
Equity	32		
Share capital		10,164,475	10,164,475
Profit		2,064,920	1,189,456
Reserves		5,898,607	4,645,550
TOTAL EQUITY		18,128,002	15,999,481
TOTAL LIABILITIES AND EQUITY		142,916,481	117,487,765

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

Novi Sad, March 15, 2017

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

(In RSD '000)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total
Opening balance at January 1, 2015	10,040,000	124,475	3,091,087	59,273	1,343,984	14,658,819
Actuarial gains	-	-	-	16,674	-	16,674
Fair value adjustments of financial assets available for sales	-	-	-	134,532	-	134,532
Profit for the year	-	-	-	-	1,189,456	1,189,456
Transfer from profit to reserves	-	-	1,334,361	9,623	(1,343,984)	-
Balance at December 31, 2015	10,040,000	124,475	4,425,448	220,102	1,189,456	15,999,481
Opening balance at January 1, 2016	10,040,000	124,475	4,425,448	220,102	1,189,456	15,999,481
Actuarial gains	-	-	-	(2,548)	-	25,810
Fair value adjustments of financial assets	-	-	-	66,149	-	37,791
Profit for the year	-	-	-	-	2,064,920	2,064,920
Transfer from profit to revaluation reserves	-	-	1,189,456	-	(1,189,456)	-
Balance at December 31, 2016	10,040,000	124,475	5,614,904	283,703	2,064,920	18,128,002

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

Novi Sad, March 15, 2017

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

		(In RSD '000)
	2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated by operating activities	9,148,131	9,070,550
Interest receipts	6,830,635	6,632,041
Fee and commission receipts	2,158,240	2,236,077
Receipts of other operating income	158,855	202,388
Dividend receipts and profit sharing	401	44
Cash used in operating activities	6,796,184	6,891,315
Interest payments	1,322,370	1,554,967
Fee and commission payments	684,704	604,888
Payments to, and on behalf of employees	1,755,729	1,637,957
Taxes, contributions and other duties paid	350,445	324,963
Payments for other operating expenses	2,682,936	2,768,540
Net cash inflows from operating activities prior to increases or decreases in loans and deposts	2,351,947	2,179,235
Decrease in placements and increase in deposits and other liabilities	17,831,109	14,826,763
Increase in deposits and other liabilities to banks, other financial institutions, central bank and customers	17,831,109	14,826,763
Increase in loans and decrease in deposits received and other liabilities	18,153,975	19,776,644
Increase in loans and receivables from banks, other financial organizations, central bank and customers	12,966,385	19,519,292
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for trading	5,187,590	257,352
Net cash generated by operating activities before income taxes	2,029,081	-
Net cash used in operating activities before income taxes	-	2,770,646
Net cash generated by operating activities	2,029,081	-
Net cash used in operating activities	-	2,770,646
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	-	-
Cash outflows from investment activities	4,913,728	2,702,036
Cash used for investments in investment securities	4,624,630	2,228,026
Cash used for investments in property	289,097	474,010
Other outflows from investment activities	1	-
Net cash flow from investment activities	4,913,728	2,702,036

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	*(In RSD '000)* 2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financial activities	5,355,649	3,892,523
Inflows from the borrowings	5,317,962	3,736,815
Other inflows from financing activities	37,687	155,708
Cash outflows from financial activities	99,886	238,803
Cash used for subordinated liabilities	60,342	238,803
Other outflows from financing activities	39,544	-
Net cash inflows from financial activities	5,255,763	3,653,720
TOTAL CASH INFLOWS	32,334,889	27,789,836
TOTAL CASH OUTFLOWS	29,963,773	29,608,798
NET INCREASE IN CASH	2,371,116	-
NET DECREASE IN CASH	-	1,818,962
CASH AT THE BEGINING OF THE YEAR	10,417,751	10,417,751
POSITIVE FOREIGN EXCHANGE DIFFERENCES	6,670,645	10,831,126
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	6,467,608	10,703,651
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	11,300,417	8,726,264

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

Novi Sad, March 15, 2017

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

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended 31 December 2016

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.

In accordance with the Decision of the Business Registers Agency no. BD 101499/2005 dated 21 December 2005, the change of the previous name 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 July 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 6 business centers, 47 branches, 9 sub-branches and 5 counters.

As of 31 December 2016 the Bank had 1,021 employees (December 31, 2015: 1,027 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 Separate Financial Statements

The Bank's separate financial statements (the "financial statements") for 2016 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 separate financial statements. 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.

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.

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

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.

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (countinued)

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 three categories:

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

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.

/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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

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:

2.5.1. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

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)

2.5.3. Loans and Receivables due from Banks and Customers (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.3. Loans and Receivables due from Banks and Customers (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.3. Loans and Receivables due from Banks and Customers (continued)

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.

2. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Financial Instruments (continued)

2.5.6. Issued Financial Instruments and Other Financial Liabilities (continued)

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.

2.7. 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 no. 94/2011, 57/2012, 123/2012 43/2013,113/2013, 135/2014, 25/2015,38/2015, 61/2016, 69/2016 i 91/2016).

Calculation of special reserves for potential losses is carried out in order to cover potential losse based on Balance Sheet and Off-balance Sheet items. Calculation of special reserves for potential losses is based and completly in compliance with criterias and rules defined in decision by National Bank of Serbia about classification of balance and off-balance sheet assets.

All receivables from a single debtor are classified in categories from A to D in accordance with following criterias:

- Assesment of financial position, regarding credit ability of debtor;
- Timeliness in payment of debtor's liabilities;
- Other specific criterias (restructured receivables, newly founded companies and receivables based on project financing, promptness of credit file, real estate aquired through collection of receivables and other);
- Quality of collateral.

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

In order to calculate special reserve for potential losses, as in accordance with aforementioned Decision, Bank reduces special reserve for allowance for impairment of balance sheet assets and provisions against losses on off-balance sheet items reported as expense in the income statement. All positive differences will represent the required reserve for estimated losses on balance sheet assets and off-balance sheet items and be deducted from equity in accordance with Decision of adequacy of Bank's capital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2016 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 separate 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.

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 licence	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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Investments in property, plant and equipments of others are depreciated in accordance with time of their use established in contract.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Employee Benefits

(a) Employee Taxes and Contributions for Social Security - 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Taxes and Contributions (continued)

(a) *Income Taxes (continued)*

Current Income Tax (continued)

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.
se takođe evidentiraju na teret, odnosno u korist kapitala.

(b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank's operating result 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.22. New pronouncements

A) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2016:

- **IAS 27 Separate Financial Statements (amended)**

  The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. Management had not made use of this amendment.

- **IAS 1: Disclosure Initiative (Amendment)**

  The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has not made use of this amendment.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

  The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. Management has not made use of this assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. New pronouncements (continued)

A) Changes in accounting policy and disclosures (continued)

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Bank had no transactions in scope of this amendment.

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company does not have any plans that fall within the scope of this amendment.

- The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements:

  - ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
  - ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
  - ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
  - ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
  - ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
  - ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
  - ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. New pronouncements (continued)

A) Changes in accounting policy and disclosures (continued)

- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements
- ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- ***IFRS 7 Financial Instruments***: ***Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
- ***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- ***IAS 34 Interim Financial Reporting:*** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

B) Standards issued but not yet effective and not early adopted

- **IFRS 9 Financial Instruments: Classification and Measurement**

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. In 2016 the Bank set up a multisector implementation team ('the Team') with members from its Risk, Finance and Operations teams to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Risk and Financial officer, who regularly report to the Bank's Supervisory Board and is managed within the Bank's transformation framework. The Bank team for C&M has defined process of FV/AC check at initial recognition of loan, so as modification of loans and all changes and adjustment of Core bank system necessary to support the processes, are expected to be implemented during 2017. Regarding impairment of financial assets, in parallel with risk parameters development the Bank is working on methodology, processes and technical solution for staging and credit loss allowance calculation according to the new standard.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair Value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. New pronouncements (continued)

B) Standards issued but not yet effective and not early adopted (continued)

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Bank has concluded that:

- The loans and advances to banks, loans and advances to customers, that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9
- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to be continue to be measured at FVPL
- The debt securities classified as available for sale under IAS 39 are expected to be measured at FVOCI. Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Impairment of financial assets

Overview

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank is in the process of establishing a policy, process and technical solution to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Bank under the contract, and
- The cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

The Bank will group its loans into Stage 1, Stage 2, Stage 3 and POCI, based on the applied impairment methodology:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. New pronouncements (continued)

B) Standards issued but not yet effective and not early adopted (continued)

- **IFRS 9 Financial Instruments: Classification and Measurement (continued)**

  - Stage 1
    - financial instruments at initial recognition, except POCI instruments or
    - financial instruments which fulfil the low credit risk conditions or not credit impaired financial instruments without significant increase in credit risk since initial recognition
  - Stage 2
    Financial instruments with a significant increase in credit risk, but not credit-impaired at the reporting date.

  - Stage 3
    Financial instruments which are credit-impaired at the reporting date.

  - POCI
    Financial instruments that are credit-impaired on initial recognition (purchase or origination).

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, 3 or POCI, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Stage 1

Under IAS 39 the Bank has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses). These are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified. Under IFRS 9, the impairment of financial assets that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis. According to the Financial impact studies that have been done in cooperation with the parent Group the 12 months ECL allowance amount for financial instruments in Stage1 is not expected to be higher than the current IBNI allowance.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to IAS 39, it will result in increased allowance as most such assets are not considered to be credit-impaired under IAS 39. If the new standard were applied as at 2016, this would result in a substantial additional increase in the impairment allowance.

The assessment of significant risk increase, i.e. the allocation of an asset to Stage 1 or 2, is based on quantitative (the comparison of lifetime PDs) and qualitative (Days past due, Early Warning Signals, Forbearance information, Workout and Fraud flags) criteria. It is the Bank’s policy to evaluate additional available reasonable and supportive forwarding-looking information as further additional drivers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. New pronouncements (continued)

B) Standards issued but not yet effective and not early adopted (continued)

Stage 3

Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. The criteria of such objective evidence are the same as under the current IAS 39 methodology explained. Accordingly, the Bank expects the population to be generally the same under both standards.

Financial assets in Stage 3, where the Bank calculated the IAS 39 impairment on an individual basis will continue to be calculated on the same basis, but under 'IFRS 9' more than only one scenario is required and it will be rather a probability-weighted instead of best estimate approach.

It is expected that financial assets in stage 3 will be the same as those considered to be impaired in accordance with IAS 39. Individual CLA are calculated on exposures to individually significant clients and rule based CLA on exposures to individually not-significant clients.

Forward looking information

The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Bank will consider forward-looking information such as macroeconomic factors (e.g. unemployment, GDP growth, interest rates and house prices) and economic forecasts.

The Bank will use internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. The Bank will use data that is as current as possible and adjustments will be made for significant events occurring prior to the reporting date to. The governance over such adjustments is still in development.

Capital management

The Bank is in the process of evaluating how the new ECL model will impact the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. The magnitude of the effect will depend, amongst other things, on whether the capital rules will be amended to reflect IFRS 9 or to include transition provisions for the effect of IFRS 9.

- **IFRS 15 Revenue from Contracts with Customers**

  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. New pronouncements (continued)

B) Standards issued but not yet effective and not early adopted (continued)

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 16: Leases**

  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Management is in the process of assessing the effect that the requirements of this standard will have on the financial statements of the Bank.

- **Amendment in 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**

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

  The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. New pronouncements (continued)

B) Standards issued but not yet effective and not early adopted (continued)

- **IAS 7: Cash flow statement-Disclosure Initiative (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22. New pronouncements (continued)

B) Standards issued but not yet effective and not early adopted (continued)

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. It is not expected that the amendments of this standard will have effect on the Bank's financial statements.

  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(a) Impairment of Financial Assets (continued)

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.

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.

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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.

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 and Other Post-Employment Benefits to Employees

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 SEPARATE FINANCIAL STATEMENTS
for the year ended 31 December 2016

4. INTEREST INCOME AND EXPENSES

In RSD '000

	2016	2015
Interest income		
- Banks	151,063	312,976
- Public companies	157,489	219,850
- Corporate customers	2,144,276	1,645,127
- Entrepreneurs	54,107	62,133
- Public sector	1,383,613	1,218,542
- Retail customers	3,054,142	3,211,490
- Non-residents	25,817	2,421
- Agricultural producers	26,597	29,772
- Other customers	52,863	70,175
Total	**7,049,967**	**6,772,486**
Intereset expense		
- Banks	274,820	326,942
- Public companies	10,039	113,968
- Corporate customers	120,939	245,930
- Entrepreneurs	2,281	2,383
- Public sector	110,244	37,034
- Retail customers	221,151	405,971
- Non-residents	386,929	244,440
- Other customers	100,797	126,995
Total	**1,227,200**	**1,503,663**
Net Interest Income	**5,822,767**	**5,268,823**

4. INTEREST INCOME AND EXPENSES (continued)

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

		In RSD '000
	2016	2015
Interest income		
Cash and Cash funds held at Central Bank	109,311	170,825
Securities held to maturity	755,984	659,988
Securities available for sale	333,918	253,557
Securities for trading	248,708	262,424
Placements and advances to clients	5,148,623	5,056,437
Placements and advances to credit institutions	9,576	33,141
Interest swap	11,584	
Other interest income	432,262	336,114
Total	**7,049,967**	**6,772,486**
Interest expense		
Subordinated liabilities	68,529	71,075
Bank deposits	328,515	175,262
Central Bank deposits	2	1
Customer deposits	719,722	1,257,325
Securities available for sale	24,566	-
Securities held to maturity	74,131	-
Interest swap	9,945	-
Other interest liabilities	1,792	-
Total	**1,227,200**	**1,503,663**
Net interest income	**5,822,767**	**5,268,823**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended 31 December 2016

5. FEE AND COMMISSION INCOME AND EXPENSES

	2016	In RSD '000 2015
Fee and commission income		
Domestic and foreign payment transaction services	1,206,074	660,753
Loans operations	78,429	18,711
Deposits operation	619,836	595,041
Payment cards operations	53,945	55,973
Guarantees and other warranties	123,984	132,700
Other fees and commissions	60,885	791,422
Total	**2,143,153**	**2,254,600**
Fee and commission expenses		
Domestic and foreign payment transaction services	433,193	65,412
Deposits operations	4	5,874
Other fees and commissions	251,935	533,756
Total	**685,132**	**605,042**
Net fee and commissions income	**1.458.021**	**1,649,558**

6. NET INCOME ON FINANCIAL ASSETS HELD FOR TRADING

	2016	In RSD '000 2015
Income of financial assets held for trading		
Gains of sales of securities and other financial assets	77,744	11,341
Income of change in fair value of securities and other financial assets	198,002	274,529
Income of changes in value of derivatives	302,740	248,373
Total	**578,486**	**534,243**
Expenses of financial assets held for trading		
Losses of sale of securities and other financial assets	4,425	88,031
Expense of change in fair value of securities and other financial assets	186,597	95,925
Expenses of changes in value of derivatives	188,507	159,587
Total	**379,529**	**343,543**
Net income on financial assets held for trading	**198,957**	**190,700**

7. NET GAINS ON RISK HEDGES

In RSD '000

	2016	2015
Gains on risk hedges		
Gains of changes in value of investments and receivables	2,137	3,498
Total	**2,137**	**3,498**
Losses on risk hedges		
Losses of changes in value of investments and receivable	899	1,662
Total	**899**	**1,662**
Net gains from risk protection	**1,238**	**1,836**

Net gains on the risk hedges are the result of changes in value of investments that are contracted to monitor the growth of retail prices.

8. NET INCOME ON FINANCIAL ASSETS AVAILABLE FOR SALE

In RSD '000

	2016	2015
Income from financial assets available for sale		
Gains of sales of securities and other financial assets	-	144
Neto from financial assets available for sale	**-**	**144**

In 2016, tha Bank did not sell financial assets (in 2015. the Bank had net income in amout of RSD 144 thousands from selling financial assets of Montenegro Stock Exchange available for sale).

9. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

In RSD '000

	2016	2015
Positive foreign exchange difference	4,905,600	7,949,501
Negative foreign exchange difference	(5,557,615)	(8,335,999)
Positive currency clause effects	1,765,045	2,881,626
Netative currency clause effects	(909,993)	(2,367,652)
Net Income of Foreign Exchange and curency claus effects	**203,037**	**127,476**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended 31 December 2016

10. OTHER OPERATING INCOME

In RSD '000

	2016	2015
Gains on sales of other investments	-	3,717
Other operating income	70,204	65,717
Reversal of unused provisions for liabilities	19,159	43,841
Reversal of unused other provisions	48,475	4,286
Other income	120,126	138,035
Gains on the value adjustment of financial liabilities	717	-
Total	**258,681**	**255,596**

Position of other operating expenses includes income in amout of RSD 58,188 thousands which refers to income Bank realised on sale of irrecoverable receivables. Also, within Other income, there is income of sales of properties in total amount of RSD 17.352 thousands, to be precise property in Stara Pazova (fixed assets) and propery in Odzaci (collection of receivables in kind)

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

In RSD '000

	2016	2015
Gains on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items		
Reversal of impairment loss on balance sheet items	9,897,186	7,712,010
Reversal of provisions for off-balance sheet items	2,824,067	1,476,674
Total	**12,721,253**	**9,188,684**
Losses from the impairment of financial assets and credit risk-weighted off-balance sheet items		
Impairment losses on balance sheet items	10,458,217	9,104,541
Provisions for off-balance sheet items	2,893,367	1,481,517
Total	**13,351,584**	**10,586,058**
Net losses from the impairment of financial assets and credit risk-weighted off-balance sheet items	**(630,331)**	**(1,397,374)**

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
	2016	2015
Losses from the impairment of financial assets and credit risk-weighted off-balance sheet items		
Impairment expenses of balance sheet items:		
– Loans and receivables due from banks and other financial organizations (Note 20(b))	(319,316)	(567,098)
- Loans and receivables due from customers (Note 21)	(9,754,149)	(8,421,244)
– Other assets (Note 24)	(61,261)	(115,953)
	(10,134,726)	**(9,104,295)**
Provisions for off-balance sheet items impairment (Note 29)	(2,893,367)	(1,481,517)
Total losses from the impairment of financial assets and credit risk-weighted off-balance sheet items	**(13,028,093)**	**(10,585,812)**
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))	321,373	568,516
- Loans and receivables due from customers (Note 21 (b))	9,201,369	7,087,453
- Other assets (Note 24)	51,595	54,882
	9,574,336	**7,710,851**
Reversal of provisions for off-balance sheet items (Note 29)	2,824,067	1,476,674
Total gains on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items	**12,398,403**	**9,187,525**
Net losses from the impairment of financial assets and credit risk-weighted off-balance sheet items	**(629,690)**	**(1,398,288)**

12. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

		In RSD '000
	2016	2015
Net salaries and benefits	1,145,603	1,093,662
Payroll taxes and contributions charged to the employee	435,455	420,645
Retirement benefits, jubilee awards, bonuses and annual leave	209,047	125,696
Other staff costs	12,455	6,851
Total	**1,802,560**	**1,646,854**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended 31 December 2016

13. DEPRECIATION COSTS

		In RSD '000
	2016	**2015**
Depreciation expense:		
- Tangible assets (Note 23)	105,401	83,436
- Intangible assets (Note 23)	157,877	173,831
Total	**263,278**	**257,267**

14. OTHER EXPENSES

		In RSD '000
	2016	**2015**
Professional services	976,974	925,690
Donations and sponsorships	40,268	42,145
Marketing and advertising	240,409	257,391
Telecommunication services and postage	61,793	66,319
Insurance premiums	358,522	332,567
Rental cost	402,743	421,094
Cost of materials	109,776	108,656
Taxes and contributions payable	85,287	80,832
Maintenance of fixed assets and software	267,555	231,385
Losses on sale and disposal of fixed and intangible assets	723	535
Payroll contributions payable by the employer	261,154	253,378
Per diems and travel expenses	84,199	75,536
Training and counseling	32,656	34,021
Other expenses	167,162	146,686
Total	**3,089,221**	**2,976,235**

15. INCOME TAXES

(a) Components of Income Taxes

Total tax (expense)/benefit is comprised of:

In RSD '000

	31.12.2016	31.12.2015
Current income tax expense	(2,205)	(1,557)
Losses on decrease of deferred tax assets and created deferred tax liabilities	(90,186)	(25,390)
Total	**(92,391)**	**(26,947)**

The outstanding balance of prepaid current income tax amounts to RSD 1,116 thousand which was used to cover current income tax in 2016.

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

	31.12.2016	31.12.2015
Profit before tax	**2,157,311**	**1,216,403**
Income tax at the rate of 15%	**323,597**	**182,460**
Tax effects of expenses not recognized for the tax purposes	16,049	19,293
Effects of using tax losses on basis which were not recognised deferred tax asset		
Tax credit for investments in fixed assets	(1,086)	(767)
Recognised deferred tax on losses from previous years	(136,213)	(35,992)
Tax effects of non-taxable income (interest On securities issued by the Republic of Serbia Autonomous Province, local self-governance or NBS)	(203,433)	(165,761)
Other	(91,305)	(26,180)
Total tax benefit (expense) stated in the income statement	**(92,391)**	**(26,947)**
Effective interest rate	**4,28%**	**2,22%**

15. INCOME TAXES (continued)

(c) Deferred Tax Components

In RSD '000

		31.12.2016.
	Temporary difference amount	Deferred tax amount
Deductible temporary difference per differnce between the carrying value and tax base of fixed assets – deferred tax assets	68,889	10,333
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(303,403)	(45,510)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	280,872	42,131
Deductible temporary difference based on provisions for litigations- deferred tax assets	164,287	24,643
Deductible temporary difference based on provisions for jubiliee awards- deferred tax assets	102,977	15,447
Deductible temporary difference based on retirement provisions deferred tax assets	83,197	12,480
Total balance at December 31, 2016	**396,819**	**59,523**

		31.12.2015.
	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 value – deferred tax liabilities	(158,272)	(23,741)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	1,188,959	214,336
Total balance at December 31, 2015	**1,075,878**	**197,374**

15. INCOME TAXES (continued)

(d) Movements on Deferred Taxes

As of December 31, 2016 the Bank had a tax credit carried forward based on capital expendiures for which deferred tax assets totaling RSD 25,542 thousand were not recognized.

	2016	In RSD '000 2015
Balance of deferred tax assets at January 1	161,382	210,513
Effect of termporary tax differenced credited to the income statement	(90,186)	(25,390)
Effect of termporary tax differenced credited to equity	(11,673)	(23,741)
Balance of deferred tax assets at December 31	**59,523**	**161,382**

(e) The rights on transfer of unused tax credits expire in next periods

	Amount at December 31, 2016	Final Year of Use	In RSD '000 Amount at December 31, 2015
Per unused tax credit carryforward for capital expenditure	25,542	2023	43,797
Per tax losses incured up to 31.12.2013.	-	-	485,676
Per tax losses incured after 01.01.2014.	280,872	2019	703,283

16. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

	31.12.2016	In RSD '000 31.12.2015
In RSD		
Current account	8,276,530	5,053,943
Cash on hand	1,441,409	1,268,082
Deposited liquid asset surpluses	-	4,000,000
Receivables for interest accured, fees and commision per funds held with central bank	-	278
	9,717,939	**10,322,303**
In foreign currencies		
Cash on hand	1,124,746	991,254
Obligatory foreign currency reserve held with NBS	8,403,985	7,209,871
	9,528,731	**8,201,125**
Balance as of December, 31	**19,246,670**	**18,523,428**

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

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, 2016 to January 17, 2017 amounted to RSD 6,023,858 thousand.

The average rate of interest on the funds of the olbigatory RSD reserve in 2016 equaled 1,75% 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: 20% on the average daily balance of foreign currency liabilities maturing within 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause maturing within 2 years; 13% on the average daily balance of foreign currency liabilities with maturities of over 2 years, and exceptionally at the rate of 1000% 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, 2016 to January 17, 2017 amounted to EUR 68,113 thousand.

The obligatory foreign currency reserve does not accrue interest.

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

		In RSD '000
In RSD	**31.12.2016**	**31.12.2015**
Financial assets at fair value through profit and loss		
- Treasury bills	196,192	728,000
- bonds	3,669,730	1,108,290
- positive fair value of derivatives held for trading	92,822	22,421
	3,958,744	**1,858,711**
In foreign currencies		
Financial assets at fair value through profit and loss		
- Treasury bills	1,964,904	1,438,362
- bonds	7,065,377	4,986,893
- positive fair value of derivatives held for trading	59,332	79,506
	9,089,613	**6,504,761**
Balance at December 31	**13,048,357**	**8,363,472**

NOTES TO SEPARATE FINANCIAL STATEMENTS
for the year ended 31 December 2016

18. FINANCIAL ASSETS AVAILABLE FOR SALE

		In RSD '000
	31.12.2016	**31.12.2015**
In RSD		
Securities available for sale		
- Treasury bills	237,537	198,273
- bonds	2,015,011	1,951,803
- equity investments	136,084	137,027
	2,388,632	**2,287,103**
In foreign currencies		
Securities available for sale		
- Treasury bills	4,879,783	1,245,699
- other securities available for sale	34,943	32,918
	4,914,726	**1,278,617**
Total financial assets available for sale	**7,303,358**	**3,565,720**
Less impairment allowance	(120,656)	(119,448)
Balance at December 31	**7,182,702**	**3,446,272**

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

		In RSD '000
	31.12.2016	**31.12.2015**
Balance at beggining of year	119,448	117,092
New allowance for impairment	-	246
Reversal of allowance for impairment	(288)	1,159
Foreign exchange difference	1,496	951
Balance at December 31	**120,657**	**119,449**

19. FINANCIAL ASSETS HELD TO MATURITY

		In RSD '000
	31.12.2016	**31.12.2015**
In RSD		
Securities held to maturity:		
- bonds	8,635,103	7,008,412
Balance at December 31	**8,635,103**	**7,008,412**

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

In RSD '000

	31.12.2016			31.12.2015		
	Shrot-term	Long-term	Total	Shrot-term	Long-term	Total
In RSD						
Revocable deposits and loans	-	-	**-**	500,082	-	**500,082**
Loans	24,785	383	**25,168**	-	522	**522**
Deposits	8,008	-	**8,008**	6,500	-	**6,500**
	32,793	**383**	**33,176**	**506,582**	**522**	**507,104**
In foreign currency						
Foreign currency accounts	458,769	-	**458,769**	1,420,557	-	**1,420,557**
Loans	78,566	209,531	**288,097**	-	509,481	**509,481**
Deposits placed	427,587	-	**427,587**	4,865	-	**4,865**
Other placements	14,428	-	**14,428**	304,642	-	**304,642**
	979,350	**209,531**	**1,188,881**	**1,730,064**	**509,481**	**2,239,545**
Gross loans and receivables	**1,012,143**	**209,914**	**1,222,057**	**2,236,646**	**510,003**	**2,746,649**
Less: Impairment allowance	-	-	(10,618)	-	-	(13,298)
Balance at December 31	**-**	**-**	**1,211,439**	**-**	**-**	**2,733,351**

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

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

(a) Breakdown per type of loan and deposit beneficiaries

In RSD '000

	31.12.2016			31.12.2015		
	Shrot-term	Long-term	Total	Shrot-term	Long-term	Total
In RSD						
Central Bank	-		**-**	500,072	-	**500,072**
Insurance companies	-	175	**175**	-	116	**116**
Financial lessors	-	38	**38**	-	42	**42**
Auxiliary activities within financial services and insurance	-	71	**71**	-	121	**121**
Other crediting and financing service providers	24,785	99	**24,884**	-	243	**243**
Foreign banks	8,008	-	**8,008**	6,510	-	**6,510**
	32,793	**383**	**33,176**	**506,582**	**522**	**507,104**
In foreign currency						
Domestic banks	175,722	-	175,722	-	-	**-**
Financial lessors	-	208,879	208,879	-	353,455	**353,455**
Auxiliary activities within financial services and insurance	19,367	652	20,019	309,507	1,395	**310,902**
Other crediting and financing service providers	76,369	-	76,369	-	154,631	**154,631**
Foreign banks	707,892	-	**707,892**	1,420,557	-	**1,420,557**
	979,350	**209,531**	**1,188,881**	**1,730,064**	**509,481**	**2,239,545**
Gross loans and receivables	**1,012,143**	**209,914**	**1,222,057**	**2,236,646**	**510,003**	**2,746,649**
Less: Impairment allowance	-	-	(10,618)	-	-	(13,298)
Balance at December 31	**-**	**-**	**1,211,439**	**-**	**-**	**2,733,351**

Loans with foreign currency clause 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, 2016 and December 31, 2015

		In RSD '000
	31.12.2016	**31.12.2015**
Without defined maturity	579,303	1,730,064
Under 30 days	430,680	506,582
From 1 to 3 months	2,160	-
Over a year	209,914	510,003
	1,222,057	**2,746,649**

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

		In RSD '000
	31.12.2016	**31.12.2015**
Balance, beginning of year	13,298	18,033
Allowances for impairment (Note 11 (a))	319,316	567,098
Reversal of impairment allowance (Note 11 (a))	(321,373)	(568,516)
Write-off	-	(14)
Foreign exchange differences	(623)	(7,115)
Balance December 31	**10,618**	**13,298**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

21. LOANS AND RECEIVABLES TO CUSTOMERS

In RSD '000

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Loans	1,273,162	19,233,022	**20,506,184**	601,317	17,032,096	**17,633,413**
Other placements	998,645	67,409	**1,066,054**	443,898	65,502	**509,400**
	2,271,807	**19,300,431**	**21,572,238**	**1,045,215**	**17,097,598**	**18,142,813**
Foreign currency						
Loans	7,246,303	67,980,895	**75,227,198**	1,427,042	61,173,839	**62,600,881**
Deposits	101,322	-	**101,322**	96,537		**96,537**
Other placements	171,877	524,225	**696,102**	203,395	1,631,129	**1,834,524**
	7,519,502	**68,505,120**	**76,024,622**	**1,726,974**	**62,804,968**	**64,531,942**
Gross loans and receivables	**9,791,309**	**87,805,551**	**97,596,860**	**2,772,189**	**79,902,566**	**82,674,755**
Less: Impairment allowance						
– Single estimation	-	-	(3,056,826)	-	-	(4,479,587)
– Collective estimation	-	-	(3,326,121)	-	-	(3,012,501)
	-	**-**	**(6,382,947)**	**-**	**-**	**(7,492,088)**
Balance at December 31	**-**	**-**	**91,213,913**	**-**	**-**	**75,182,667**

Loans with foreign currency clause are presented within loans and receivables in foreign currencies.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

21. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

(a) Overview by types of users of loans and deposits

In RSD '000

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Holdings	-	687	**687**	-	891	**891**
Public enterprises	1,723	534	**2,257**	406	2,716	**3,122**
Other companies	1,292,032	708,705	**2,000,737**	678,617	1,097,769	**1,776,386**
Entrepreneurs	80,467	229,843	**310,310**	26,170	208,770	**234,940**
Public sector	675,050	-	**675,050**	-	853	**853**
Retail customers	97,705	18,333,333	**18,431,038**	191,463	15,667,111	**15,858,574**
Foreign entities	342	-	**342**	42	-	**42**
Farmers	30,278	7,388	**37,666**	7,210	17,532	**24,742**
Other customers	94,210	19,941	**114,151**	141,307	101,956	**243,263**
	2,271,807	**19,300,431**	**21,572,238**	**1,045,215**	**17,097,598**	**18,142,813**
In foreign currency						
Holdings	520,947	121,590	**642,537**	50,162	311,709	**361,871**
Public enterprises	4,323	2,791,685	**2,796,008**	1	4,957,054	**4,957,055**
Other companies	6,536,719	44,787,539	**51,324,258**	1,281,414	38,712,731	**39,994,145**
Entrepreneurs	41,952	388,782	**430,734**	11,137	459,371	**470,508**
Public sector	162,832	2,313,408	**2,476,240**	40,128	1,898,229	**1,938,357**
Retail customers	3,455	16,585,325	**16,588,780**	91	14,457,906	**14,457,997**
Foreign entities	112,326	64,099	**176,425**	96,537	43,901	**140,438**
Farmers	29,602	208,086	**237,688**	14,579	285,596	**300,175**
Other customers	107,346	1,244,606	**1,351,952**	232,925	1,678,471	**1,911,396**
	7,519,502	**68,505,120**	**76,024,622**	**1,726,974**	**62,804,968**	**64,531,942**
Gross loans and receivables	**9,791,309**	**87,805,551**	**97,596,860**	**2,772,189**	**79,902,566**	**82,674,755**
Less: Impairment allowance						
– Single estimation	-	-	-	-	-	(4,479,587)
– Collective estimation	-	-	-	-	-	(3,012,501)
	-	**-**	**(6,382,947)**	**-**	**-**	**(7,492,088)**
Balance at December 31	**-**	-	91,213,913	**-**	-	75,182,667

Loans with foreign currency clause are presented within loans and receivables in foreign currencies.

21. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

b) Maturity of loans and receivables to customers

Maturities of loan and receivables due from customers per outstanding maturity as of December 31, 2016 and December 31 2015 are presented in the table below:

In RSD '000

	31.12.2016	31.12.2015
Without defined maturity	546,786	245,398
Under 30 days	146,436	192,591
From 1 to 3 months	744,613	522,540
From 3 to 12 months	8,353,474	1,811,660
Over a year	87,805,551	79,902,566
	97,596,860	**82,674,755**

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

In RSD '000

	31.12.2016	31.12.2015
Balance, beginning of year	7,492,088	6,850,174
New allowances for impairment (Note 11 (a))	9,754,149	8,421,244
Reversal of impairment allowance (Note 11 (a))	(9,201,369)	(7,087,453)
Write-off	(1,752,867)	(790,737)
Foreign exchange differences	90,946	98,860
Balance at December 31	**6,383,159**	**7,492,088**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

21. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

Maturities of loan and receivables due from customers per outstanding maturity as of December 31, 2016 and December 31 2015, is significant with the following industries

In RSD '000

	31.12.2016	31.12.2015
Public sector	643,224	362,762
Non-resident corporate customers	9,120,734	6,365,007
Agricultural producers	15,211,321	12,943,236
Other customers	10,454,285	7,191,068
Entrepreneurs	8,343,192	9,371,229
Tourism and services industry	10,682,347	8,941,826
Agriculture and food industry	2,311,381	1,918,342
Retail customers	35,083,922	30,360,510
Domestic and foreign banks and other financial institutions	1,222,057	2,746,649
Public sector	3,151,290	1,939,212
Non-resident corporate customers	112,663	96,537
Agricultural producers	275,354	324,918
Other customers	1,466,103	2,154,659
Entrepreneurs	741,044	705,449
	98,818,917	**85,421,404**

22. INVESTMENTS IN SUBSIDIARIES

In RSD '000

	2016.	2015.
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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

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, 2015	**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	(483,164)	(135,332)	135,332
Disposal and retirement	(13,299)	(50,219)				(63,518)	(11,465)
Balance at December 31, 2015	**778,087,00**	**709,357,00**	**41,108,00**	**243,633,00**	**1,00**	**1,772,186,00**	**1,116,582,00**
Additions					287,464,00	287,464,00	
Transfers	9,611	109,654	82,331	-	(287,466)	(85,870)	85,870
Disposal and retirement	(43,989)	(10,101)		-		(54,090)	-
Balance at December 31, 2016	**743,709**	**808,910**	**123,439**	**243,633**	**(1)**	**1,919,690**	**1,202,452**
Acumulated depreciation/amortization							
Balance at January 1, 2015	**248,599**	**519,763**	**1,681**	**-**	**-**	**770,043**	**603,364**
Depreciation (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**
Depreciation (Note 13)	19,013	66,918	13,380	6,091		105,402	157,877
Disposal and retirement	(20,412)	(9,347)		-		(29,759)	-
Balance at December 31, 2016	**262,295**	**588,647**	**14,043**	**11,216**	**-**	**876,201**	**923,607**
NET BOOK VALUE							
- December 31, 2016	**481,414**	**220,263**	**109,396**	**232,417**	**(1)**	**1,043,489**	**278,845**
- December 31, 2015	**514,393**	**178,281**	**40,445**	**238,508**	**1**	**971,628**	**350,852**

23. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (continued)

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, 2016, 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 40,155 thousand (December 31, 2015: RSD 72,481 thousand). The Bank's management has taken all actions necessary to obtain the appropriate property titles for these buildings. As of December 31, 2016 the net book value of the Bank's equipment mostly comprised computers and computer equipment, telecommunication equipment and office furniture. As of December 31, 2016 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, 2016.

24. OTHER ASSETS

		In RSD '000
	31.12.2016	**31.12.2015**
In RSD		
Other receivables:		
- Receivables for accrued fees and commissions	36,233	32,925
- Trade receivables	30,703	496
- Other receivables from continuing operations	101,073	139,308
- Advances paid	20,996	6,992
- Receivables from employees	1,171	427
- Inventories	57,358	129,949
- Other receivables	110,845	119,344
- Other investments	29,169	29,169
Prepayments:		
-Other prepayments	534,854	359,553
	922,402	**818,163**
In foreign currency:		
Other receivables:		
- receivables for accrued fees and commissions	18	58
- advances paid	25,514	25,076
- receivables from employees	1,247	1,216
- other receivables	105,238	86,178
Prepayments:		
-other prepayments	34,576	51,680
	166,593	**164,208**
Gross other assets	**1,088,995**	**982,371**
Less: Impairment allowance	(242,410)	(330,747)
Balance at December 31	**846,585**	**651,624**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

24. OTHER ASSETS

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

	31.12.2016	In RSD '000 31.12.2015
Balance at beginning of the year	330,747	303,142
Charge for the year	61,261	115,953
Reversal for impairment allowance	(51,595)	(54,882)
Write-offs on the allowance	(67,346)	-
Foreign exchange difference	(30,870)	56,778
Balance at December 31	**242,197**	**330,747**

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

	31.12.2016	In RSD '000 31.12.2015
In RSD		
Liabilities per derivatives held for trading	11,556	25,396
	11,556	**25,396**
In foreign currencies		
Liabilities per derivatives held for trading	43,134	68,839
	43,134	**68,839**
Balance at December 31	**54,690**	**94,235**

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

In RSD '000

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Deposits and borrowings						
Transaction deposits	143,703	-	**143,703**	213,194	-	**213,194**
Deposits placed for loan approved	-	247	**247**	1,751	-	**1,751**
Earmarked deposits	1,075	-	**1,075**	969	-	**969**
Other deposits	3,750,530	390,000	**4,140,530**	2,877,610	771,570	**3,649,180**
Total	**3,895,308**	**390,247**	**4,285,555**	**3,093,524**	**771,570**	**3,865,094**
In foreign currency						
Deposits and borrowings						
Transaction deposits	872,077	-	**872,077**	819,956	-	**819,956**
Deposits placed for loan approved	-	1,171,456	**1,171,456**	-	1,332,195	**1,332,195**
Earmarked deposits	18,214	3,704	**21,918**	60,927	3,648	**64,575**
Other deposits	15,631,839	1,678,180	**17,310,019**	5,856,677	1,762,800	**7,619,477**
Overnight deposits	-	-	**-**	2,736,587	-	**2,736,587**
Borrowings	-	12,970,266	**12,970,266**	-	13,824,816	**13,824,816**
Other financial liabilities	78,628	-	**78,628**	19,465	-	**19,465**
Total	**16,600,758**	**15,823,606**	**32,424,364**	**9,493,612**	**16,923,459**	**26,417,071**
Balance at December 31	**20,496,066**	**16,213,853**	**36,709,919**	**12,587,136**	**17,695,029**	**30,282,165**

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:

		In RSD '000
	31.12.2016	**31.12.2015**
Central bank	3	1,404
Domestic banks	9,309,202	5,780,163
Insurance companies	2,953,351	3,306,897
Pension funds	170,534	145,905
Finance lessors	1,785,819	703,357
Auxiliary activities within financial services and insurance	1,579,820	1,823,891
Trusts, investment and similar funds	14,672	14,881
Other crediting and financing service providers	8,448	8,786
Foreign banks	20,888,070	18,496,881
Balance at Decembar 31	**36,709,919**	**30,282,165**

Foreign banks' deposits mostly pertain to the deposit of Erste Group Bank AG, Austria in the amount of RSD 19,116,720 thousand and a deposit of KFW Bank Frankfurt in the amount of RSD 1,111,472 thousand.

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27. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD '000

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Deposits and borrowings						
Transaction deposits	14,335,266	-	**14,335,266**	11,146,933	-	**11,146,933**
Savings deposits	648,934	483,830	**1,132,764**	633,783	490,220	**1,124,003**
Deposits placed for loan approved	194,079	96,928	**291,007**	14,881	193,501	**208,382**
Earmarked deposits	2,539,874	18,750	**2,558,624**	183,515	18,847	**202,362**
Other deposits	4,715,869	8,900	**4,724,769**	6,925,163	15,769	**6,940,932**
Total	**22,434,022**	**608,408**	**23,042,430**	**18,904,275**	**718,337**	**19,622,612**
In foreign currency						
Deposits and borrowings						
Transaction deposits	23,793,190	-	**23,793,190**	16,209,701	-	**16,209,701**
Savings deposits	8,588,238	13,053,687	**21,641,925**	8,047,168	14,905,351	**22,952,519**
Deposits placed for loan approved	477,827	2,253,017	**2,730,844**	409,179	2,109,870	**2,519,049**
Earmarked deposits	767,393	344,020	**1,111,413**	1,736,797	363,706	**2,100,503**
Other deposits	533,112	25,895	**559,007**	682,002	966,489	**1,648,491**
Borrowings	-	11,712,960	**11,712,960**	-	2,853,165	**2,853,165**
Other financial liabilities	311,561	-	**311,561**	389,353	-	**389,353**
Total	**34,471,321**	**27,389,579**	**61,860,900**	**27,474,200**	**21,198,581**	**48,672,781**
Balance at December 31	**-**	**-**	**84,903,330**	**-**	**-**	**68,295,393**

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

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

		In RSD '000
	31.12.2016	**31.12.2015**
Holding companies	51,308	17,519
Public companies	965,665	2,272,964
Corporate customers	18,855,062	18,619,287
Public sector	2,152,296	2,988,419
Retail customers	40,394,298	36,207,139
Non-residents	13,464,139	2,635,578
Entrepreneurs	1,814,183	1,254,309
Agricultural producers	471,626	282,785
Other customers	6,734,753	4,017,393
Balance at December 31	**84,903,330**	**68,295,393**

28. SUBORDINATED LIABILITIES

		In RSD '000
	31.12.2016	**31.12.2015**
In foreign currencies		
Subordinated liabilities	1,764,606	1,824,946
Balance at December 31	**1,764,606**	**1,824,946**

Balance of subordinated borrowings as of December 31, 2016 and December 31, 2015 is presented in more detail int he table below:

In RSD '000

Creditor	Currency	Loan amount	Maturity	Interest rate	31.12.2016.	31.12.2015.
Erste Group Bank AG, Austria	EUR	15,000,000	27.12.2021.	Euribor+3,65% pa	1,763,890	1,824,392
Total		**15,000,000**			**1,763,890**	**1,824,392**

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

In RSD '000

	31.12.2016	31.12.2015
Provisions for losses per off-balance sheet items (a)	277,482	205,727
Provisions for long-term employee benefits (b):		
- retirement benefits	83,197	73,656
- jubilee awards	102,977	116,503
Provisions for litigations (c)	164,287	118,109
Other long-term provisions	42,699	20,491
Balance at December 31	**670,642**	**534,486**

(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.

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 4.1% 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 1.1% and the employee turnover rate to be 6.18% 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.

29. PROVISIONS (continued)

Movements on provision accounts during the year are provided below:

	31.12.2016	In RSD '000 31.12.2015
Provisions for losses per off-balance sheet exposures		
Balance, beginning of year	205,727	200,995
Charge for the year (Note 11 (a))	2,893,367	1,481,517
Reversal ofunused provisions (Note 11 (a))	(2,824,067)	(1,476,674)
Other movements	2,455	(111)
	277,482	**205,727**
Provisions for otehr long-term employee benefits		
Balance, beginning of year	190,158	215,754
Interest expenses and current service costs	21,760	23,870
Released during the year	(29,782)	(17,818)
Actuarial losses/(gains) on jubilee awards	1,490	(14,972)
Actuarial losses/(gains) on retirement benefits	2,548	(16,675)
	186,174	**190,159**
Provisions for litigations		
Balance, beginning of year	118,109	90,525
Charge for the year	55,839	52,247
Released during the year	(9,661)	(24,663)
Other movements	-	-
	164,287	**118,109**
Other long-term provisions		
Balance, beginning of year	20,491	36,513
Charge for the year	35,084	2,879
Released during the year	(12,875)	(18,901)
	42,700	**20,491**
Balance at December 31	**670,642**	**534,486**

30. OTHER LIABILITIES

	31.12.2016	In RSD '000 31.12.2015
In RSD		
Trade payables	6,439	1,212
Advances received	4,921	11,382
Liabilities for taxes, contributions and other duties payable	1,017	5,190
Accruals:		
– accrued liabilities for unused annual leaves	13,952	32,795
– other accruals	388,943	292,324
Other liabilities	166,272	89,488
	581,544	**432,391**
In foreign currencies		
Fee and commission payables	25	24
Advances received	14,083	10,671
Accruals:		
– other accruals	5,820	4,959
Other liabilities	82,730	9,014
	102,658	**24,668**
Balance at December 31	**684,202**	**457,059**

31. EQUITY

(a) Structure of the Bank's Equity

The total equity structure of the Bank is presented below:

	31.12.2016	In RSD '000 31.12.2015
Share capital - ordinary shares /i/	10,040,000	10,040,000
Share premium /ii/	124,475	124,475
Reserves from profit /iii/	5,614,904	4,425,448
Revaluation reserves /iv/	283,703	220,102
Profit for the year	2,064,920	1,189,456
Balance at December 31	**18,128,002**	**15,999,481**

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31. EQUITY (continued)

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

/i/ *Share Capital*

As of December 31, 2016 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 2016 and 2015 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, 2016 is presented below:

Shareholder	Share count	In %
EGB CEPS HOLDING GMBH	742,960	74,00
Steiermärkische Bank und Sparkassen AG, Grac	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, 2016 and 2015 resulted from a positive difference between the selling price of the shares and their nominal value.

/iii/ *Reserves from Profit and Other Reserves*

As of December 31, 2016 reserves from profit formed for estimated loss per risk-weighted balance sheet and off-balance sheer exposures amounted to RSD 6,614,904 thousand. As of December 31, 2015 the required reserve for estimated losses amounted to RSD 4,425,448 thousand. Pursuant to the Shareholder Assembly's Decision dated April 22, 2015, RSD 1,189,455 thousand was allocated to other reserves.

/iv/ *Revaluation Reserves*

Revaluation reserves amounting to RSD 283,703 thousand as of December 31, 2016 (December 31, 2015: RSD 220,102 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 and adjusted for liabilities based upon acturial report in accordance with IAS 19.

31. EQUITY (continued)

(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, 2016 the Bank was in full compliance with the prescribed values. The Bank achieved the following adequacy and performance indicators as of December 31, 2016:

Performance indicator	**Prescribed**	**31.12.2016.**	**31.12.2015.**
	Minimum	EUR	EUR
1. Capital	EUR 10 miliona	117,960,116	108,969,129
2. Capital adequacy ratio	Minimum 12%	16,27%	17,88%
The sum of Bank's investments	Maximum 60%	7,49%	7,69%
4. Exposure to the entities related to the Bank	no limit	14,47	13,42
5. The sum of all large and most significant exposures relative to own assets	Maximum 400%	110,54%	109,75%
6. Average monthly liquidity ratios:			
– Liquidity ratio	Minimum 0,8	1,40	1,21
– Narrow liquidity ratio	Minimum 0,6	1,34	1,15
7. Foreign exchange risk ratio	Maximum 20%	1,20%	0,97%
8.Exposure to a group of related entities	Maximum 25%	15,41%	17,03%
9.Exposure to an entity related to the Bank	bez limita	6,17	4,88
10. Investments in a non-financial sector entity	Maximum 10%	0,19%	0,20%

32. OFF-BALANCE SHEET ITEMS

		In RSD '000
	31.12.2016	**31.12.2015**
Managed funds (a)	696,990	710,319
Guarantees and other irrevocable commitments (b)	22,006,926	18,604,907
Other off-balance sheet items (c)	165,248,404	124,280,720
Balance at December 31	**187,952,320**	**143,595,946**

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

Investments on behalf of third parties	31.12.2016	31.12.2015
In RSD		
- short-term	13,674	12,635
- long-term	683,316	697,684
Balance at December 31	**696,990**	**710,319**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 3,006 thousand and matured penalty interest of RSD 5,123 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 662,126 and long-term loans to agricultural producers in the amount of RSD 21,190 thousand.

(b) Guarantees and Other Irrevocable Commitments

In RSD '000

	31.12.2016	31.12.2015
In RSD		
Payment guarantees	40,457	1,200
Performance guarantees	3,810,201	3,797,991
Sureties and acceptances	872	872
Irrevocable commitments for undrawn loan facilities	2,914,003	2,809,822
Other off-balance sheet items	270,741	75,083
	7,036,274	**6,684,968**
In foreign currency		
Payment guarantees	457,393	527,918
Performance guarantees	3,835,280	4,254,053
Sureties and acceptances	-	299
Irrevocable commitments for undrawn loan facilities	10,570,648	6,967,122
Credentials	53,779	168,552
Other off-balance sheet items	53,552	1,995
	14,970,652	**11,919,939**
Balance at December 31	**22,006,926**	**18,604,907**

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, 2016, the Bank's provisions for guarantees and other irrevocable commitments amounted to RSD 277,472 thousand (December 31, 2015: RSD 205,727 thousand).

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, 2016 and 2015 as well as income and expenses arising from transactions with entities within Erste Group are provided in tables below:

	2016		2015	
	Shareho-lders	Other members of Erste Group	Shareho-lders	Other members of Erste Group
Assets				
Financial assets at fair value through profit and loss held for trading	74,982	-	46,224	-
Loans and receivables from banks and other financial organizations	448,389	255,167	412,654	120,215
Loans and receivables due from customers	-	288	-	84
Investments in subsidiaries	-	93,560	-	93,560
Other assets	18,967	28,013	4,789	28,030
	542,338	**377,028**	**463,667**	**241,889**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	49,915	-	68,115	-
Deposits and other liabilities due to banks and other financial organizations	19,117,029	794,664	8,407,493	467,935
Deposits and liabilities due to customers	-	111,903	-	619,168
Subordinated liabilities	1,764,605	-	1,824,946	-
Provisions	205	314	90	40
Other liabilities	22,265	121,396	2,620	39,365
	20,954,020	**1,028,278**	**10,303,264**	**1,126,508**
Off-balance sheet items				
Guarantees and other sureties issues	262,701	544,510	72,000	153,015
Irrevocable commitments	196,904	2,848	187,006	1,736
Other off-balance sheet items	15,399,712	-	11,263,947	-
	15,859,317	**547,358**	**11,522,953**	**154,751**

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33. RELATED PARTY DISCLOSURES (Continued)

In RSD '000

	2016		2015	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	12,000	1,689	909	257
Interest expenses	(277,586)	(1,977)	(13,550)	(85,981)
Fee and commission income	75,139	1,961	53,331	28,704
Fee and commission expenses	(164,454)	-	(145,749)	-
Net gains on financial assets held for trading	87,505	-	72,332	-
Net gains on foreign exchange difference and currency clause effects	-	1,461	-	-
Net loss on foreign exchange difference and currency clause effects	(48,236)	-	-	-
Net gains on reduction of impairment of financial assets and credit risky off-balance items	1,162	-	-	-
Net losses on reduction of impairment of financial assets and credit risky off-balance items	-	(1,983)	-	-
Other operating income	10,450	29,634	-	26,654
Other expenses	(132,668)	(517,395)	(83,395)	(487,303)

Fees on crossborder loans amounted to RSD 28,593 thousand (2015: RSD 240,055 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, 2016 and December 31, 2015, loans due from related parties were not impaired.

33. RELATED PARTY DISCLOSURES (Continued)

(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, 2016	Income/ (expenses) 2016	Balance at December 31, 2015	Income/ (expenses) 2015
Current account overdrafts, credit cards and consumer loans	950	141	741	128
Housing loans	40,711	2,796	41,442	4,203
Accrued fees	-	-	194	-
Other loans and receivables	69	163	30	26
Total impairment allowances	(330)	(89)	(241)	2
Deposits	54,045	(318)	76,340	(1,786)
Other liabilities	57	(385)	383	(1,516)
Unused credit limit	324	-	534	-

(a) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2016 and 2015, are presented in the table below:

In RSD '000

	2016	2015
Salaries and benefits of the Management Board members	5,957	5,914
Salaries and benefits of the Executive Board members	100,096	79,322
Accrued income of the Executive Board members	42,670	20,492
Total	**148,723**	**105,728**

Transfer prices

In accordance with new regulations of Law on Income Tax during 2013, new Rulebook on transfer prices was put into effect and methods used in accordance with "in arm's length" principle in determining price of transactions between related parties. In accordance with this Law and Rulebook, banks are obligated to submit Transfer pricing study and Tax balance for 2016 until June 30, 2017.

Considering that Bank has considerable transactions with related parties, in moment of preparation of financial statements for 2016, the Bank is in process of preparing study on transfer pricing. Based on preliminary findings, Bank's managment does not expect significant corrections of final tax balance based on transactions with related parties.

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.

34. RISK MANAGEMENT (continued)

34.1. Introduction

Non-financial Risk Managment Committee

The Role of non-financial risk managment committee is to discuss, suggest decision and validate questions from Bank's operational risk areas, with the application of Decision on the basis of expected profit of exposure to risk as well as implementation of corrective measuers and activities of risk migration to manage non-financial risks proactivly (operational risk, reputation risk, compliance risk, legal risk, information security risk)

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.

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

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").

34. RISK MANAGEMENT (continued)

34.1. Introduction (continued)

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;
- Risky and disputable placements Management 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, which are regulary updated, at least on a yearly basis, 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.

Approval of loan products is based on credit quality of customer, type of credit product, collateral, supplementary conditions system and other factors on credit risk mitigation.

Assesmet of risk of default of counterparty to the Bank is based on probability of client getting in default status. For every exposure to credit risk, thus credit decision the Bank assigns internal rating which represents unique risk measurment of counterpartie's default. Internal rating of every client is updated on minimaly yearly basis. On quantitative level, internal ratings effect on demanded price of risk, thus on forming provision for those credit risks. Internal ratings take in consideration all available information needed to assess risk of client getting in default. For clients from corporate sector, internal ratings take in consideration financial power of client (indicators of profitability, adequacy of maturity structure of certail elements of assets, liabilities and equity, adequacy of cash flow, level of indebtedness, exposure to credit-currency risk, branch of economy, position on the market, specific characteristics of client and other relevant indicators. For retail sector and micro clients, internal ratings are ususaly based on behaviourst and appliacative scoring, as well as demographic and financial information. Rating's limitations are applied considering membership of economicaly related parties and country of main business activity.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

The Bank complies to all standards of Erste Group AG from perspective of development of model of internal ratings and maintaining processes. All new models and modifications of already existing models in Bank (rating models and risk parameters) as well as methodological standards are examined by group commission, known as Holding Model Committee (HMC) which secures intergrity across Group as well as consistency of model and methodology. Models are approved as well by local managment. Internal ratings system is in compliance with Erste Group AG system which makes a difference between „performing“ and „non-performing“ clients. For „performing“ clients (clients that are not in default status) the Bank uses scale of 8 grades (A1/A2/B1/B2/C1/C2/D1/D2), for clients from retail sector, respectivly scale of 13 grades (1/2/3/4a/4b/4c/5a/5b/5c/6a/6b/7/8) for all other categories. For clients that are in default status the Bank uses scale of 5 grades (R1-R5). For reporting purposes, internal ratings are grouped in next 4 categories of risk:

Low risk – Clients with good, this longer cooperation with Bank, as well as big international clients. Strong financial position without expected financial difficulties in the future. Clients from retail sector which have long history for cooperation with bank or clients that use variety of Bank's products. Clients who are not late with payments of liabilities at the moment, nor in last 12 months. New agreements are generaly made with clients from this category.

Managament attention – Clients with hardly satisfactory or not satisfactory financial situation. Maintaining credit position is very unlikely in middle term. Negative quality criterias are present. Client from retail sector with limited savings or proable to have problems in payment which set off reminders for early collection of receivbles.

Sub-standard – Clients sensitive to negative financial and economic influences

Non-performing - Clients that have recorde one or more criterias for default status, in compliance with definition accuretly stipulated with internal acts of Bank and Erste Group AG: collection of payment is unsecure, delay in payment with materialy imporant exposure longer than 90 days, restructuation which caused loss to Bank, realisation of credit loss or initiation of bankrupcy procedure. With goal to determine default status, Bank applies client level approach, including Retail clients; if client is in default status for one product, then all other products in use by that client are classified as problematic receivables.

Monitoring and control of credit risk

Monitoring of credit risk

With goal of timely management of credit risk, regular client's risk analysis is carried out, which includes regular rating status, possiblity of paying liabilities towards Bank, audit of collaterals and agreeing upon terms from contract.

Bank's goal is to timely identify any kind of deterioration of portfolio which can result in material losses for Bank, so Bank can analyise complete status of debtor through regular re-approval. Importance of regular re-approval of credit exposure is in regular monitoring of client as well as quality of portfolio which is additional measure in optimisation of Bank's credit rist exposure.

Bank carries out evaluation of credit quality as foundation of clients' information, as well as taking in consideration all informations about client as well as previous background between Bank and client.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Early Warning Signals

Systems and processes of early warning signals are used to detect early indications of unhealthy developments, to allow proactive measures of risk reductaion. Bank applies methods of early recognition of increased credit risk with goal to increase effectivnes of collection even in cases of deterioration of portfolio which is revealed by following all relevant informaion this predicting changes in variables in future period which mainly includes clients liabilities fulfillment so far.

Control funcion EWS in Bank is oragaised withing special part within Department for Credit Risk Managment of legal entities.

Default status

Definition of default status in Bank follows regulatory demands of Group, translating it to 5 group of default status:

- Default event E1 – Small chances of payment of liabilities fully due to deterioration in credit quality of debtor
- Default event E2 – Delay longer than 90 days for materialy important amount of debt
- Default event E3 – Modification of original contract terms of repayment due to estimation of deterioration of economical situation of clien
- Default event E4 – Credit loss
- Default event E5 - Bankrupcy

Bank has set up a systemic process to to provide identification and recognition of default status on client level. That means that in case of client getting in default status by any means of credit risk exposure of single placement, toatl balance or off-balance exposure Bank has to that client, including products which are not used for crediting client are classified as default status. Forementioned is applicabe to all Retail sector clients, as well as clients from other business segments.

In case of undertaken loan commitments which are part of off-balance assets of the Bank, exposure in default status presents nominal amount of liability which, in case of drawing funds or usage, leads to exposure of default risk without realisation of collateral

In case of given financial guarantees, exposure in default status amounts to total nominal amount on which risk exists, which can occur in case of default status of total or partial exposure.

Default status can be activated on exposure level of a single placement or on the level of client, but general rule applicable in all cases is that client should have default status assigned for all singular exposures, which means client will have internal rating „R“, despite the fact if default status was activated on a level of a single exposure or client level.

All Bank’s clients are in default status and accoringly they were asigned internal rating (R1-R5) if even a single default event was realised E1-E5.

If Bank estimates that criterias which led to default status are no longer applicable and client is able to continue with repayment of debt in accordance with contract, Bank will change rating of client since that client is no longer in default status.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Default status (continued)

Minimal general conditions, which have to be fulfilled before leaving default status and change of „R“ rating are:

- Not a single event E1-E5 is valid at the moment and additional impairments for singular loan exposures are not expected, and
- Monitoring period is finished with success

Every default event has precisely defined minimal duration, and leaving default status is acceptable only after successful monitoring period which happens after expiration/cessation of default event E1-E5 for clients which have any kind of loan liability and which lasts 3 months after. Concretely, in order to successfuly finish monitoring period, during its time is not allowed to start or be active any criteria which can start some of previously defined default events E1-E5.

Receivables write-off

In accordance with Receivables Write-off Rule book and transfer of receivables from balance to off-balance record, Bank does write-off of uncollectible receivables after all possibilities of collection are exausted. Despite that, write-off can be discused in case litigation is not justified because cost of it will be higher than receivable colllected. Receivables write-off is done only in case of impaired uncollectible placements. For receivables in litigation or bankrupcy, which are totally impaired (allowance for impairment is 100%), and for which is estimated that litigation or bankrupcy procedures last for too long and like that present significant load on balance records, decision for transfer to off-balance records is being made, while debt is not written-off, or in this case, Bank does not waive rights on receivable granted by contract and law.

Maximum exposure to credit risk in balance sheet and off-balance sheet items

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Bank does not consider to be exposed to credit risk, in accordance with Balance sheet items as of December 31, 2016 is presented in the folllowing table:

In RSD '000

	Assets exposed to credit risk				
	Gross value	Accumulated allowance for impairment / provisions	Net value	Assets not exposed to credit risk	Balance sheet
Cash and funds at Central Bank	8,403,985	-	**8,403,985**	10,842,685	**19,246,670**
Financial assets through profit and loss held for trading	13,048,357	-	**13,048,357**	-	**13,048,357**
Financial assets available for sale	7,303,359	120,657	**7,182,702**	-	**7,182,702**
Financial assets held to maturity	8,635,103	-	**8,635,103**	-	**8,635,103**
Loans and receivables from banks and other financial organizations	1,222,057	10,618	**1,211,439**	-	**1,211,439**
Loans and receivables from customers	97,596,860	6,382,947	**91,213,913**	-	**91,213,913**
Investments in subsidiaries	-	-	-	93,560	**93,560**
Intangible assets	-	-	-	278,845	**278,845**
Properly, plant and equipment	-	-	-	811,073	**811,073**
Investment property	-	-	-	232,417	**232,417**
Deferred tax assets	-	-	-	59,523	**59,523**
Non current assets held for sale and discontinued operations	-	-	-	56,294	**56,294**
Other assets	1,088,995	242,410	**846,585**		**846,585**
Balance sheet	**137,298,716**	**6,756,632**	**130,542,084**	**12,374,397**	**142,916,481**
Guarantees and warranties	8,197,983	109,112	**8,088,871**	-	**8,088,871**
Assumed future liabilities	13,808,943	168,369	**13,640,574**	-	**13,640,574**
Other off-balance exposure	-	-	**-**	165,945,394	**165,945,394**
Off-balance sheet	**22,006,926**	**277,481**	**21,729,445**	**165,945,394**	**187,674,838**
Total exposure	**159,305,642**	**7,034,113**	**152,271,529**	**178,319,791**	**330,591,319**

In accordance with Bank's policy, sources of credit risk are loans portfolio and receivables from customers, banks and other financial institutions, as well as off-balance exposure in form of financial guarantees and undertaken future liabilities, below in detail those exposures[1] are presented by of sector, category, status, collateral, maturity and value of collateral.

[1] Other balance sheet exposures which Bank considers to be exposed to credit risk are primarily from activities which support Bank's operations (forming of liquidity reserves, respectively managing of short-term liquidity, as well as optimisation of interest income through managing assets, liabilities and equity) and are considered to be of high risk quality

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34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Maximum exposure to credit risk, in gross and net amount, without collaterals, as well as other items Bank does not consider to be exposed to credit risk, in accordance with Balance sheet items as of December 31, 2015 is presented in the folllowing table:

In RSD '000

	Assets exposed to credit risk				
	Gross value	Accumulated allowance for impairment / provisions	Net value	Assets not exposed to credit risk	Balance sheet
Cash and funds at Central Bank	11,210,148	-	**11,210,148**	7,313,279	**18,523,428**
Financial assets through profit and loss held for trading	8,363,472	-	**8,363,472**	-	**8,363,472**
Financial assets available for sale	3,565,720	119,448	**3,446,272**	-	**3,446,272**
Financial assets held to maturity	7,008,412	-	**7,008,412**	-	**7,008,412**
Loans and receivables from banks and other financial organizations	2,746,635	13,284	**2,733,351**	-	**2,733,351**
Loans and receivables from customers	82,674,768	7,492,101	**75,182,667**	-	**75,182,667**
Investments in subsidiaries	-	-	-	93,560	**93,560**
Intangible assets	-	-	-	350,854	**350,854**
Properly, plant and equipment	-	-	-	733,119	**733,119**
Investment property	-	-	-	238,508	**238,508**
Deferred tax assets	-	-	-	1,116	**1,116**
Non current assets held for sale and discontinued operations	-	-	-	161,382	**161,382**
Other assets	938,855	287,231	**651,624**	-	**651,624**
Balance sheet	**116,508,010**	**7,912,064**	**108,595,946**	**8,891,819**	**117,487,765**
Guarantees and warranties	8,750,885	90,042	**8,660,843**	-	**8,660,843**
Assumed future liabilities	9,854,022	115,685	**9,738,337**	-	**9,738,337**
Other off-balance exposure	-	-	**-**	124,991,040	**124,991,040**
Off-balance sheet	**18,604,907**	**205,727**	**18,399,180**	**124,991,040**	**143,390,220**
Total exposure	**135,112,917**	**8,117,791**	**126,995,125**	**133,882,859**	**260,877,984**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as of December 31, 2016:

In RSD '000

	Quality of non-prolematic receivables[2]				Value of collateral	
	High	Medium	Low	Problematic receivables [3]	Non-problematic receivables	Problematic receivables
Receivables from retail customers	**26,767,384**	**4,832,979**	**1,161,491**	**2,270,841**	**12,777,369**	**569,809**
Housing loans	14,070,281	917,149	504,475	866,526	12,574,769	561,611
Consumer and cash loans	10,498,291	3,379,768	535,574	1,120,044	117,400	2,447
Transactions and credit cards	654,322	127,814	30,325	54,731	2,235	258
Other receivables	1,544,489	408,248	91,117	229,540	82,967	5,492
Receivables from corporate clients	**48,468,267**	**5,530,255**	**251,889**	**2,941,335**	**17,510,898**	**1,306,491**
Large enterprises	9,537,170	88,249	-	32,997	2,520,120	36
Small and middle sized enterprises	28,933,212	2,281,290	179,709	1,787,066	10,190,730	902,927
Micro sized enterprises and entrepreneurs	9,849,244	611,439	36,467	727,357	2,196,498	365,719
Agriculture	144,754	77,216	35,713	71,599	132,315	37,809
Public enterprises	3,886	2,472,061	-	322,315	2,471,235	-
Receivables from other clients	**1,777,852**	**3,461,628**	**397**	**1,354,601**	**751,398**	**718,452**
Total receivables	**77,013,502**	**13,824,862**	**1,413,776**	**6,566,777**	**31,039,665**	**2,594,752**

[2] Credit quality of non-problematic receivables which are classified as low risk (high), special survailence (medium) and bellow standard (low) defined in chapter 34.2 Credit risk

[3] Problematic receivables Bank includes in default status (see „34.2 Credit risk – default status) and restructuated receivables „Non performing forbearance" (see 34.2 Credit risk – reprogramed receivables) which are not in default status

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations

(a) Overview by credit quality of non-problematic receivables and value of collateral of those receivables as of December 31, 2015:

(Gross value)
In RSD '000

	Quality of non-prolematic receivables				Value of collateral	
	High	Medium	Low	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail customers	**26,993,946**	**721,661**	**-**	**2,600,645**	**9,775,246**	**589,014**
Housing loans	12,967,518	189,422	-	856,918	9,633,899	584,246
Consumer and cash loans	10,221,354	377,760	-	1,365,503	99,905	4,453
Transactions and credit cards	826,919	32,620	-	90,650	1,044	-
Other receivables	2,978,156	121,858	-	287,573	40,398	315
Receivables from corporate clients	**34,784,250**	**8,767,169**	**318,421**	**3,752,564**	**15,790,736**	**1,706,546**
Large enterprises	5,090,347	1,093,318	-	-	463,917	-
Small and middle sized enterprises	20,952,271	3,656,495	267,035	2,455,439	9,754,792	1,179,452
Micro sized enterprises and entrepreneurs	7,282,087	591,995	51,386	850,767	2,040,239	481,535
Agriculture	241,289	14,716	-	115,090	121,142	45,559
Public enterprises	1,218,257	3,410,645	-	331,269	3,410,645	-
Receivables from other clients	**2,218,972**	**3,024,645**	**752**	**2,238,377**	**816,640**	**1,496,885**
Total receivables	**63,997,169**	**12,513,476**	**319,173**	**8,591,585**	**26,382,622**	**3,792,446**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

(a) Overview of gros and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collatetral as of December 31, 2016:

In RSD '000

	Unimpaired receivables[4]		Impaired receivables[5]			Accumulated impairment allowances				Value of colateral	
	Not matured	Matured	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On individual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	32,736,712	189,794	661,242	1,444,947	35,032,694	794,647	270,514	1,167,866	32,799,667	12,840,649	506,530
Mortgage loans	15,547,007	33,588	623,938	153,897	**16,358,431**	197,374	238,041	102,166	**15,820,849**	12,637,321	499,060
Consumer and cash loans	14,376,386	107,152	30,275	1,019,865	**15,533,677**	499,014	30,276	831,148	**14,173,239**	118,127	1,720
Transactions and credit cards	810,953	1,908	175	54,155	**867,191**	28,496	175	47,949	**790,570**	2,235	258
Other receivables	2,002,366	47,146	6,853	217,030	**2,273,395**	69,763	2,022	186,602	**2,015,009**	82,967	5,492
Receivables from corporate clients	54,063,347	189,747	2,759,447	179,205	57,191,746	810,081	2,058,257	171,955	54,151,453	17,513,492	1,303,898
Large enterprises	9,616,904	8,515	32,781	215	**9,658,417**	172,782	30,667	275	**9,454,692**	2,520,120	36
Small and middle sized enterprises	31,265,645	128,566	1,723,286	63,780	**33,181,277**	455,518	1,307,276	61,822	**31,356,661**	10,190,730	902,927
Micro sized enterprises	10,459,196	40,638	642,189	82,485	**11,224,507**	176,149	394,386	77,583	**10,576,389**	2,199,092	363,125
Agriculture	245,692	11,991	38,876	32,724	**329,282**	5,560	19,349	32,274	**272,099**	132,315	37,809
Public enterprises	2,475,910	37	322,315	-	**2,798,263**	71	306,580	-	**2,491,611**	2,471,235	-
Receivables from other customers	5.128.640	111,237	936,619	417,982	6,594,478	77,920	728,055	314,270	5,474,232	751,398	718,452
Total exposure	91,928,698	490,778	4,357,308	2,042,133	98,818,917	1,682,648	3,056,826	1,654,091	92,425,352	31,105,538	2,528,879
By category of receivables											
Non-problematic receivables	91,763,999	488,141	-	-	**92,252,140**	1,674,902	-	-	**90,577,238**	31,039,665	-
which from: restructured	541,551	9,613	-	-	**551,165**	19,739	-	-	**531,426**	398,235	-
Problematic receivables	164,699	2,636	4,357,308	2,042,133	**6,566,777**	7,746	3,056,826	1,654,091	**1,848,114**	65,873	2,528,879
which from: restructured	162,046	2,574	1,501,657	590,997	**2,257,274**	7,670	1,103,757	402,355	**743,491**	64,997	1.171.368
Total exposure	91,928,698	490,778	4,357,308	2,042,133	98,818,917	1,682,648	3,056,826	1,654,091	92,425,352	31,105,538	2,528,879

[4] Bank considers as unimpaired receivables those who are not in default status and receivables without evidence of impairment

[5] Bank considers as impaired receivabvles those who are in default status and with evidence of impairment

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34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

(a) Overview of gros and net exposure to credit risk by sector and category of receivables, means of collateral, maturity and value of collatetral as of December 31, 2015:

In RSD '000

	Unimpaired receivables		Impaired receivables			Accumulated allowance for impairment				Value of colateral	
	Not matured	Matured	On individual basis	On collective basis	Total gross receivables	Impairment allowances on unimpaired receivables	On indivdual basis	On collective basis	Total net receivables	Unimpaired receivables	Impaired receivables
By sector											
Receivables from retail clients	27,664,372	194,536	636,613	1,820,730	30,316,252	582,914	215,445	1,479,258	28,038,655	9,837,990	526,271
Mortgage loans	13,200,984	30,882	635,546	146,446	**14,013,858**	77,804	214,377	89,868	**13,631,809**	9,696,643	521,503
Consumer and cash loans	10,550,194	100,256	852	1,313,315	**11,964,617**	374,291	852	1,102,173	**10,487,301**	99,905	4,453
Transactions and credit cards	857,807	2,649	143	89,591	**950,190**	26,689	143	77,798	**845,560**	1,044	-
Other receivables	3,055,387	60,749	73	271,378	**3,387,587**	104,130	73	209,420	**3,073,984**	40,398	315
Receivables from corporate clients	43,640,773	247,554	3,441,333	292,744	47,622,404	680,667	2,619,499	253,437	44,068,800	15,807,713	1,689,569
Large enterprises	6,174,601	9,064	-	-	**6,183,665**	105,478	-	-	**6,078,187**	463,917	-
Small and middle sized enterprises	24,724,471	164,894	2,341,087	100,786	**27,331,239**	420,200	1,805,082	78,284	**25,027,672**	9,768,358	1,165,886
Micro sized enterprises	7,865,384	65,005	703,759	142,087	**8,776,235**	129,126	457,824	131,112	**8,058,173**	2,043,651	478,123
Agriculture	247,438	8,567	65,219	49,871	**371,095**	6,380	43,696	44,041	**276,978**	121,142	45,559
Public enterprises	4,628,878	24	331,269	-	**4,960,170**	19,482	312,898	-	**4,627,791**	3,410,645	-
Receivables from other customers	5.083.276	161,094	2,177,556	60,821	7,482,747	48,891	1,564,712	60,582	5,808,563	816,640	1,496,885
Total exposure	76,388,421	603,184	6,255,503	2,174,295	85,421,402	1,312,472	4,399,656	1,793,277	77,916,018	26,462,343	3,712,724
By category of receivables											
Non-problematic receivables	76,229,426	600,391	-	-	**76,829,817**	1,307,849	-	-	**75,521,988**	26,382,622	-
which from: restructured	239,225	2,847	-	-	**242,072**	5,344	-	-	**236,727**	191,067	-
Problematic receivables	158,994	2,793	6,255,503	2,174,295	**8,591,585**	4,623	4,399,656	1,793,277	**2,394,030**	79,721	3,712,724
which from: restructured	148,980	2,566	1,806,151	90,357	**2,048,053**	4,399	1,360,974	64,698	**617,982**	76,631	1,059,537
Total exposure	76,388,421	603,184	6,255,503	2,174,295	85,421,402	1,312,472	4,399,656	1,793,277	77,916,018	26,462,343	3,712,724

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 2016:

In RSD '000

	Unimpaired receivables					Impaired receivables				
	Not in delay	up to 30 days	from 31 to 60 days	from 61 to 90 days	over 90 days	Not in delay	up to 90 days	from 91 to 180 days	from 181 to 360 days	over 360 days
Receivables from retail clients	27,388,404	5,197,960	261,019	79,096	25	258,699	241,918	243,158	237,153	1,125,260
Mortgage loans	14,748,687	705,120	101,428	25,360	-	161,499	79,253	95,318	63,144	378,621
Consumer and cash loans	10,482,711	3,840,623	117,901	42,303	-	82,872	141,213	109,733	138,314	578,008
Transactions and credit cards	787,771	3,787	17,530	3,773		3,481	1,943	6,491	6,708	35,706
Other receivables	1,369,236	648,431	24,160	7,660	25	10,846	19,509	31,616	28,987	132,924
Receivables from corporate clients	**50,972,232**	**3,256,360**	**16,549**	**7,954**	**-**	**388,650**	**142,975**	**276,471**	**227,554**	**1,903,000**
Large enterprises	9,567,673	57,747	-	-	-	215	-	32,781	-	-
Small and middle sized enterprises	29,176,772	2,211,519	5,920	-	-	213,076	96,846	6,488	202,096	1,268,560
Micro sized enterprises and entrepreneurs	9,544,491	944,952	6,536	3,855	-	10,751	46,030	237,153	16,547	414,193
Agriculture	207,349	42,142	4,093	4,099	-	3,519	99	48	8,912	59,022
Public enterprises	2,475,947	-	-	-	-	161,090	-	-	-	161,225
Receivables from other customers	**5,224,894**	**14,982**	**-**	**-**	**-**	**26,755**	**383,225**	**-**	**50,810**	**893,811**
Total exposure	**83,585,530**	**8,469,302**	**277,569**	**87,050**	**25**	**674,104**	**768,118**	**519,629**	**515,518**	**3,922,072**
By category of receivables	-	-	-	-	-	-	-	-	-	-
Non-problematic receivables	83,488,077	8,428,072	259,046	76,944	-	-	-	-	-	-
whichfrom:restructured	426,008	120,760	1,458	2,939	-	-	-	-	-	-
Problematic receivables	97,452	41,230	18,522	10,106	25	674,104	768,118	519,629	515,518	3,922,072
whichfrom:restructured	95,433	40,729	18,353	10,106	-	355,339	521,772	163,423	222,643	829,476
Total exposure	**83,585,530**	**8,469,302**	**277,569**	**87,050**	**25**	**674,104**	**768,118**	**519,629**	**515,518**	**3,922,072**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

(v) Data on exposure to credit risk by sectors and categories of receivables, according to the impairment status and number of days past due as at 31 December 2015:

In RSD '000

	Unimpaired receivables					Impaired receivables				
	Not in delay	up to 30 days	from 31 to 60 days	from 61 to 90 days	over 90 days	Not in delay	up to 90 days	from 91 to 180 days	from 181 to 360 days	over 360 days
Receivables from retail clients	22,639,860	4,798,878	329,744	90,427	-	260,614	359,774	246,432	316,651	1,273,872
Mortgage loans	12,475,197	572,977	154,812	28,879	-	117,451	154,397	87,410	141,101	281,634
Consumer and cash loans	7,366,343	3,126,830	114,765	42,512	-	103,332	156,799	115,908	125,445	812,683
Transactions and credit cards	825,826	5,395	23,714	5,521	-	6,817	4,250	10,313	10,011	58,343
Other receivables	1,972,494	1,093,676	36,453	13,514	-	33,015	44,328	32,800	40,095	121,213
Receivables from corporate clients	**39,383,855**	**4,292,412**	**144,742**	**67,317**	**-**	**360,259**	**453,366**	**788,894**	**210,593**	**1,920,965**
Large enterprises	5,765,100	418,565	-	-	-	-	-	-	-	-
Small and middle sized enterprises	22,518,872	2,257,708	51,935	60,851	-	179,188	223,608	757,485	131,421	1,150,171
Micro sized enterprises and entrepreneurs	6,260,432	1,585,399	83,239	1,319	-	18,954	53,008	28,372	78,466	667,045
Agriculture	210,549	30,740	9,568	5,148	-	6,383	1,215	3,037	705	103,750
Public enterprises	4,628,902	-	-	-	-	155,733	175,535	-	-	-
Receivables from other customers	**5,186,661**	**57,708**	**-**	**-**	**-**	**73,313**	**-**	**-**	**19,717**	**2,145,347**
Total exposure	**67,210,377**	**9,148,998**	**474,486**	**157,744**	**-**	**694,186**	**813,140**	**1,035,326**	**546,961**	**5,340,184**
By category of receivables										
Non-problematic receivables	67,128,870	9,093,325	453,445	154,177	-	-	-	-	-	-
offwhich:restructured	120,568	120,390	899	215	-	-	-	-	-	-
Problematic receivables	81,506	55,673	21,041	3,567	-	694,186	813,140	1,035,326	546,961	5,340,184
offwhich:restructured	73,427	53,613	21,016	3,490	-	251,448	457,640	536,904	171,738	478.777
Total exposure	**67,210,377**	**9,148,998**	**474,486**	**157,744**	**-**	**694,186**	**813,140**	**1,035,326**	**546,961**	**5,340,184**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

(g) Data on problematic receivables as of December 31, 2016

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables Total	Gross value of problematic receivables which from: restructured receivables	Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
Receivables from retail clients	**35,032,694**	**2,233,027**	**2,270,841**	**483,494**	**1,445,916**	**6,48**	**569,809**
Housing loans	16,358,431	537,581	866,526	266,328	344,567	5,30	561,611
Consumers and cash loans	15,533,677	1,360,438	1,120,044	196,261	864,327	7,21	2,447
Transactions and credit cards	867,191	76,620	54,731	-	48,138	6,31	258
Other receivables	2,273,395	258,386	229,540	20,905	188,883	10,10	5,492
Receivables from corporate clients *	**53,323,147**	**2,553,082**	**2,419,064**	**1,098,488**	**1,765,082**	**29,92**	**1,231,791**
Sector A	2,309,513	154,466	166,834	50,542	125,257	7,22	51,482
Sectors B, C and E	15,046,203	824,207	852,809	262,981	612,935	5,67	333,883
Sector D	5,871,950	101,380	-		-	-	-
Sector F	10,293,193	398,507	320,090	136,784	263,356	3,11	135,110
Sector G	9,119,934	761,217	837,655	618,700	623,712	9,18	558,535
Sectori H, I and J	5,986,848	135,244	89,641	22,348	35,341	1,50	68,077
Sectori L, M and N	4,695,506	178,062	152,037	7,133	104,481	3,24	84,704
Receivables from other clients	**10,463,077**	**1,607,456**	**1,876,872**	**675,292**	**1,507,665**	**17,94**	**793,152**
Total receivables	**98,818,917**	**6,393,565**	**6,566,777**	**2,257,274**	**4,718,663**	**54,34**	**2,594,752**

* Sector A – Electricity, gas, steam and air conditioning
Sectors B, C and E - Construction
Sector D – Agriculture, forestry, fishing
Sector F - Mining, process industry, water supply, waste water managment and simmilar activities
Sector G – Retail and wholesale, repair of mothor vehicels and motor bikes
Sectors H, I and J – Traffic and storage, accomodation and food services, information and communication
Sectors L, M and N – Real estate business, professional, scientific and technical activities, administrative and support service activities, arts

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

(g) Data on problematic receivables as of December 31, 2015

In RSD '000

	Gross receivables value	Accumulated impairment allowance on total receivables	Gross value of problematic receivables: Total	Gross value of problematic receivables: which from: restructured receivables	Accumulated impairment allowance on total receivables	% of problematic receivables	Collateral value of problematic receivables
Receivables from retail clients	**30.316.252**	**2.277.617**	**2.600.645**	**286.314**	**1.698.900**	**8,58**	**589.014**
Housing loans	14,013,858	382,048	856,918	164,383	305,473	6,11	584,246
Consumers and cash loans	11,964,617	1,477,316	1,365,503	87,639	1,105,285	11,41	4,453
Transactions and credit cards	950,190	104,629	90,650	-	77,968	9,54	-
Other receivables	3,387,587	313,623	287,573	34,292	210,175	8,49	315
Receivables from corporate clients *	**41,585,687**	**2,992,951**	**3,162,340**	**1,296,106**	**2,349,169**	**7,60**	**1,611,681**
Sector A	1,916,442	101,732	74,737	52,468	62,239	3,90	49,646
Sectors B, C and E	12,679,163	523,163	531,926	182,679	319,342	4,20	247,582
Sector D	4,743,956	121,067	62,800	-	36,604	1,32	48,629
Sector F	6,993,396	360,533	364,997	225,757	264,631	5,22	209,852
Sector G	6,307,390	1,263,320	1,496,254	774,398	1,191,719	23,72	758,043
Sector H, I and J	5,605,123	315,554	330,958	9,597	214,430	5,90	154,134
Sector L, M and N	3,340,217	307,582	300,669	51,207	260,204	9,00	143,795
Receivables from other clients	**13,519,464**	**2,234,817**	**2,828,601**	**465,633**	**2,149,486**	**20,92**	**1,591,751**
Total receivables	**85,421,402**	**7,505,385**	**8,591,585**	**2,048,053**	**6,197,556**	**10,06**	**3,792,446**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

(d) Data on changes of problematic receivables in 2016 :

In RSD '000

			Reduction of problematic receivables						
	Gross value at beggining of year	New problematic receivables	Total	which from: collected	which from: transfered to non-problematic category	which from: writte-off	Other changes[6]	Gross value at year end	Net value at year end
Receivables from retail clients	2,600,645	905,859	1,383,676	392,977	572,906	417,793	148,014	2,270,841	824,925
Receivables from corporate and other clients	5,990,941	503,051	2,459,016	1,038,706	15,265	1,405,045	260,960	4,295,936	1,023,190
Total receivables	**8,591,585**	**1,408,910**	**3,842,692**	**1,431,683**	**588,171**	**1,822,838**	**408,974**	**6,566,777**	**1,848,115**

[6] Other changes are related to foreign exchange differences and increase of exposure of already existing problematic receivables

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on changes of problematic receivables in 2015 :

In RSD '000

			Reduction of problematic receivables						
	Gross value at beggining of year	New problematic receivables	Total	which from: collected	which from: transfered to non-problematic category	which from: writte-off	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	2,498,633	1,230,238	1,334,545	440,936	760,635	132,975	206,319	2,600,645	901,744
Receivables from corporate and other clients	6,706,459	892,155	1,942,645	1,272,785	8,559	661,302	334,972	5,990,941	1,492,286
Total receivables	**9,205,093**	**2,122,393**	**3,277,190**	**1,713,720**	**769,193**	**794,277**	**541,290**	**8,591,585**	**2,394,030**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Collateral and other means of protection against credit risk

During the process of loan approval, the Bank expects to collect receivable primarily from future cash flow of debtor. In addition, to reduce loss of potential default status, Bank takes various security instruments (collaterals) as protection. Bank takes as many collaterals as possible, whereby priority is given to collaterals that can be realised easy and simply.Possibility of taking collateral depends on current market situation and competition. The effectiveness of credit risk mitigation tehnique is measured and controlled by monitoring time taken for the realisation of collateral and deviation of realised and expected value of collateral.

Department for collateral management is a part of Department for strategic risks managment, which is in charge of collateral management process – from preleminary analysses to realisation of collateral. Process is divided into 3 phases:

Collateral analysis phase – represents initial phase of process of collateral management. It begins with identification and analysis of potential collateral and collecting necessary information and documentation. Phase ends with record of collateral within collateral evidency system.

Collateral monitoring phase – relates to monitoring of restitution and value of collateral. One of its main functions is to record, monitor, update and control date about collaterals in collateral evidency system.

Collateral realisation phase – represents the last phase, when it comes to realisation of collateral (eg. selling collateral in order to close loan) and closing collateral in collateral evidency system. It also includes the phase of data collection for calculation of average realisation rate and collection from them – Collateral Recovery Ratio.

Each phase is regulated by the Procedure of collateral management which defines tasks and resposibilities of organizational parts involved in the process.

In addition, Collateral management depratment is also in charge of process of selection, monitoring and removal of appraisers from list of appraisers that are acceptable for the Bank, and defining minimum of content of estimation report, as well as control of appliance of appropriate methodology during collateral value estimation, all with goal to determine as precise value of collateral as possible. Rules for standards and methodology of estimations are considered within Collateral management Policy.

Check of value of collateral is being done periodicaly and it depends on type of check and collateral. Way of checking value of collateral can be split into valuation by external appraisers or state organs authorised to determine the value (revaluation, Tax statement) and internal monitoring of value of collateral by the employees in the Department of collateral management (monitoring). Dynamics of checks of collateral value is defined depending on type of collateral and in accordance with local and internal regulations.

In the process of calculation of capital requirement for credit risk, Department for strategic risk management, after checking compliance with applicable legal regulations defined in Decision on capital adequacy of banks, determines whether particular collateral will be accepted as an instrument of credit risk reduction. Collateral items acceptable as instrument of credit risk reduction are explained in detail in Bank's separate internal procedure that defines applicable instruments of credit risk reduction as well as terms of recognition of credit risk reduction instruments.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Basic types of credit protection instruments

The Bank applies primarily cash and cash equivalents deposited with the Bank as instruments of material credit protection.

At the moment, the Bank does not appliy balance and off-balance netting as credit risk reduction tehnique.

Primary types of credit risk protection on the basis of guarantees and credit derivatives

Guarantees applied as immaterial credit protection are provided by:

- Governemt – as at 31.12.2016. to mitigate credit risk-weighted assets is used guarantee provided by Republic of Serbia. Preferential credit risk ponder of 0% was applied in accordance with Decision on capital adequacy prescribed by NBS;
- Commercial banks of sufficient credit quality – exposures secured by guarantee of a bank with remaining maturity longer than 3 month, the Bank applies government's credit risk ponder of country of guarantor bank or credit risk ponder of 50%, depends on which one is higher; exposures secured with bank guarantee with remaining maturity with less than 3 months, the Bank applies credit risk ponder of state where bank guarantor has its seat or credit risk ponder of 20%, depends on which one is higher.

In its portfolio of acceptable means of collateral bank has no credit derivatives, thus they are not used as instruments of credit protection.

Exposures secured by mortgages on real estate

Residental real estate, i.e. buildings and land where the owner lives or leases it (or intends to live in it or lease it) are recognized as hedging instruments when all defined requirements in Decision of capital adequacy of banks are fulfilled. The fulfillment of prescribed requests presents precondition for classification of given exposure to a special class of exposure. Exposures secured with mortgages on real estate, which is allocated with most favourable credit risk ponder, instead of recognizing credit risk mitigation tehnique effect.

Mortgages on other types of real estate the Bank recognizes for its internal purposes, although they are not used to mitigate credit risk in regulatory purposes (capital adequacy).

Other types of credit protection instruments

In addition to above mentioned, the Bank applies following instruments of material credit protection, but they are not taken into consideration in calculation of risk-weighted assets:

- pledge on movable property;
- pledge on receivables;
- pledge on share and bonds;
- endorsed life insurance policy;
- other types defined in Bank's collateral catalog

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on the type and value of collateral and guarantees by sector providers and categories of receivables as at 31 December 2016

In RSD '000

	Means of collateral*			
	Deposits	Residental real estate	Other real estate	Guarantees issued by the Government
Receivables from retail clients	**56,995**	**13,130,492**	**159,691**	**-**
Household loans	709	13,047,937	87,735	-
Consumer and cash loans	53,736	44,635	21,475	-
Transactions and credit cards	2,493	-	-	-
Other receivables	57	37,921	50,481	-
Receivables from corporate clients	**2,300,550**	**663,321**	**13,382,283**	**2,471,235**
Large enterprises	464,658	-	2,055,498	-
Small and middle sized enterprises	1,497,902	378,762	9,216,994	-
Micro sized enterprises and entrepreneurs	337,990	255,560	1,968,667	-
Agriculture	-	28,999	141,125	-
Public enterprises	-	-	-	2,471,235
Receivables from other customers	**161,850**	**33,765**	**1,274,234**	**-**
Total exposure	**2,519,395**	**13,827,578**	**14,816,208**	**2,471,235**
Per category of receivables	-	-	-	-
Non-problematic receivables	2,518,664	12,989,411	13,060,355	2,471,235
whichoff:restructured	-	145,485	252,750	-
Problematic receivables	731	838,168	1,755,854	-
whichoff:restructured	-	257,284	979,081	-
Total receivables	**2,519,395**	**13,827,578**	**14,816,208**	**2,471,235**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on the type and value of collateral and guarantees by sector providers and categories of receivables as at 31 December 2015

In RSD '000

	Means of collateral [7]			
	Deposits	Residental real estate	Other real estate	Guarantees issued by the Government
Receivables from retail clients	**82,485**	**10,163,150**	**118,626**	**-**
Household loans	2,015	10,134,017	82,114	-
Consumer and cash loans	78,745	25,613	-	-
Transactions and credit cards	1,044	-	-	-
Other receivables	681	3,520	36,512	-
Receivables from corporate clients	**1,835,750**	**855,500**	**11,395,387**	**3,410,645**
Large enterprises	-	-	463,917	-
Small and middle sized enterprises	1,678,712	486,099	8,769,434	-
Micro sized enterprises and entrepreneurs	156,936	336,878	2,027,961	-
Agriculture	102	32,524	134,076	-
Public enterprises	-	-	-	3,410,645
Receivables from other customers	**181,765**	**12,403**	**2,119,356**	**-**
Total exposure	**2,100,001**	**11,031,053**	**13,633,369**	**3,410,645**
Per category of receivables	-	-	-	-
Non-problematic receivables	2,096,116	10,072,215	10,803,647	3,410,645
off which: restructured	-	51,945	139,122	-
Problematic receivables	3,886	958,838	2,829,722	-
off which: restructured	-	271,028	865,140	-
Total receivables	**2,100,001**	**11,031,053**	**13,633,369**	**3,410,645**

[7] Value of means of collateral in the table is presented to the amount of loan (first class and adequate means of collateral recognized in accordance with NBS Decision of classification of balance assets and off-balance sheet items)

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

During 2016, the Bank had aquired following means of collateral through collection of receivables:

		In RSD '000
Means of collateral aquired through collection of receivables	**Residental real estate**	**Total**
Gross value at the beggining of period	**85,785**	**85,785**
Sold during period	71,884	71,884
Gross value at period end	13,901	13,901
Accumulated allowance for impairment	13,009	13,009
off which: Allowance for impairment during period	-	-
Net value at the end of period	**892**	**892**

During 2015, the Bank had aquired following means of collateral with collection of receivables:

		U RSD hiljada
Means of collateral aquired through collection of receivables	**Stambene nepokretnosti**	**Ukupno**
Gross value at the beggining of period	**76,709**	**76,709**
Sold during period	9,076	9,076
Gross value at period end	**85,785**	**85,785**
Accumulated allowance for impairment	80,119	80,119
off which: Allowance for impairment during period	3,409	3.409
Net value at the end of period	**5,666**	**5,666**

Basic principles of takeover and managment of pledged propery are regulated by the Procedure on the takeover of pledged asset in enforced collection procedure. Overtaken objects are mostly real estate and movable assets.

Basic principles to overtake assets (fixed and mobile) which have to be taken in consideration include analysis of market value and potential marketability of assets taken into consideration, which must be supported with expected sales revenue, which will lead uncollected receivable to the highes level possible. Depending on the characteristics of assets, type of asset (real estate, movable property) can be further divided into primary and secundary when takeover is taken into consideration, depending on their purpose and other characteristics, such as location, type, technical standards, equipment, year of construction and simmilar, as well as market situation in terms of supply and demand of certain type of collaterals. All above mentioned parameters affect the final decision on implementation of the takeover procedure.

As strategies for managment of assets collected throught collection of receivables, the Bank appplies: sale, rent, development, retention, respectively combination of mentioned strategies. Suggestion of strategy must involve a real plan in terms of implementation of strategy. Estimated related expenses, income and effect on profit and loss must be taken in consideration. In case of suggesting retention strategy, cost of maintenance must be clearly presented in assets strategy.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

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 'RSD 00

Value of LTV ratio*	**Value of receivables secured by mortgage as of 31.12.2016**	**Value of receivables secured by mortgage as of na dan 31.12.2015**
Bellow 50%	2,731,984	2,460,642
50% to 70%	3,608,271	2,878,998
71% to 100%	5,136,903	4,025,866
101% to 150%	621,895	812,153
Over 150%	1,229,669	1,273,601
Total exposure	**13,328,722**	**11,451,260**
Average LTV ratio	**91,80%**	**88,10%**

Estimation of financial assets impairment

Bank estimates impairment and calculates allowance for impairment of receivables recognized in balance sheet and provisions for losses on off-balance items in accordace with International Accounting standards (hereinafter: IAS) / International Financial Reporting Standards (hereinafter: IFRS).

Calculation of allowance for impairment includes special provision (individualy or rule based) and general provisions (at group basis).

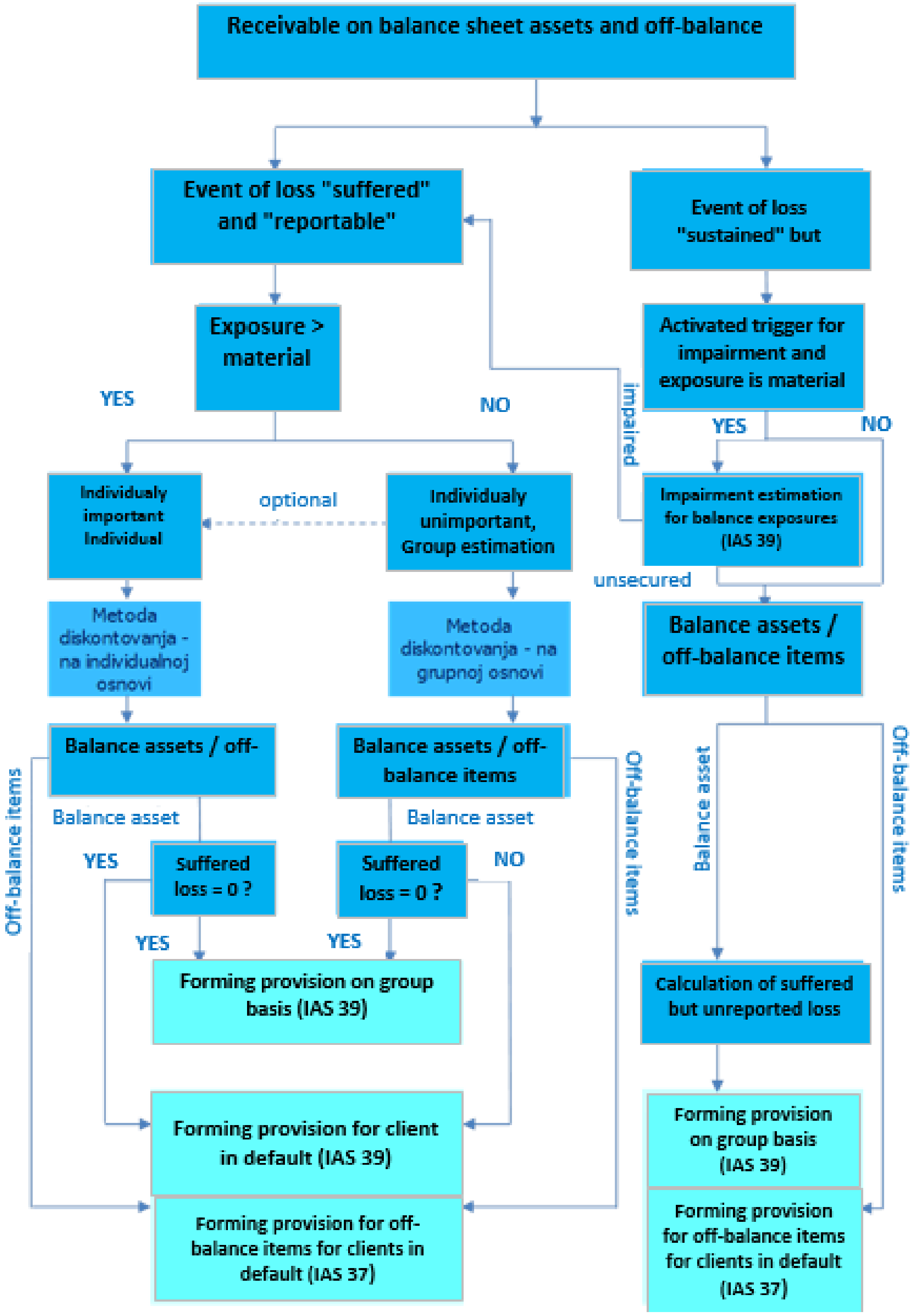
Special provisions are formed to exposures of clients in default status, respectively impaired exposures. Exposure is considered to be impaired once it is probable that the Bank wont be able to collect all agreed amounts, when client is in default. To be precise, the Bank determines through analysis of impairment if there is objective evidence of imapirment of all receivables from client.

General provisions (at group basis) are applied for receivables for which there is no objective evidence of impairment, and it is formed to cover incurred but not detected losses, in situation when real impairment has not yet incurred. For these receivables allowance for impairment is calculated despite having no evidence of impairment, considering that experiance points to that some of them will get in default during time. Allowance for impairment on group basis is formed and for loans which were subjected to individual estimation but had no impairment identified.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Presented process of forming allowance for impairment is applied in the Bank:



34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

If client (or client's financial assets) is impaired, then he should already be in default status or he should have his rating reduced to default rating, if client had been previously asigned with „performing“ rating. On the other side, if client is in default status, he does not have to be impaired, but impairment process is started.

Beside clients who are in default status, when impairment process is automatically started, for „performing“ clients, impairment test is being carried out, if any of defined impairment drivers has been triggered, for individualy significant clients. Impairment test as comparison of gross book value and discounted, estimated cash flow, is relevant only for balance sheet exposure.

Calculation of special provision

For every impaired exposure above threshold of materiality allowance for impairment is calculated by discounting cash flows. Bank considers client as individualy important if his exposure is above RSD 5,000,000.

According to discontinued cash flow method, expected cash flow from client's operations and on basis of realisation of collateral are estimated by authorized employee of Department for restructuring and collection of loans (Workout manager) and Department for collection of receivables from corporate clients. Allowance for impairment is difference between book value of impaired loan and current value of expected cash flows, discounted with effective interest rate for that loan.

For impaired exposures that are not considered individualy important, calculation is being done automatically based on the rules. Clients who are part of this sub-portfolio are classified by criteria of regularity in payment of liabilities.

Calculation of general provision

Receivables that do not provide objective evidence of impairment are classified in groups on basis of simmilar credit risk characteristics and their appropriate group allowance for impairment is calculated in compliance with group characteristics and credit risk level.

Formation of general allowance for impairment on group basis rests on Basel II calculation of expected loss for credit risk, which presents quantification of expected loss in period of one year, multiplied with loss identification period.

Expected loss is average amount of credit loss for a one year period that the Bank expects to suffer on a level of individual receivable. Expected loss measures expected loss on portfolio level during appropriate time period in accordance with Basel II standards, calculation is being done by multiplication of the following three credit risk parameters:

- Probability of Default - PD,
- Exposure at Default -EaD, and
- Loss Given Default - LGD.

PD is a probability that performing client will get in default in a 12 month period, minimal standards for valuation of model and monitoring processes are set and described in Bank's Policy for framework of classification and rules of classification (rating).

For performing portfolio LGD is determined on basis of expert oppinion of Bank's management (taking care of collateral coverage) and parameters of standard approach according to Basel II.

Bank verifies methodology and assumptions used for estimating future cash flows in order to reduce differences between estimated and occured losses through Back-testing analysis that is conducted once a year.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on changes of impaired receivables in 2016:

In RSD '000

	Gross value at beggining of period	Receivables impaired during year		Receivables which have ceased to be impaired during year		Other changes	Gross value at period end	Net value at period end
		Total	off which: impaired individualy	Total	off which: impaired individualy			
Receivables from retail clients	**2,457,343**	**627,012**	**152,331**	**436,749**	**75,909**	**(541,418)**	**2,106,188**	**667,809**
Household loans	781,992	191,790	117,536	120,117	75,909	(75,829)	777,836	437,628
Consumer and cash loans	1,314,167	337,369	29,302	228,404	-	(372,992)	1,050,140	188,716
Transactions and credit cards	89,734	17,578	-	16,564	-	(36,418)	54,330	6,205
Other receivables	271,450	80,275	5,492	71,664	-	(56,179)	223,883	35,260
Receivables from corporate clients	**3,734,078**	**602,882**	**558,123**	**239,343**	**157,629**	**(1,158,965)**	**2,938,652**	**708,440**
Large enterprises	-	32,997	32,781	-	-	-	32,997	2,055
Small and middle sized enterprises	2,441,873	421,050	397,996	151,334	114,506	(924,523)	1,787,066	417,968
Micro sized enterprises and entrepreneurs	845,846	142,812	127,346	73,897	40,153	(190,087)	724,674	252,705
Agriculture	115,090	6,024	-	14,111	2,969	(35,403)	71,599	19,976
Public enterprises	331,269	-	-	-	-	(8,954)	322,315	15,735
Receivables from other customers	**2,238,377**	**64**	**-**	**493,630**	**476,773**	**(390,210)**	**1,354,601**	**312,276**
Total receivables	**8,429,798**	**1,229,958**	**710,454**	**1,169,722**	**710,310**	**(2,090,593)**	**6,399,441**	**1,688,525**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on changes of impaired receivables in 2015:

In RSD '000

	Gross value at beggining of period	Receivables impaired during year		Receivables which have ceased to be impaired during year		Other changes	Gross value at period end	Net value at period end
		Total	off which: impaired individualy	Total	off which: impaired individualy			
Receivables from retail clients	**2,448,978**	**822,938**	**199,996**	**675,058**	**77,802**	**(139,514)**	**2,457,343**	**762,640**
Household loans	761,884	277,255	199,996	251,888	77,783	(5,260)	781,992	477,747
Consumer and cash loans	314,420	369,644	-	85,793	-	715,897	1,314,167	211,142
Transactions and credit cards	88,066	30,237	-	18,425	-	(10,143)	89,734	11,794
Other receivables	1,284,607	145,802	-	318,951	20	(840,008)	271,450	61,958
Receivables from corporate clients	**4,447,078**	**742,006**	**657,175**	**50,350**	**13,791**	**(1,404,656)**	**3,734,078**	**861,141**
Large enterprises	353,669	-	-	-	-	(353,669)	-	-
Small and middle sized enterprises	2,850,914	421,171	379,798	22,174	13,791	(808,038)	2,441,873	558,507
Micro sized enterprises and entrepreneurs	1,033,338	157,803	121,644	17,632	-	(327,663)	845,846	256,910
Agriculture	209,157	7,300	-	10,544	-	(90,823)	115,090	27,352
Public enterprises	-	155,733	155,733	-	-	175,535	331,269	18,371
Receivables from other customers	**2,259,308**	**20**	**-**	**268**	**-**	**(20,683)**	**2,238,377**	**613,084**
Total receivables	**9,155,364**	**1,564,964**	**857,171**	**725,677**	**91,594**	**(1,564,853)**	**8,429,798**	**2,236,865**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2016:

In RSD '000

	Accumulated allowance for impairment at beggining of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**2,277,617**	**3,922,274**	**3,707,830**	**(259,034)**	**2,233,027**
Household loans	382,048	1,433,887	1,278,203	(150)	537,581
Consumer and cash loans	1,477,316	1,914,917	1,807,334	(224,461)	1,360,438
Transactions and credit cards	104,629	185,940	200,345	(13,604)	76,620
Other receivables	313,623	387,531	421,948	(20,819)	258,386
Receivables from corporate clients	**3,553,604**	**4,285,769**	**3,933,434**	**(865,645)**	**3,040,293**
Large enterprises	105,478	517,911	419,715	51	203,724
Small and middle sized enterprises	2,303,566	2,713,820	2,531,920	(660,850)	1,824,616
Micro sized enterprises and entrepreneurs	718,062	789,456	687,218	(172,182)	648,118
Agriculture	94,117	75,970	64,104	(48,800)	57,183
Public enterprises	332,380	188,612	230,477	16,137	306,651
Receivables from other customers	**1,674,164**	**1,133,858**	**1,175,074**	**(512,703)**	**1,120,245**
Total exposure	**7,505,385**	**9,341,901**	**8,816,339**	**(1,637,382)**	**6,393,565**
Per category of receivable:					
Non-problematic receivables:	1,307,829	5,286,610	5,234,997	315,461	1,674,902
ofwhich:restructured	5,344	47,581	31,567	(1,620)	19.739
Problematic receivables:	6,197,556	4,055,291	3,581,341	(1,952,843)	4,718,663
ofwhich:restructured	1,430,071	908,456	625,799	(198,945)	1.513.782
Total exposure	**7,505,385**	**9,341,901**	**8,816,339**	**(1,637,382)**	**6,393,565**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on changes of allowance for impairment of receivables in 2015:

In RSD '000

	Accumulated allowance for impairment at beggining of year	Allowance for impairment recognized during period	Reversal of allowance for impairment during the period	Other changes	Accumulated allowance for impairment at period end
Receivables from retail clients	**1,961,328**	**2,640,491**	**2,200,656**	**(123,546)**	**2,277,617**
Household loans	292,910	865,477	767,689	(8,650)	382,048
Consumer and cash loans	294,643	1,380,735	1,087,336	889,276	1,477,316
Transactions and credit cards	96,972	154,952	143,628	(3,666)	104,629
Other receivables	1,276,804	239,327	202,003	(1,000,506)	313,623
Receivables from corporate clients	**3,222,842**	**4,903,940**	**4,092,895**	**(480,284)**	**3,553,604**
Large enterprises	373,652	171,384	132,368	(307,190)	105,478
Small and middle sized enterprises	2,033,911	3,381,424	2,875,194	(236,575)	2,303,566
Micro sized enterprises and entrepreneurs	641,634	811,018	678,828	(55,762)	718,062
Agriculture	152,606	212,773	197,625	(73,637)	94,117
Public enterprises	21,038	327,341	208,880	192,881	332,380
Receivables from other customers	**1,676,302**	**1,219,903**	**1,008,647**	**(213,374)**	**1,674,184**
Total exposure	**6,860,473**	**8,764,334**	**7,302,198**	**(817,204)**	**7,505,405**
Per category of receivable:					
Non-problematic receivables:	1,066,111	2,848,477	2,625,712	18,974	1,307,849
ofwhich:restructured	4,357	12,110	17,149	6,027	5.344
Problematic receivables	5,794,362	5,915,857	4,676,486	(836,178)	6,197,556
ofwhich:restructured	1,337,035	1,474,475	871,794	(509,645)	1.430.071
Total exposure	**6,860,473**	**8,764,334**	**7,302,198**	**(817,204)**	**7,505,405**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on accrued interest income and interest collected

In RSD '000

	Interest income	Interest collected	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail clients	**2,831,007**	**2,521,618**	**346,985**	**151,704**
Household loans	739,800	675,714	71,204	33,415
Consumer and cash loans	1,717,963	1,507,241	229,110	95,393
Transactions and credit cards	157,710	138,430	21,100	10,031
Other receivables	215,535	200,233	25,570	12,865
Receivables from corporate clients	**2,436,031**	**2,037,260**	**264,608**	**79,443**
Large enterprises	297,223	291,487	2,568	-
Small and middle sized enterprises	1,340,069	1,198,295	152,579	44,135
Micro sized enterprises and entrepreneurs	602,130	363,147	90,839	25,546
Agriculture	36,902	24,888	12,058	1,239
Public enterprises	159,708	159,444	6,563	8,523
Receivables from other customers	**1,607,760**	**1,368,434**	**76,532**	**31,628**
Total receivables	**6,874,799**	**5,927,313**	**688,124**	**262,774**
Per category of receivable:				
Non-problematic receivables:	6,176,391	5,799,738	3,511	-
ofwhich:restructured	23,241	21,622	-	-
Problematic receivables	698,408	127,575	684,613	262,774
ofwhich:restructured	136,187	23,485	123,476	45.995
Total receivables	**6,874,799**	**5,927,313**	**688,124**	**262,774**

Interest income from loans is presented in accordance with IAS 39, in effective interest rate, which represents rate that discounts estimated future payments through expected life cycle of loan to net present value of loan.

In determining effective interest rate all terms from contract related to that financial instrument are taken into account, but not future loan impairments.

With impaired loans, income is recognized in amount of income specified using the effective interest rate on the net book value (book value minus amount of impairment).

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Required reserves for estimated losses

In addition to Decision of NBS about classification of balance sheet assets and off-balance sheet items, bank does calculation of reserve for estimated losses that can occur on balance assets and off-balance items and determines amount of necessary reserve for estimated losses, that represents sum of positive differences between reseve for estimated loss and amount of allowance for impairment of balance assets and provisions for losses on off-balance items on level of a single debtor.

Required reserve for estimated losses on balance sheet assets and off-balance sheet items, is deducted from the bank's capital in accordance with the decision on capital adequacy of banks (see Note 2.7.).

Restructured 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.

Performing forbearance – represents starting category within forbearance principle and its granted in case of defined deterioration of client’s financial position, i.e. his creditworthiness registered delay in payment of over 30 days in last 3 months before submition of request to reschedule loan or other non-compliance with terms from contract. Minimal period of validity of this status is 2 years during which client has to repay min % of total debt per year, and on the period end cant have delay of over 30 days (during this period delay must not exceed 90 days)

Performing forbearance under probation – is a subcategory withing Forbearance status where client get transfered to from none performing forbearance or default forberance status after monitoring period expires, in which following conditions must be met cumulatively: maximum delay during monitoring period, lack of default at end of period and compliance with agreed terms. Performing Forbearance under probation last for maximum 2 years, afer it expires client will leave Forbearance status if he met all criterias.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Non performing forbearance is granted in following situations:

- client fails to implement the final rescheduling after a period of 18 m from giving the status of "interim measures";
- the occurrence of any events of default which are not related to rescheduling during the forbearance performing status;
- delays over 30 days for client that is in Performing Forbearance under probation status
- If client who is in Performing Forbearance under probation status gets a new reschedule in 2nd year of status

Monitoring period for clients with NPF status lasts for one year after that, in case of fulfillment of defined terms, client gets into Performing forbearane under probation status.

Distress reschedule (default forbearance) presents type of rescheduling with which client gets default status.

This way, the entire scope of exposure (or its biggest part) is considered and its always conditioned by significant deterioration in the creditworthiness of the client. Distress reporgram is granted when client has rating R in moment of reschedule approval, when client is not employed (only for individuals), as well as client gets second reschedule approved, and less than 2 years has passed since approval of initial program.

Temproray measures – these measuers do not include final reschedule but mid step to it. It usually occures in situations when there is a growing number of lenders with a specific client and requires a longer period of time due to internal processes and procedures of each creditor in order to define the final model of the restructuring (example - the situation when the resorts stand-still agreements or moratorium as a transitional solution to the final restructuring). The duration of interim measures is limited to 18 months.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

The Bank continually reviews restructured loans to ensure the fulfillment of all criteria, as well as future payments or timely assignment of default status of a client who fails to comply with defined criteria.

Data on restuctured loans at December 31, 2016:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured loans: Total	Gross restructured loans: Of which: problematic receivables	Accumulated allowance for impairment for rescheduled receivables	% of restructured receivables	Value of collateral of restructured loans
Receivables from retail clients	**35,032,694**	**2,233,027**	**733,777**	**483,494**	**172,826**	**5,60**	**267,190**
Housing loans	16,358,431	537,581	444,292	266,328	79,890	2,72	266,463
Consumers and cash loans	15,533,677	1,360,438	262,263	196,261	77,534	1,69	727
Transactions and credit cards	867,191	76,620	-	-	-	-	-
Other receivables	2,273,395	258,386	27,223	20,905	15,402	1,20	-
Receivables from corporate clients *	**53,323,147**	**2,553,082**	**1,389,051**	**1,098,488**	**825,674**	**18,46**	**912,521**
Sector A	2,309,513	154,466	151,453	50,542	38,160	6,56	151,453
Sectors B, C and E	15,046,203	824,207	392,963	262,981	182,449	2,61	144,487
Sector D	5,871,950	101,380	-	-	-	-	-
Sector F	10,293,193	398,507	136,784	136,784	127,233	1,33	35,139
Sector G	9,119,934	761,217	678,370	618,700	462,628	7,44	561,744
Sector H, I and J	5,986,848	135,244	22,348	22,348	14,585	0,37	12,565
Sector L, M and N	4,695,506	178,062	7,133	7,133	618	0,15	7,133
Receivables from other clients	**10,463,076**	**1,607,456**	**685,611**	**675,292**	**535,022**	**6,55**	**454,889**
Total receivables	**98,818,917**	**6,393,565**	**2,808,438**	**2,257,274**	**1,533,521**	**30,62**	**1,634,600**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

The Bank continually reviews restructured loans to ensure the fulfillment of all criteria, as well as future payments or timely assignment of default status of a client who fails to comply with defined criteria.

Data on restructured loans at December 31, 2015:

In RSD '000

	Gross value of total receivables	Accumulated allowance for impairment	Gross restructured receivables		Accumulated allowance for impairment for restructured receivables	% of restructured receivables	Value of collateral of restructured loans*
			Total	Of which: problematic receivables			
Receivables from retail clients	**30,316,252**	**2,277,617**	**386,447**	**286,314**	**83,437**	**0,01**	**164,220**
Housing loans	14,013,858	382,048	238,755	164,383	34,731	0,02	164,220
Consumers and cash loans	11,964,617	1,477,316	97,721	87,639	30,985	0,01	-
Transactions and credit cards	950,190	104,629	-	-	-	-	-
Other receivables	3,387,587	313,623	49,971	34,292	17,722	0,01	-
Receivables from corporate clients *	**41,585,687**	**2,992,951**	**1,437,500**	**1,296,106**	**937,981**	**0,03**	**1,049,522**
Sector A	1,916,442	101,732	52,468	52,468	39,972	0,03	49,646
Sectors B, C and E	12,679,163	523,163	322,131	182,679	117,604	0,03	198,267
Sector D	4,743,956	121,067	-	-	-	-	-
Sector F	6,993,396	360,533	225,757	225,757	165,063	0,03	107,636
Sector G	6,307,390	1,263,320	776,340	774,398	560,944	0,12	645,004
Sectori H, I and J	5,605,123	315,554	9,597	9,597	9,595	-	-
Sectori L, M and N	3,340,217	307,582	51,207	51,207	44,802	0,02	48,969
Receivables from other clients	**13,519,464**	**2,234,837**	**466,666**	**465,633**	**414,012**	**0,03**	**113,493**
Total receivables	**85,421,402**	**7,505,405**	**2,290,613**	**2,048,053**	**1,435,430**	**0,03**	**1,327,235**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on changes on restructured loans at December 31, 2016:

In RSD '000

	Gross value at the begining of period	Restructured receivables during period	The receivables during the period ceased to be considered as restructured	Other changes	Gross value at year end	Net value at year end
Receivables from retail clients	**386,447**	**437,490**	**71,123**	**(19,037)**	**733,777**	**560,952**
Household loans	238,755	239,328	27,801	(5,989)	444,292	364,402
Consumer and cash loans	97,721	197,180	21,860	(10,779)	262,263	184,729
Other receivables	49,971	983	21,462	(2,269)	27,223	11,821
Receivables from corporate clients	**1,646,710**	**372,952**	**154,648**	**(272,091)**	**1,592,923**	**585,664**
Small and middle sized enterprises	1,065,706	325,508	48,020	(163,052)	1,180,141	461,426
Micro sized enterprises and entrepreneurs	389,184	37,099	93,721	(94,717)	237,845	112,231
Agriculture	16,285	10,345	12,907	(12)	13,711	12,008
Public enterprises	175,535	-	-	(14,310)	161,225	-
Other clients	**257,456**	**434,035**	**174,034**	**(35,719)**	**481,739**	**128,301**
Total receivables	**2,290,613**	**1,244,478**	**399,806**	**(326,847)**	**2,808,438**	**1,274,917**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on structure of restructured receivables according to measures of reschedule at December 31, 2016

In RSD '000

	Delay capitalisation	Grace period	Extension of maturity date	Change of interest rate	Partial write off	Other measures	Total (Regardless of the number of applied measures)
Receivables from retail clients	**501,338**	**15,267**	**502,853**	**546,207**	**45,996**	**-**	**733,777**
Household loans	288,487	14,821	218,316	266,248	41,333	-	444,292
Consumer and cash loans	211,304	446	257,707	256,581	4,663	-	262,263
Transactions and credit cards	-	-	-	-	-	-	-
Other receivables	1,546	-	26,830	23,378	-	-	27,223
Receivables from corporate clients	**833,942**	**801,740**	**1,300,887**	**1,049,328**	**613,676**	**568,913**	**1,592,923**
Large enterprises	-	-	-	-	-	-	-
Small and middle sized enterprises	746,528	740,364	1,001,469	807,407	423,649	307,804	1,180,141
Micro sized enterprises and entrepreneurs	73,702	53,581	133,934	75,136	28,801	97,527	237,845
Agriculture	13,711	7,796	4,259	5,559	-	2,356	13,711
Public enterprises	-	-	161,225	161,225	161,225	161,225	161,225
Other clients	**434,035**	**434,035**	**481,739**	**479,487**	**-**	**-**	**481,739**
Total receivables	**1,769,315**	**1,251,043**	**2,285,478**	**2,075,022**	**659,672**	**568,913**	**2,808,438**

Review by reschedule measure is presented according to each of applied measures, regardless of wheter any other measure was applied.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

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.).

Bank manages contrentation risk in credit portfolio through framework defined in Policy of contrentation risk management, regulatory limit defined in Decision about Bank's risks management, interaly defined limits and limits defined in Policy for exposure risks determination – framework for clients / group of clients. Despite, during 2016 bank has monitored limits per industry.

The Bank has defined monitoring of credit risk exposure in Policy of risk contretation management by following categories: concentration per class of exposure (Basel II exposure classes), contretation by client's rating, concentration of legal endtities, Real estate and micro clients in industry sectors, concentration of exposure toward indivudal clients in total credit portfolio, portfolio of clients of legal entitites, banks and governments, concentration of cllateral, concentration per currencies and concentration per products. For purposes of determining the concentration of credit risk the Bank use Herfindahl-Hirschman Index (HHI) and Moody's matrix.

According to the Decision of the Bank's risk management, the Bank analyzes the exposure to credit risk through the following two indicators:

- Exposure to a single entity or group of related entities, which may not be higher than 25% of its capital,
- The sum of large exposures, which may not be higher than 400% of its capital.

In addition, the Bank for monitoring an internal limit retained indicator that was previously defined by the regulations, and by whom exposures to related parties may not be higher than 20% of its capital.

Policy for determining exposure limits - the framework for customers / groups of customers, the Bank has defined monitoring concentrations of credit risk for corporate customers, financial institutions and the state at the following levels: maximum limit of exposure, the maximum exposure limit based on the rating and operating maximum limit of exposure.

With monitoring limits Policy by industries, during 2016 the Bank has established monitoring exposure in industries with a goal of more efficient management of concentration risk exposures to individual industries and support the development of portfolio strategy.

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on concentration per sector and geographical region of exposure at 31 December 2016:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**10,703,887**	**649,967**	**14,439,865**	**985,209**	**5,006,888**	**435,766**	**2,336,521**	**198,017**	**266,228**	**1,870**	**8,464**	**12**
Household loans	6,026,950	232,081	7,014,390	397,691	1,705,729	164,726	722,678	72,027	13,744	-	8,414	-
Consumers and cash loans	4,070,506	334,216	5,954,633	462,921	2,776,574	220,610	1,371,208	100,529	240,712	1,768	-	-
Transactions and credit cards	146,477	13,044	496,411	31,118	115,430	6,279	51,800	4,261	2,342	29	-	-
Other receivabls	459,953	70,626	974,431	93,479	409,155	44,151	190,836	21,200	9,430	73	50	12
Receivables from corporate clients *	**24,905,162**	**870,260**	**16,981,789**	**927,886**	**5,562,471**	**419,163**	**3,454,660**	**201,745**	**-**	**10**	**-**	**-**
Sector A	399,778	-	1,700,399	2,144	17,575	112,992	24,926	51,697	-	-	-	-
Sectosi B, C and E	3,092,236	372,033	5,512,354	319,999	2,935,258	154,669	2,653,546	6,108	-	-	-	-
Sector D	2,833,475	-	982,019	-	1,569,964	-	486,492	-	-	-	-	-
Sector F	6,670,465	178,977	2,923,497	12,865	369,253	-	9,888	128,247	-	-	-	-
Sector G	3,332,403	164,037	4,206,825	511,643	516,305	150,800	226,745	11,165	-	10	-	-
Sector H, I and J	4,752,495	56,298	961,491	28,907	146,436	701	36,785	3,734	-	-	-	-
Sector L, M and N	3,824,309	98,916	695,203	52,328	7,680	-	16,278	793	-	-	-	-
Receivables from other clients	**3,518,737**	**748,613**	**3,358,654**	**794,650**	**727,706**	**180,097**	**152,547**	**153,511**	**-**		**828,562**	**-**
Total exposure	**39,127,786**	**2,268,841**	**34,780,308**	**2,707,745**	**11,297,065**	**1,035,025**	**5,943,728**	**553,274**	**266,228**	**1,880**	**837,026**	**12**

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34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Data on concentration per sector and geographical region of exposure at 31 December 2015:

In RSD '000

	Belgrade region		Vojvodina		Sumadija and western Serbia		South and East Serbia		Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**8,650,905**	**724,465**	**12,549,323**	**1,182,342**	**4,524,282**	**481,652**	**1,917,080**	**212,137**	**73,978**	**38**	**40**	**11**
Household loans	4,795,066	249,605	6,142,879	397,665	1,581,326	145,819	628,485	63,829	9,183	-	-	-
Consumers and cash loans	2,976,146	369,918	4,462,448	611,204	2,158,836	261,971	943,158	122,411	58,526	-	-	-
Transactions and credit cards	151,947	20,744	535,797	51,433	118,583	12,318	51,988	6,155	1,225	-	-	-
Other receivabls	727,746	84,197	1,408,199	122,040	665,537	61,544	293,449	19,742	5,044	38	40	11
Receivables from corporate clients *	**18,160,747**	**1,645,163**	**13,150,457**	**936,921**	**4,692,021**	**353,873**	**2,419,752**	**226,373**	**368**	**10**	**-**	**-**
Sector A	377,019	-	1,305,504	23,935	123,161	-	36,022	50,802	-	-	-	-
Sectosi B, C and E	3,247,091	250,784	4,011,888	96,811	3,207,933	181,690	1,680,325	2,641	-	-	-	-
Sector D	2,534,081	62,316	952,303	484	833,591	-	361,181	-	-	-	-	-
Sector F	3,655,540	188,044	2,902,773	29,880	45,281	-	24,806	147,073	-	-	-	-
Sector G	1,603,363	611,056	2,607,942	693,512	323,446	171,962	276,016	19,713	368	10	-	-
Sector H, I and J	4,170,729	294,217	913,719	32,827	152,859	221	36,857	3,693	-	-	-	-
Sector L, M and N	2,572,924	238,745	456,328	59,473	5,749	-	4,547	2,452	-	-	-	-
Receivables from other clients	**3,473,149**	**869,668**	**5,360,027**	**1,047,024**	**129,268**	**733,002**	**204,814**	**178,907**	**-**	**-**	**1,523,605**	**-**
Total exposure	**30,284,801**	**3,239,295**	**31,059,807**	**3,166,287**	**9,345,571**	**1,568,527**	**4,541,646**	**617,417**	**74,347**	**48**	**1,523,645**	**11**

34. RISK MANAGEMENT (continued)

34.2. Credit Risk (continued)

Credit-related Risks

Credit risk includes residual risk, dilution risk, settlement / delivery risk, counterparty risk and credit and foreign exchange risk. Bank risks related to credit risk beyond the same control processes and policies used for 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.

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 (continued)

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 2016 and 2015 the Bank had daily liquidity ratios above the legally prescribed level.

Liquidity ratio in 2016 and 2015	**2016.**	**2015.**
Average during the year	1,40	1,79
Maximum	1,91	2,57
Minimum	1,06	1,13
At December 31	1,40	1,21

Cash liquidity ratio in 2016 and 2015	**2016.**	**2015.**
Average during the year	1,28	1,60
Maximum	1,78	2,34
Minimum	0,95	0,98
At December 31	1,34	1,15

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34. RISK MANAGEMENT (continued)

34.3. Liquidity Risk and Financial Assets Management (continued)

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, 2016 and 2015, 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 2016
Liabilities per borrowings, deposits and securities	20,361,771	21,545,528	32,563,558	39,900,610	11,011,950	125,383,417
Subordinated liabilities	-	105,095	311,314	1,535,165	-	1,951,573
Total	**20,361,771**	**21,650,623**	**32,874,872**	**41,435,775**	**11,011,950**	**127,334,991**

34. RISK MANAGEMENT (continued)

34.3. Liquidity Risk and Financial Assets Management (continued)

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**

34. RISK MANAGEMENT (continued)

34.3. Liquidity Risk and Financial Assets Management (continued)

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:

In RSD '000

2016	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 2016
Contingent liabilities	288,049	187,672	1,571,984	3,984,921	2,026,646	138,711	8,197,983
Irrevocable commitments and letters of credit	45,581	84,093	430,349	4,721,418	7,090,084	1,437,418	13,808,943
Total	**333,630**	**271,765**	**2,002,333**	**8,706,339**	**9,116,730**	**1,576,129**	**22,006,926**

34. RISK MANAGEMENT (continued)

34.3. Liquidity Risk and Financial Assets Management (continued)

In RSD '000

2015	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**

34. RISK MANAGEMENT (continued)

34.3. Liquidity Risk and Financial Assets Management (continued)

***Maturity Analysis of the Bank's Financial Liabilities* (continued)**

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 12,970,266 thousand as of December 31, 2016 (2015: RSD 13,824,816 thousand) (Note 26).

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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, 2016 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 meseca	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2016
ASSETS							
Cash and cash funds held at Central Bank	19,246,670	-	-	-	-	-	19,246,670
Financial assets at fair value held for trading through profit and loss	1,091,813	97,975	1,378,984	4,273,362	6,027,410	178,813	13,048,357
Financial assets held for sale	51,299	-	-	1,448,397	5,389,275	293,731	7,182,702
Financial assets held to maurity	-	-	399,805	900,034	3,836,699	3,498,565	8,635,103
Loans and receivables due from banks and other financial institutions	1,000,857	-	1,080	320	209,182	-	1,211,439
Loans and receivables due from customers	1,047,119	50,647	1,305,732	10,316,968	32,743,110	45,750,337	91,213,913
Investments in subsidiaries	93,560	-	-	-	-	-	93,560
Intangible assets	278,845	-	-	-	-	-	278,845
Property, plant and equipment	811,073	-	-	-	-	-	811,073
Investment property	232,417	-	-	-	-	-	232,417
Deferred tax assets	59,523	-	-	-	-	-	59,523
Fixed assets held for sale and assets of discontinued operations	56,294	-	-	-	-	-	56,294
Other assets	836,751	828	1,755	1,466	2,378	3,407	846,585
Total assets	**24,806,221**	**149,450**	**3,087,356**	**16,940,547**	**48,208,054**	**49,724,853**	**142,916,481**
LIABILITIES AND EQUITY							
Financial liabilities at fair value held for trading through profit and loss	54,690	-	-	-	-	-	54,690
Deposits and liabilities due to banks and other financial institutions and NBS	9,310,177	3,234,140	7,211,706	1,058,493	13,771,305	1,998,869	36,584,690
Deposits and other liabilities to customers	47,523,026	1,780,083	6,753,712	16,256,793	3,031,923	9,683,022	85,028,559
Subordinated liabilities	715	-	-	-	1,763,891	-	1,764,606
Provisions	-	-	670,642	-	-	-	670,642
Current tax liabilities	-	-	1,090	-	-	-	1,090
Other liabilities	683,694	-	508	-	-	-	684,202
Total liabilities	**57,572,302**	**5,014,223**	**14,637,658**	**17,315,286**	**18,567,119**	**11,681,891**	**124,788,479**
Total equity	**-**	**-**	**-**	**-**	**-**	18,128,002	**18,128,002**
Total liabilities and equity	**57,572,302**	**5,014,223**	**14,637,658**	**17,315,286**	**18,567,119**	**29,809,893**	**142,916,481**
Liquidity GAP at:							
December 31, 2016	**(32,766,081)**	**(4,864,773)**	**(11,550,302)**	**(374,739)**	**29,640,935**	**19,914,960**	
December 31, 2015	**(18,873,010)**	**(7,447,527)**	**(3,914,241)**	**(5,323,582)**	**26,105,139**	**9,453,221**	

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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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, 2016. 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	-	-	-	-	-	4,979,491	4,979,491
Obligatory reserve	6,023,858	-	-	-	-	8,403,986	14,427,844
Securities	12,909,598	399,805	1,725,156	623,275	13,018,269	-	28,676,103
Loans due from customers	74,298,722	2,066,204	1,811,468	1,995,716	10,982,506	-	91,154,616
Other assets	-	-	-	-	-	3,678,428	3,678,428
Total balance sheet assets	**93,232,177**	**2,466,009**	**3,536,624**	**2,618,991**	**24,000,775**	**17,061,905**	**142,916,481**
FX Swaps	3,850,187	1,851,028	-	-	-	-	5,701,214
Total assets	**97,082,364**	**4,317,037**	**3,536,624**	**2,618,991**	**24,000,775**	**17,061,905**	**148,617,695**
Liabilities to financial institutions	9,260,096	15,197,817	9,094,861	7,099,223	2,189,711	-	42,841,707
AVISTA deposits	3,517,084	7,034,169	10,551,253	5,013,116	18,986,860	-	45,102,482
Term deposits	6,039,003	7,714,715	4,819,172	9,707,014	5,305,035	-	33,584,938
Other liabilities	-	-	-	-	-	3,259,353	3,259,353
Equity	-	-	-	-	-	18,128,002	18,128,002
Total balance sheet liabilities and equity	**18,816,183**	**29,946,701**	**24,465,285**	**21,819,352**	**26,481,605**	**21,387,355**	**142,916,481**
FX Swaps	3,786,622	1,848,962	-	-	-	-	5,635,585
Total liabilities and equity	**22,602,805**	**31,795,663**	**24,465,285**	**21,819,352**	**26,481,605**	**21,387,355**	**148,552,066**
Net interest risk exposure at December 31, 2016	**74,479,559**	**(27,478,626)**	**(20,928,661)**	**(19,200,361)**	**(2,480,831)**	**(4,325,450)**	**65,630**
Net interest risk exposure at December 31, 2015	**51,501,749**	**(9,603,770)**	**(20,224,573)**	**(13,093,724)**	**(4,513,343)**	**(4,067,919)**	**(1,581)**

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, 2016 and 2015 .

In RSD '000

Currency	Changes in percentage points	Income statement sensitivity 2016	Changes in percentage points	Income statement sensitivity 2015
Increase in percentage:				
RSD	1%	127,015	1%	105,729
EUR	1%	241,738	1%	238,224
Decrease in percentage:				
RSD	1%	(127,017)	1%	(105,664)
EUR	1%	(201,393)	1%	36,367

34.4.2. 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.

34. RISK MANAGEMENT (continued)

34.4. Market Risks (continued)

35.4.2. Foreign Exchange Risk (continued)

During 2016, 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, 2016 and 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.

Currency	Changes in currency rate (depreciation in %) 2016.	Effect on profit and loss before taxes 2016.	Changes in currency rate (depreciation in %) 2015.	Effect on profit and loss before taxes 2015.
EUR	2%	2.673	2%	(1,708)
CHF	2%	142	2%	87
USD	2%	269	2%	(845)

The following table presents the Bank's exposure to foreign exchange risk as at December 31, 2016. The table includes assets and liabilities at their carrying amounts.

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for the year ended December 31, 2016

34. RISK MANAGEMENT (continued)

34.4. Market Risks (continued)

34.4.2. 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 at Central Bank	9,234,058	92,763	82,847	119,065	**9,528,732**	9,717,938	**19,246,670**
Financial assets at fair value held for trading through profit and loss	9,089,612	-	-	-	**9,089,612**	3,958,745	**13,048,357**
Financial assets held for sale	4,879,784	11,519	-	-	**4,891,303**	2,291,399	**7,182,702**
Financial assets held to maurity	-	-	-	-	**-**	8,635,103	**8,635,103!**
Loans and receivables due from banks and other financial institutions	676,928	207,557	116,452	178,501	**1,179,438**	32,001	**1,211,439**
Loans and receivables due from customers	69,600,699	486,115	1,426,776	-	**71,513,590**	19,700,323	**91,213,913**
Investments in subsidiaries	-	-	-	-	-	93,560	**93,560**
Intangible assets	-	-	-	-	-	278,845	**278,845**
Property, plant and equipment	-	-	-	-	-	811,073	**811,073**
Investment property	-	-	-	-	-	232,417	**232,417**
Deferred tax assets	-	-	-	-	-	59,523	**59,523**
Fixed assets held for sale and assets of discontinued operations		-	-	-	-	56,294	**56,294**
Other assets	84,765	(1,246)	(18,354)	-	65,164	781,420	**846,584**
Total assets	**93,565,845**	**796,708**	**1,607,721**	**297,566**	**96,267,840**	**46,648,641**	**142,916,481**
LIABILITIES AND EQUITY							
Financial liabilities at fair value held for trading through profit and loss	43,133	-	-	-	**43,133**	11,556	**54,690**
Deposits and liabilities due to banks and other financial institutions and NBS	31,380,075	282,046	751,999	10,244	**32,424,364**	4,285,555	**36,709,919**
Deposits and other liabilities to customers	57,512,701	2,779,123	1,158,591	410,485	**61,860,900**	23,042,430	**84,903,330**
Subordinated liabilities	1,764,606	-	-	-	**1,764,606**	-	**1,764,606**
Provisions	170,981	1,303	-	-	**172,284**	498,359	**670,642**
Current tax liabilities	-	-	-	-	**-**	1,090	**1,090**
Other liabilities	236,494	1,009	102	69	237,674	446,528	**684,202**
Total liabilities	**91,107,991**	**3,063,481**	**1,910,692**	**420,798**	**96,502,961**	**28,285,518**	**124,788,479**
Total equity	-	-	-	-	-	18,128,002	**18,128,002**
Total liabilities and equity	**91,107,991**	**3,063,481**	**1,910,692**	**420,798**	**96,502,961**	**46,413,520**	**142,916,481**
Net foreign currency position at:							
- December 31, 2016	**2,457,854**	**(2,266,773)**	**(302,971)**	**(123,232)**	**(235,122)**		
- December 31, 2015	**1,606,391**	**(1,778,725)**	**(501)**	**29,713**	**(143,122)**		

34. RISK MANAGEMENT (continued)

34.5. Bank's Risk Concentration

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 2016, 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 u finansijskom sektoru i u osnovna sredstva i investicione nekretnine Banke ne pređu 60% kapitala Banke.

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 2016, 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. RISK MANAGEMENT (continued)

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.

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.

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. Improvement of internal control mechanisams is necessary element in all operational risk management activities.

The Bank calculates capital requirements under Pillar 1 for operational risk using the basic indicator approachunder Pillar 2 while applying advanced approach using an internal model.

34. RISK MANAGEMENT (continued)

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.

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.

34. RISK MANAGEMENT (continued)

34.9. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as at December 31, 2016 and 2015 as well as the capital adequacy ratio:

In RSD '000

	31.12.2016	31.12.2015
Core capital		
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	5,614,904	4,425,448
Prior years' retained earnings	-	-
Intangible assets	(278,845)	(350,852)
Unrealized losses on securities available for sale	(2,313)	(1,837)
Reserves from profit for estimated losses on balance sheet assets and off-balance sheet items	(1,805,269)	(2,125,998)
	13,692,952	**12,111,236**
Supplementary capital		
Portion of the Bank's revaluation reserves	259,859	193,306
Subordinated liabilities	705,556	1,042,509
	965,415	**1,235,815**
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):	**14,564,807**	**13,253,491**
Risk weighted balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and settlement/delivery risk	9,446,199	7,814,855
Capital requirement for price risk	254,265	103,527
Capital requirement for foreign exchange risk	20,989	15,454
Capital requirement for operational risk	1,023,412	960,028
Capital adequacy ratio (1/2 x 100)	**16,27**	**17,88**

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 SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

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:

In RSD '000

	2016.				2015.			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS	**269,115**	**19,823,185**	**138,759**	**20,231,059**	**1,189,653**	**10,518,164**	**101,927**	**11,809,744**
Financial assets held for trading	**257,596**	**12,652,002**	**138,759**	**13,048,357**	**1,178,285**	**7,083,260**	**101,927**	**8,363,472**
Republic of Serbia Treasury bills	-	2,158,122	-	**2,158,122**	1,178,285	988,077	-	**2,166,362**
Government bonds of Republic of Montenegro	257,596	-	-	**257,596**	-	-	-	**-**
Quoted bonds	-	10,493,880	-	**10,493,880**	-	6,095,183	-	**6,095,183**
Other	-	-	138,759	**138,759**	-	-	101,927	**101,927**
Financial assets available for sale	**11,519**	**7,171,183**	**-**	**7,182,702**	**11,368**	**3,434,904**	**-**	**3,446,272**
Republic of Serbia Treasury bills	-	7,072,110	-	**7,072,110**	-	3,395,776	-	**3,395,776**
EBRD bonds	-	59,291	-	**59,291**	-	-	-	**-**
Quoted shares	11,519	654	-	**12,173**	11,368	-	-	**11,368**
Shares that are not queoted	-	39,128	-	**39,128**	-	39,128	-	39,128
FINANCIAL LIABILITIES	**-**	**54,690**	**-**	**54,690**	**-**	**94,235**	**-**	**94,235**
Financial liabilities at fair value through profit and loss held for trading	-	54,690	-	**54,690**	-	94,235	-	**94,235**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2016

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.

	2016		2015	
FINANCIAL ASSETS	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Securities held to mautiry	8,635,103	8,635,103	7,008,412	7,008,412
Loans and receivables due from banks	1,211,439	1,211,439	2,733,351	2,921,793
Loans and receivables due from customers	91,213,913	97,330,017	75,182,667	80,365,895
FINANCIAL LIABILITIES				
Deposits due to banks	36,709,919	37,199,480	30,282,165	30,136,281
Deposits due to customers	84,903,330	83,845,758	68,295,393	67,966,381

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 2016 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

In RSD '000

	2016	2015
Within a year	35,975	78,701
From 1 to 5 years	38,981	38,024
	74,956	**116,725**

(b) Litigation

As of December 31, 2016 the Bank was involved in 72 legal suits, the aggregate value of which amounted to RSD 334,830 thousand. Penalty interest claimed in legal suits filed against the Bank totaled RSD 207,977 thousand.

Based on the expert estimation made by the Bank's legal representatives, the Bank made provisions for potential litigation losses in the amount of RSD 164,287 thousand as of December 31, 2016 (December 31, 2015: RSD 118,109 thousand) for legal suits expected to be lost by the Bank.

35. COMMITMENTS AND CONTINGENT LIABILITIES

(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, 2016 in total amount of RSD 10,829,861 thousand. Confirmed receivables amounted to RSD 92,353,280 thousand.

Thee amount of disputed receivables amounted to RSD 315,401 thousand and the Bank is in contact with clients in order to resolve conflicts.

The amount of unconfirmed OIS amounted to RSD 10,047 thousand because of incorrect address – Client moved to another address without reporting it to Bank or client does not exist on address reported to APR or Bank.

The Bank is still working on reconciliation of OIS for which replies were not received.

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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).

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37. SEGMENT REPORTING (continued)

	Retail		SME		Commercial real Estate Funding		Large Corporate Clients		Financial Markets		Other		Bank	
In RSD '000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
B. Profit and Loss statement														
Net interest income	3.407.951	2.916.504	1.223.728	1.178.249	491.792	148.608	544.905	488.581	281.907	285.679	(131.690)	256.097	5.818.592	5.273.718
Dividend income	-	-	-	-	-	-	-	-	-	-	401	44	401	44
Net result from equity method investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rental income from investment properties & other operating lease	-	-	2.054	-	-	-	28.169	-	-	-	9.365	36.936	39.588	36.936
Net fee and commission income	1.042.097	994.952	277.148	255.191	23.297	12.195	130.678	389.897	22.338	32.761	(119.093)	(166.960)	1.376.466	1.518.035
Net trading result and the adjustment to fair valu	101.821	57.380	30.449	30.400	10.528	7.865	10.271	9.328	192.539	208.533	59.264	66.608	404.873	380.113
General administrative expenses	(3.782.307)	(3.626.053)	(593.439)	(554.020)	(77.059)	(67.464)	(225.125)	(204.471)	(104.716)	(142.234)	(71.753)	(9.566)	(4.854.398)	(4.603.809)
Net loss on impairment of financial assets not measured at fair value through profit or loss	(204.024)	(400.831)	(398.910)	(585.680)	2.757	(122.598)	65.204	(218.976)	(287)		(4.418)	26.327	(539.678)	(1.301.758)
Realized gains / losses from financial institutions that are not measured at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	3.478	-	3.478
Gains / losses on financial assets and financial liabilities that are not measured at fair value through profit or loss, net	1.487	-	-	-	-	-	-	-	-	-	15.874	15.938	17.361	15.938
Net impairment loss on investment and non-financial institutions that are not measured at fair value through profit or loss	(1.533)	-	(1)	-	-	-	(0)	-	-	-	47.854	(28.974)	46.320	(28.974)
Other operating result	(13.260)	(8.815)	5.200	(20.136)	(892)	7.999	(33.164)	2.043	(355)	-	(109.743)	(58.410)	(152.213)	(77.317)
Profit before tax from regular activities	552.234	(66.864)	546.229	304.004	450.423	(13.395)	520.939	466.402	391.425	384.739	(303.939)	141.518	2.157.311	1.216.403
Income tax	(45.163)	1.481	2.018	(6.734)	(27.386)	297	(19.527)	(10.249)	(14.537)	(8.606)	12.204	(3.136)	(92.391)	(26.947)
Profit / loss for the year	507.071	(65.382)	548.246	297.270	423.038	(13.099)	501.412	456.152	376.888	376.133	(291.734)	138.382	2.064.920	1.189.456
The net result belonging to minority interests (non controling)	-	-	-	-	-	-	-	-	-	-	(0)	-	(0)	-
The net result available to the owner of the parent company	507.071	(65.382)	548.246	297.270	423.038	(13.099)	501.412	456.152	376.888	376.133	(291.734)	138.382	2.064.920	1.189.456
Operating income	4.551.869	3.968.835	1.533.379	1.463.839	525.617	168.667	714.024	887.806	496.784	526.973	(181.752)	192.725	7.639.920	7.208.846
Operating expenses	(3.782.307)	(3.626.053)	(593.439)	(554.020)	(77.059)	(67.464)	(225.125)	(204.471)	(104.716)	(142.234)	(71.753)	(9.566)	(4.854.398)	(4.603.809)
Operating result	769.563	342.782	942.224	909.819	448.558	101.203	488.899	683.335	392.067	384.739	(240.788)	183.159	2.800.523	2.605.037
A. Balance sheet			0											
Total assets (balance at period end)	37.771.574	32.645.721	27.693.422	21.393.945	11.697.209	8.193.815	16.521.135	15.096.151	13.287.144	8.529.394	35.945.996	31.628.738	142.916.481	117.487.765
Liabilities (balance at period end)	34.702.506	43.820.939	24.942.177	13.285.951	10.659.938	2.396.726	14.910.314	11.152.025	11.732.818	2.828.082	27.840.241	28.004.560	124.787.994	101.488.284
Equity	3.069.067	2.217.690	2.751.246	1.593.950	1.037.271	252.204	1.610.822	1.308.801	1.554.326	1.141.165	8.105.755	9.485.672	18.128.486	15.999.481
C. Key indicators / parameters														
Cost to income ratio	83%	91%	39%	38%	15%	40%	32%	23%	21%	27%	-39%	5%	64%	64%
Loans to deposits ratio (net)	0%	70%	0%	165%	0%	343%	0%	136%	0%	105%	0%	8%	0%	102%
Return on average allocated capital	9%	-3%	10%	20%	7%	-7%	4%	36%	7%	39%	-5%	1%	37%	8%

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38. ADDITIONAL INFORMATION ON CASH FLOWS

In RSD '000

	31.12.2016	31.12.2015
Cash	2,566,155	2,259,335
Gyro account	8,276,530	5,053,944
Loans due from banks	457,731	1,412,985
Balance at	11,300,417	8,726,264

Obligatory reserves held with the National Bank of Serbia is not available for daily business transactions of the Bank and therefore not included in cash flows (Note 16).

39. EVENTS AFTER THE EPORTING PERIOD

During February 2017, Bank has sold the investment property TC Point Kaludjerica for amount of EUR 1,700,000 (carrying value EUR 1,765,000).

Beside aforementioned transaction, there were no other events after balance sheet date which would require adjustments or disclosure in separate financial statements for year ended December 31, 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 functional currency as of December 31, 2016 and December 31, 2015 were as follows:

In RSD

	31.12.2016	31.12.2015
EUR	123,4723	121,6261
USD	117,1353	111,2468
CHF	114,8473	112,5230

Novi Sad, March 15, 2017

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

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