Inside real life A 360 view.

2015 Consolidated Reports
and Accounts

Welcome to
UniCredit Bank

Contents

ADDRESSING OF THE PRESIDENT OF MANAGEMENT BOARD

I can proudly say that 2015 is one of the most successful business years from the moment when we have started our operations in Serbia. Thanks to improved processes and placement of additional products and services, designed according to needs of our clients, we managed to further strengthen our position being the market leader in terms of profitability, efficiency and productivity, improving the market share in all relevant aspects.

The bank reconfirmed its position number 3 on the market in terms of total assets, at the same time additionally strengthening customer business and broadening the range of customer services. New service model, presented in 2014, with primarily goal to ensure that clients feel comfortable and to spend more productively time in the branch, meaning that client now can perform all banking transactions, apply for any product or service at one single point of entry, was implemented in almost entire network.

Bank's net profit reached RSD 6,366 billion, marking an increase of 16% in comparison to 2014. In line with Group's strategy, focused on developing strong roots in local markets, UniCredit continued to demonstrate strong commitment to Serbia, as is evidenced by the increase of balance sheet by 16% YoY to over RSD 308 billion. At the end of 2014, operating income of bank in Serbia reached RSD 17.03 billion, followed by a 15% increase in net interest income and 20% in net fee and commission income.

Customer focus, new service model and tailor-made products aligned with the needs of different client segments, additionally contributed to nearly 15% increase in customer base of UniCredit Bank Serbia, exceeding 280,000. Consequently, client's deposits grew by 24% in comparison to the previous year, exceeding the amount of RSD 175 billion. Even though the local market was characterized by lack of credit worthy demand, the bank in Serbia managed to gain suitable clients and continued to show its commitment and determination to support expected future development of the country and customer's financial needs. The volume of approved loans in 2015 reached almost RSD 202 billion, marking the increase of 9%.

We managed to over perform the market when looking into numerous important parameters, as cost/income ratio, capital adequacy ratio, return on equity and level of non-performing loans are concerned. And even though Serbia is facing the major issue of having one of the highest levels of NPLs, we are pleased to point out that our portfolio quality is significantly better and therefore the level of NPLs is far below the market average. But, what is more important is that, despite an overall negative trend on the market, we increased the number of employees for 5% to 1,145.

As in all previous years, we have invested lots of effort and work in upgrading the image of UniCredit Bank as socially responsible company and an equal member of the Serbian society. We have continued to support local communities in the way that we were involved in organization of different initiatives and manifestation, trying to contribute to their further development.

In 2015 UniCredit Bank Serbia received several acknowledgments for the business excellence: Best foreign Bank by EMEA Finance, Best Trade Finance Provider and Best Cash Manager by Euromoney and Best Sub-Custodian Bank by Global finance.

In 2016 we plan to continue our commitment and determination to support expected future development of the country and customers' financial needs by expanding our product offer and bringing high-value-added products to all our customers. When Retail Customers are concerned we will continue to offer innovative products with favorable conditions. Moreover, in line with digitalization which is one of the main pillars of entire UniCredit Group, we will continue with the process of digitalization of our product and services which means that we will use new technologies in work with the clients. Corporate and investment banking will be focused on SME's development and educating/advising the customers about the best solutions for their financial needs. Also, we will continue participation in all public sector initiatives such as infrastructure development, municipalities financing, development of government bonds secondary market, etc.

At the end, I would like to thank all employees for tremendous results which would not be achieved without their commitment and engagement. I would also like to thank clients for their loyalty and for firmly believing that UniCredit Bank is the bank of first choice.

UNICREDIT GROUP

UniCredit is one of Europe's leading commercial banks with a strong presence in 16 countries. Our international network is spanning over 50 markets through a network of approximately 7,800 branches and more than 141,000 employees (as of September 30th 2015).
In CEE region, Group is present through large international network of 2,100 branches (3,100 including Turkey). The Group operates in the following countries: Austria, Azerbaijan, Bosnia and Herzegovina, Bulgaria, the Czech Republic, Croatia, Italy, Hungary, Germany, Poland, Romania, Russia, Slovakia, Slovenia, Serbia and Turkey.

MACROECONOMIC OVERVIEW

Serbia came out of the recession in the second half of 2015 and increased economic activity despite unfavorable external conditions and internal structural challenges. GDP grew estimated 0.8% led by increase in net exports, industrial production, investments, and strengthened confidence on country's economic outlook. The sectors that were affected most by the devastating floods in 2014 recovered in the first half of 2015, while construction, electricity and manufacturing have led the growth in the H2 (construction alone grew by 18% year-on-year in Q3).

Fiscal consolidation measures introduced at the end of 2014 and supported by the three year precautionary agreement with the International Monetary Fund have produced better than expected results. The central state deficit fell by as much as 80% year-on-year (YoY) during the first 10 months of 2015, thus leading to estimated 3.5% fiscal deficit for 2015 (Fiscal Council estimates). This result is in line with reduced current and capital expenditures as well as increase in non-tax income.

External balance improved significantly in the H2 2015, which resulted in the reduction of the country risk premium and improved credit rating by credit agencies. Current account deficit has been reduced in 2015 to estimated 4.7%, mainly due to foreign trade deficit narrowing and remittances growth. Decrease of external balance has led to RSD stabilization throughout 2015.

Inflation was at record law in 2015 (1.3% YoY) remaining under NBS target tolerance band (4.0 +/- 1.5%) in line with low aggregate demand and global commodity price decreases. The National Bank of Serbia continued with key rate cuts in 2015, which during the year amounted to a cumulative drop of 350 bps for the period, and amounted to 4.5% at the end of the year. In 2015 FDI flows have increased by 12% and amounted to EUR 1,600 million. Although there have been some improvements in the job market, mainly due to the increase in inspection oversight, the unemployment remains high at 19.2%.

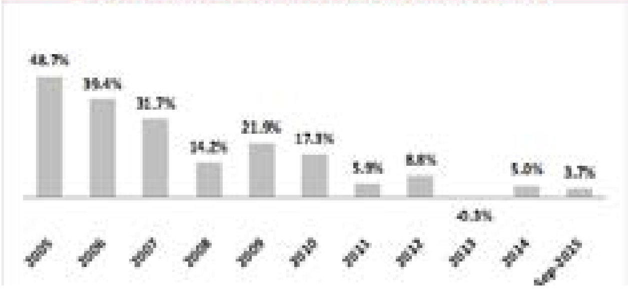
Several important reform laws were adopted in 2015: Construction Law, Inspection Surveillance Law and Law on Enforcement and Security. While long awaited public administration reform has gathered momentum, acceleration of reform efforts is needed in restructuring the public sector and state owned companies.

The banking sector has adequate levels of capital and liquidity. Modest recovery of credit activity (1.2% YoY) is led by new investment loans, which have doubled in the first 10 months of 2015, compared to the same period in 2014. NPLs resolution program has been completed together with the IMF and European Bank for Reconstruction and Development and its implementation should lead to further increase in lending activity.

SERBIAN BANKING SECTOR

At the end of 2015 in total 30 commercial banks were operating in the Serbian banking sector with total gross assets reaching RSD 3,429 billion, which presents a 3.7% YoY nominal growth rate.

Banking sector gross assets (yearly growth in %)



Despite an overall contraction trend posted throughout 2015, the banking sector gross loans managed to post a 5% annual increase, mainly attributable to the growth in the last quarter which was driven by expansionary monetary policy measures by the NBS and a downward trend in interest rates on local currency loans. The banking sector gross corporate loans posted a 5% nominal increase, while the loans to private individuals grew 4.7% compared to year end level in 2014.

Banking sector deposits continued to grow throughout 2015, reaching a volume of RSD 1.886 billion and expanding 6.7% YoY Corporate deposits posted a significantly higher growth rate of 12.3% compared to private individual deposits which grew at a slower pace of 3.5%.

At the end of the third quarter 2015 the banking sector employed 24,387 people, showing a decline of 719 employees compared to the beginning of the year. At the same time it spanned through a network of 1,742 different organizational units, 45 less than at the end of year 2014.

Number of banking sector employees (yearly growth in %)

The banking sector Capital Adequacy Ratio amounted to 21.2% at the end of the third quarter, showing a 1.3 percentage point drop compared to the year-end 2014.

In comparison to the previous period, the profitability indicators of the Serbian banking sector showed strong improvement as of 3Q 2015, due to the highest nine-month result before tax recorded since 2008. The aggregated profit for all thirty banks amounted to RSD 26.6 billion and recorded a 27% YoY increase, mostly attributable to the NII and Non NII income growth of 8.1% and 8.0% respectively, coupled with a slower growth of operating expenses (5.2%). Consequently, the cost to income ratio improved at the end of the third quarter falling to 59.7% from 61.3% from the year before. Although without prime losers as in 2015, a total of 11 banks ended the third quarter with their result in negative territory amounting to RSD 6.1 billion. The Return on assets (RoA) indicator reached 1.2% at the end of the third quarter of 2015 (3Q 2014 1.0%), while at the same period the Return on equity (RoE) indicator amounted to 5.6% (3Q 2014 4.6%). Non-performing loans continue to be the major problem of the banking sector and constraining factor of the future credit growth, where share of non-performing loans in total gross loans of the banking sector amounted to 22% as of September 2015. In order to tackle the NPL issue the National bank of Serbia has adopted a Strategy aimed at resolving them, followed by an Action plan for its implementation.

The National bank of Serbia has conducted an Asset Quality Review (special diagnostic studies) in 2015 as an important part of the program agreed with the International monetary fund in the financial sector area. The review included a verification of the quality of banks' assets under the International Financial Reporting Standards (IFRS) and international valuation standards, as well as methodological assumptions specifically designed for the needs of SDS. The results showed that none of the 14 banks under the scope of the review was undercapitalized in terms of the minimum regulatory adequacy of 12%.

The National bank of Serbia adopted a decision on the decrease of mandatory reserve requirements in foreign currency by one percentage point over six consecutive months starting from September 2015 and ending at February 2016, thus releasing an additional credit potential of banks and converging towards mandatory reserve rates present in the surrounding countries and euro zone.

FINANCIAL PERFORMANCE OF UNICREDIT BANK SRBIJA A.D. IN 2015

OVERVIEW OF FINANCIAL POSITION AND PERFORMANCE OF THE BANK

UniCredit Bank Srbija a.d.			
In thousands RSD	**2015**	**2014**	**Change**
Income statement			
Net interest income	12.304.181	10.674.996	15,3%
Net fees & commisssion incom	2.727.377	2.270.413	20,1%
Net gain from financial assets available for sale	137.609	63.847	115,5%
Net impairment loss on financial assets	(3.766.429)	(3.110.503)	21,1%
Profit before tax	6.586.239	5.679.892	16,0%
Profit after tax	6.366.383	5.464.805	16,5%
Balance sheet			
Loans and reciveables to banks	8.467.556	10.631.808	(20,4%)
Loans and reciveables to customers	180.375.137	164.982.403	9,3%
Deposits and other liabilities from banks	82.818.208	70.299.097	17,8%
Deposits and other liabilities from customers	155.008.349	134.459.546	15,3%
Equity	61.414.282	55.258.237	11,1%
Total balance sheet assets	308.283.811	265.272.463	16,2%
Capital adequancy			
Total risk weighter assets	202.289.822	183.432.698	10,3%
Regulatory capital	39.557.493	37.509.120	5,5%
Capital adequacy ratio	19,6%	20,4%	(4,4%)
Key performance indicators			
Cost/income ratio	39,2%	38,7%	1,4%
ROA (return on assets after tax)	2,2%	2,1%	4,9%
ROE (return on equaty after tax)	10,9%	10,3%	5,6%
Loans to Deposits ratio	116,4%	122,7%	-5,2%
Revenues/Number of employees	15.249	13.430	13,5%
Cost of risk	2,2%	2,0%	8,6%
Resources			
Number of employess	1.145	1.089	56
number of branches	71	71	-

In 2015 UniCredit bank confirmed its strong orientation towards continuous growth, increase in market share and preservation of high standards in terms of profitability, productivity and efficiency. According to Q3 2015 data, Bank was positioned as bank #3 in total assets, reaching double digit market share for the first time (10.2%), being the market leader in Return on Equity and confirming the lowest Cost/Income ratio.

Total assets at the end of 2015 stands at RSD 308.3 billion and are 16.2% higher compared to the previous year.

Yearly growth of net interest income of 15.3% was driven by 9% increase in loans to customers, due to proven expertise in business with international and domestic companies, supported by good lending strategy for private individuals. Very successful RSD cash loans campaign was conducted during the year resulted in new loan volumes as well as acquisitions of new clients. Growth of loan portfolio was backed by 15% yearly growth of customers' deposits, which confirmed stable funding by lowering of loan to deposits ratio. Additionally, significant positive effects are realized thanks to prudent and conservative interest revenues recognition on loans which are past due for more than 90 days as well as efficient resolution of non-performing cases.

Leveraging on established know-how and well recognized market position, UniCredit bank achieved extraordinary result from fees and commissions, thanks to M&A related transactions and brokerage services for benchmark auctions of Treasury bills organized by Ministry of finance, where UniCredit bank is absolute market leader. UniCredit bank further improved earning capability, recording yearly growth of net result of 16.5% and bringing ROE to 10.9% in 2015 from 10.3% in 2014, despite declining trend of interest rates and negative effects of local Asset Quality Review which resulted in additional loan loss provision.

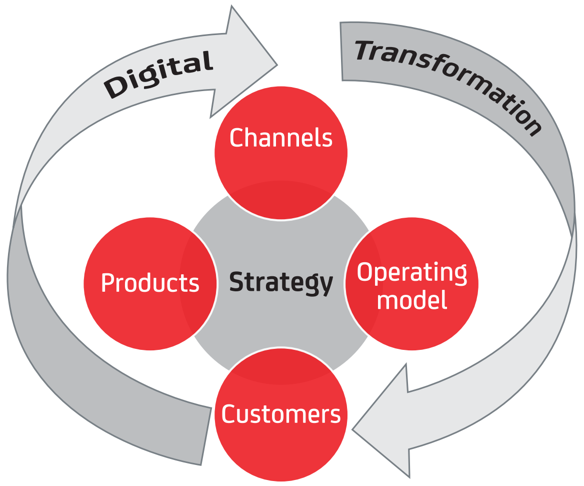
In spite of the strong negative trend in sector, Bank increased number of employees by 56 compared to the previous year, while in the same time managed to further improve productivity, measured by revenues per number of employees' ratio. Bank is fully committed to providing high quality services to its clients, through new service model which is implemented in 2015 in the entire network of 71 branches, which improved visual identity of the Bank and enabled clients to complete all types of transactions with the single contact officer in branch.

STRATEGY FOR PERIOD 2016-2018

Main strategic aim of the Bank for the next three years is further improvement of the top market player position in terms of profitability, efficiency, asset quality and reputation based on the following four key elements:

1. **Customers** – focus on existing clients and acquisition of the new ones offering high quality products and services
2. **Products** – providing a comprehensive range of easy-to-use standard products while focusing on development of innovative ones
3. **Channels** – further development of alternative sales channels, synergy of Corporate and Retail segments and further improvement of client service based on state-of-the-art service model
4. **Operating model** – major processes and system improvements leveraging on changing local market environment.

UniCredit Bank Serbia is a part of Group's CEE2020 Plus project which assumes implementation of several strategic initiatives in period 2016-2018 with the aim to accelerate digital transformation process and to increase quality and promptness of service and client satisfaction. These activates include completion of migration process of transactions to alternative channels as well as increase of the sale of regular banking products through the digital channels.



Multi-Year plan of the Bank assumes full application and alignment with all regulatory requests and set limits with the aim to maintain and improve portfolio quality and ensure base for sustainable growth with focus on further portfolio diversification using proactive approach in risk management.

ORGANISATIONAL STRUCTURE OF THE BANK

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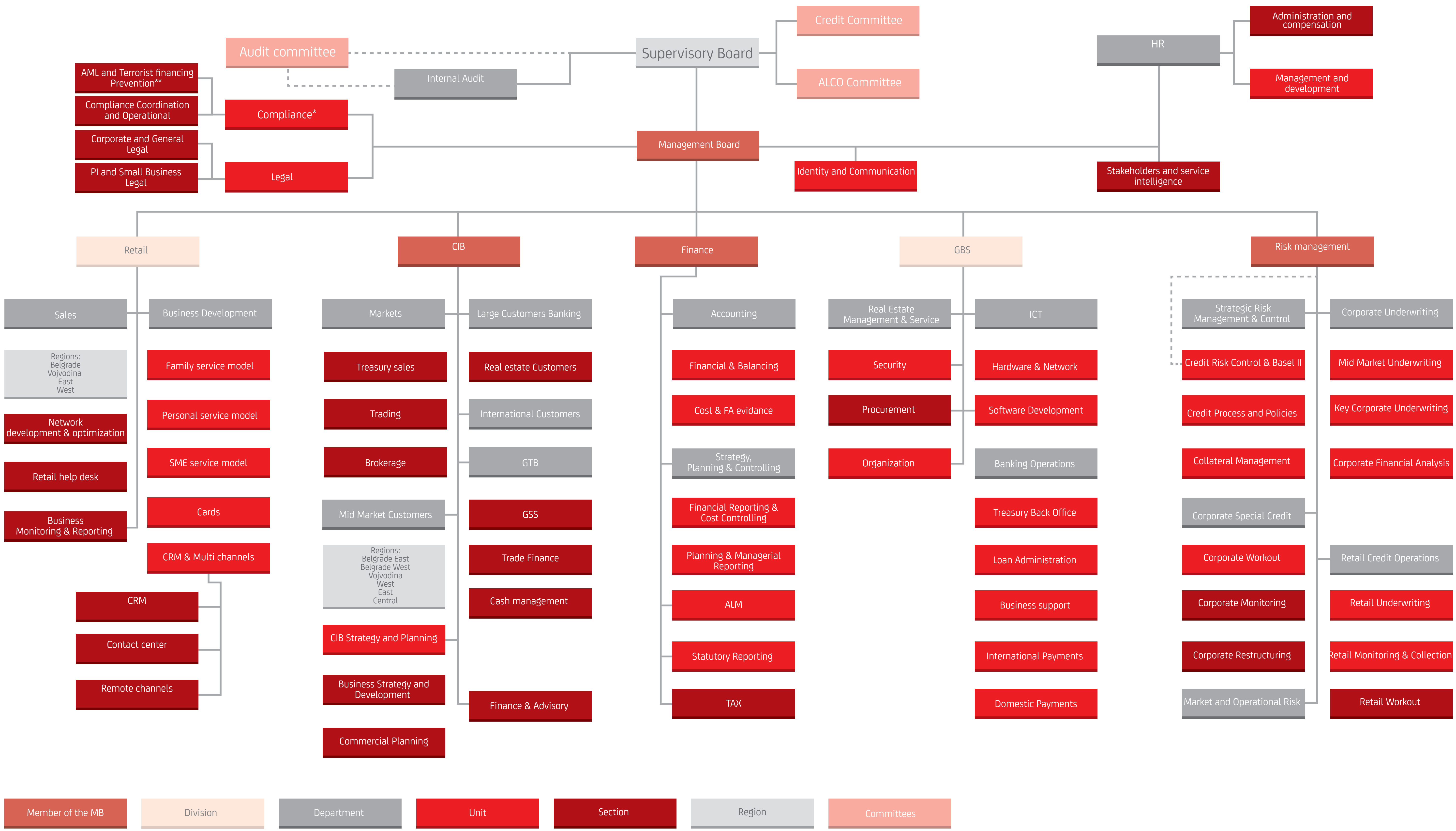

*Compliance section- Reporting to the Audit committee and Management Board and Supervisory Board if needed

**AML section- Reporting to the CEO

ORGANISATIONAL STRUCTURE OF THE BANK

ORGANISATIONAL STRUCTURE OF THE BANK (CONTINUED)

At the end of year 2015 UniCredit Bank Serbia was not owner of any other entity, but following UniCredit Group entities were performing business in Serbia in 2015: UniCredit Leasing, UniCredit Partner, UniCredit Rent and UCTAM, which are representing parties related to the Bank.
In order to optimize its operations UniCredit Group has launched project of reorganization of the leasing business line. In accordance with the local Law on Banks a bank may establish or acquire a subordinated company only with the consent of the National Bank of Serbia and only financial sector persons may be subordinated companies of a bank. In line with this, UniCredit Bank Serbia JSC in January 2016 has acquired shares of UniCredit Partner doo Beograd from Allegro Leasing Gesellschaft m.b.h and UniCredit Leasing Srbija doo Beograd from UniCredit Leasing SpA. As a result and in line with relevant regulatory framework, UniCredit Bank Serbia will perform a sub holding function towards the a.m. companies and jointly they will be treated as a banking group.

CORPORATE INVESTMENT BANKING (CIB)

Year 2015 brought numerous challenges for the Serbian corporate banking sector, even though national economy came out of the recession and recorded positive activity in the second half of the year. Law demand for credit in the corporate sector due to fiscal tightening effects and increased risk aversion in the environment of elevated uncertainties presented a unique challenge for the our Division. Although the credit activity of corporate sector in Serbia nominally improved (5% YoY), level of non-performing loans (NPL) remains significant source of systemic risk which requires a decisive NPL resolution strategy implementation. Despite the challenges, we focused on opportunities and remained committed to the strategy of portfolio consolidation with emphasis on de-concentration of credit risk and selective approach with focus on mid-market clients. As a result, the loan portfolio of CIB Division increased to around RSD 140 billion, with 8.5% YoY growth and around 3,800 clients.

CIB continued to strengthen deposit position of the Bank through various commercial activities and recorded a significant increase of volumes in transaction banking. This resulted in a 22.8% YoY growth in deposits, reaching the amount of RSD 96 billion and significant growth in the number of transaction recorded.

Markets Department solidified its long-established leading position in the local market. National Bank of Serbia's official data for 2015 indicates UniCredit Bank's Markets Department first in providing F/X services to residents and non-residents with 17.3% and 48.6% market share, respectively. Furthermore, UniCredit Bank is ranked first in transaction volumes in interbank exchange in euros with a 14% market share. Overall revenues posted a YoY growth, continuing the positive trend established in previous years.

During the 2015 the Bank continued with its effort to promote hedging products, as a way to shield businesses from interest rate and FX fluctuations by offering interactive workshop for both, large enterprises and medium-sized companies. The Bank continues to be ahead of the competition with its innovative approach, and affirmed its leadership in the designing and marketing of these products which are more and more accepted by market participants.

UniCredit Bank remained market leader in trading with financial instruments on both primary and secondary markets with a market share of 33.6% and 30.4% respectively.

UniCredit Bank was the only bank at the market in 2015 which implemented Enterprise Development & Innovation Facility (EDIF) aimed at improving access to finance for small and medium-sized enterprises (SMEs) by addressing the needs of the local market and increasing available funding and financial instruments. This facility, sponsored by European Union through European Investment Fund (EIF) provided an opportunity for the clients that didn't have access to finance and supported further diversification of national economy through SME sector development. With the aim to encourage local Government initiatives, the Bank has also cooperated with the Municipal Infrastructure Development Facility (MIDF) providing credit enhancement, additional liquidity and establishing a sustainable lending market for municipalities. In addition, the Bank played an active role in every public tender for financing and continued introduction of innovative solutions, as was the case with Stara Pazova Municipal Bond issuance where our Bank actively participated and provided support to four infrastructure projects, enabling investors, primarily citizens, to participate in financing of important projects for that local community.

In 2016, CIB will continue with the strategy of selective portfolio growth and creation of economic value for Bank by increasing the return on risk-weighted assets through increased cross selling. Division will seek to increase market share in segments with lower penetration rate and foster long-term partnership with existing customers based on reciprocity and trustworthiness. Furthermore, CIB remains committed to continuous improvement of internal efficiencies through the process of evaluation and optimization. The Bank's business activities will be focused on stimulating the development and supporting the recovery of local economy by expanding our innovative value-added products proposition and advisory services to clients. Furthermore, the Bank will also continue close cooperation with regulators including National Bank of Serbia and Ministry of Finance, thus actively supporting the improvement of domestic business environment, as well as all development initiatives.

Client centricity will continue to drive our focus and ambition of bringing economic value to our clients in aim to produce higher economic activity in our country. We will further support private and public sector including local communities, by fully exploiting our deep knowledge of the Serbian market, our Group global reach and expertise in financial products and solutions.

RETAIL BANKING

Retail Division, despite the relatively unfavorable macroeconomic conditions that caused a lower growth rate of the market, managed to maintain a positive trend during 2015, recording significant increase, both in volumes and revenue compared to the previous year. Volume of loans grew by 11% and deposits by 13%, which also reflected in the improvement of the market share. The Bank has been very active in cooperation with its clients, not only to strengthen, but also to expand cooperation with them. Furthermore, it has been implementing different initiatives in order to acquire new customers which resulted in increased number of clients by 15%. During 2015, Retail Division has additionally expanded its offer for private individuals and SME with different products and services.
Through further cooperation with insurance company Wiener Städtische, the Bank introduced a new product "My investments", which represents a combination of life insurance and savings. The Bank also started cooperation with Apple product dealer in Serbia (company iStyle), through financing the purchase of the iPhone and iPad devices with special benefits and the option to purchase by credit card in 24 instalments without interest and fees.

During the past year, the Bank has launched a new redesigned website, which is very interactive and adapted to all types of electronic devices (computers, mobile phones and tablet devices). Also, customers now have the ability to use this opportunity to apply for credit products for individuals and at the same time, thanks to the calculator immediately calculate the monthly installment and all related costs.

During year 2015, the Bank adopted the Decision on the Implementation of the Decision on measures for preserving stability of the financial system in the context of foreign currency indexed loans, as recommended by the National Bank of Serbia. The decision consists of two parts. The first part applies to each active credit agreement, which the Bank has concluded with the beneficiary before the implementation of the Consumer Protection Law. This part of the Decision stipulates the mandatory and standardized implementation of the recommendations of the National Bank of Serbia BAN 002/13, concerning the use of indefinable elements of the variable interest rate before the implementation of the Consumer Protection Law. The second part of the Decision applies only to contracts for housing loans indexed in Swiss francs. National Bank has adopted a solution that helps citizens to overcome the difficulties in repayment of loans in Swiss francs by accepting one of the four models, which provide an opportunity to alter the conditions of loan repayment, while retaining the existing collaterals. Implementation of the Decision had a negative impact on Bank costs and revenues due to the reduction of the principal amount outstanding.

During 2015, Retail Banking Division continued the implementation of several projects and initiatives of the major importance. The new service model for private individuals, which aims to improve the quality of services and expand the set of banking products and services that can be provided to this client segment, was successfully implemented throughout the entire network. A significant number of processes in the branches are improved, with the aim of increasing the efficiency and speed of service and this project has enabled customers to perform all their transactions at single point.
Project of migration of clients to the electronic channels of communication was conducted in parallel with the implementation of the new Law on Payment Services. Through this project, a large number of clients were trained to use attractive product packages tailored to the needs of the clients, which included mobile and electronic banking, and the usage of different payment options such as paying of all types of bills at ATMs with no additional cost.

A significant increase in the number of clients was achieved as a result of the contract signed with The Ministry of Education, Science and Technological Development since UniCredit Bank was granted the exclusive right to process student loans and scholarships.
Selling of non-risk bearing products during 2015 (M banking, SMS card alarm, Prepaid card, etc.) reflected in the continued increase of sales, while on the lending side cash loans were the best-selling product.
During 2015, in order to further strengthen relationship with clients and to acquire new ones, focusing on a more effective approach of creating target groups and tailored offers, Retail Division has continued active usage and development of CRM (Customer relationship management) as a precondition for further bank strategic positioning at the local market.

In addition to constant product innovation, further improvement of quality of services and the level of transparency remains the main driver of our success. Following best practice, Retail Division ran two waves of mystery shopping and two waves of customer satisfaction campaign in order to improve the quality of services at branches and increase the level of customer satisfaction.
In 2016, Retail Division will focus on market share growth in segment of private individuals, small enterprises and entrepreneurs. Bank is planning to intensify cross selling with CIB clients leveraging on full potential of this segment.
Approach to micro clients is based on approval competences on branch level, aiming to shorten and optimize process, as well as on clearly defined target lists, whose achievement are permanently monitored in order to maintain client portfolio. Retail Division will continue to increase the loan portfolio of private individuals through client acquisition based on competitive package account as well as attractive campaigns intended for specific target groups.

Furthermore, development and implementation of CRM (Customer Relationship Management) concept, as a necessary precondition for strategic positioning of the bank on the local market will stay as one of the priorities. Development of alternative sales channels with the focus on the special offers for employees of large corporate and public institutions will remain as one of the main tasks.
Retail Division will continue with the innovations and creation of attractive products and services, as well as improvements in the quality of services, in order to preserve customers' trust.

RISK MANAGEMENT

Within its organizational structure, the Bank has a separate Risk Division with comprehensive and very important function of maintaining and developing a stable and profitable loan and other placements portfolio. This Division covers the management of credit, market, operational and liquidity risk through the work of five departments: Strategic Risk Management and Control Department, Corporate Underwriting Department, Retail Credit Operations Department, Corporate Special Credit Department, Market and Operational Risk Department. They all report to the Member of Management Board in charge of Risk Management, which provides increased control over all loan process phases, as well as a global overview and assessment of the risks to which the bank is exposed.

In order to define a consistent policy of lending activity and the overall framework of risk management, the Bank has defined a Retail credit risk strategy and Corporate credit risk strategy, which are updated annually in line with changes in the environment and the strategic objectives of the bank. In this way, the bank provides the proper realization of the adopted business policy within framework that will result in an acceptable level of credit risk when it comes to individual placements and adequate diversification and general quality of the loan portfolio.

During 2015 further improvement of risk management system was focused on internal organization enhancement, business processes and risk management policies in accordance with the best practices of UniCredit Group and requirements arising from the implementation of Basel standards and regulator requests.

Identification, measurement, control and risk management on the portfolio level is based on reporting system which provides information about the condition, quality and evolution of the loan portfolio. During 2015 there is a continuity of reporting process improvement through increased automation of calculation and report generation.

In the area of Basel standards the focus of activities was placed on monitoring of predictive power of internally developed rating models and their parameters and implementation of improved version of internally developed rating models for the respective segments are implemented. Forbearance tool according to the latest standards of European Banking Authority is also implemented, which is aligned with the methodologies of UniCredit Group, which enables better monitoring and evidence of rescheduled/restructured loans and placements where there are financial difficulties in repayment.

During 2015 National Bank of Serbia together with external auditors has conducted and completed Special Diagnostic Studies of Banks, which had the aim to verify whether banks are adequately capitalized, taking into account the appropriateness of classification of assets and provisions for identified losses in accordance with IFRS, as well as the levels of regulatory reserves for potential losses. As a result of this study, where the Bank was also included, solid position of the Bank is confirmed.

During 2015, integration of risk management functions has been successfully implemented through the signing of an agreement between the Bank as service provider and UniCredit Leasing Ltd and UniCredit Rent Ltd, who entrusted the tasks of identifying, measuring, assessing and managing credit risk, market risk, operational risk and risk exposure (concentration), in accordance with the Law on financial leasing. In January 2016, Bank becomes the owner of these two entities.

During 2015, NPL portfolio management is improved by introduction of new NPV (net present value) tool and implementation of Guidelines in dealings with high risk profiles of corporate client in future restructuring process – INSOL Serbia (so called Belgrade Initiative), which will support reduction of NPL and consequently decrease of LLP and also will have positive effect on the local economy in a long run.

In the Retail segment, the focus in 2015 was on increasing the efficiency of the credit approval process as well as the development of new model for small business clients and entrepreneurs. Activities were also focused on fine-tuning and improving the process of monitoring and collection for private individuals and small business clients and entrepreneurs, with the aim to increase the efficiency of the process as well as to improve collection.

In 2015 successful completion of the Statistical Monitoring process and further improvement of cooperation with external valuation companies and court appointed experts was also performed. Additionally, Bank has improved cooperation with insurance companies, companies responsible for lender's supervision of all types of real estate and renewable energy projects. Finally, focus was also placed on mortgage inscription process.

Relevant market, price and liquidity risk taxonomies are defined for identifying and reporting risk exposures. Accurate and reliable risk data are generated to meet normal and stress/crisis reporting accuracy requirements. Data are aggregated on a largely automated basis, to minimize the probability of errors. Liquidity early warning indicators are defined for monitoring financial markets development and assessing its impact on the banks liquidity position. The goal is to keep overall liquidity management at an efficient level of liquidity to allow the Bank to honor its payment obligations. Further improvement relating to accuracy, integrity, completeness and adaptability of reporting processes will continue during 2016.

Governance structure of the control system of operational risk management involves all relevant organizational levels and thus contributes to raising awareness about the importance of operational risk. Quantitative elements of operational risk measurement system (internal loss data, risk indicators and scenario analysis) are classified and collected by guaranteeing the data completeness, reliability and timely updates. With the aim to further increase operational risk awareness, on line E–learning operational risk training was distributed to all employees. Permanent working group continue its activities with the aim of identifying potential risk and defining measure for mitigating the risk. The system of identification, assessment and control of operational risk adequately reflects the risk profile and allows timely communication with management in order mitigate the identified risk.

Special project that actively promotes risk management culture in all areas of the Bank was also continued in order to increase awareness of business risks and improve the approach to manage risks.

Based on the foregoing, it can be concluded that during 2015 the Bank further enhanced risk management system, along with its capital adequacy and profitability levels, guarantees adequate management and coverage of the risks to which the Bank is exposed.

CRO Division will continue with the efforts and actions aimed improving the system of management of all risks to which the Bank is exposed in its operations. Special focus is planned towards further enhancement of the credit process in order to improve efficiency, as well as on creating a competitive advantage in the market through process optimization on one hand, and through improvement of the tools for identifying and mitigation of credit risk, on the other hand. In that way adequate support to all organizational parts will be secured. In 2016 one of the main goals is to maintain and improve portfolio quality and enabling base for sustainable growth with focus on further portfolio diversification, but always using proactive approach in risk management enabling new client acquisition.

GLOBAL BANKING SERVICES (GBS)

Main focus of Global Banking Service Division in 2015 was improvement of support of all bank's structures in order to achieve bank's strategy through increasing the efficiency of business processes, customer satisfaction improvement, initiation and management of changes and cost optimization.

Improvement within Information Technology Department (ICT) has been implemented in all its areas of responsibilities. Internal organizational changes were made in order to provide better and more efficient support to all organizational structures. During 2015, ICT department has focused its activities towards further process improvements and internal control system improvements, additionally harmonizing with industrial standards (ITIL). With two successfully implemented DRP/BCP tests, with the minimum unavailability of critical services, the bank is ranked among the companies with the most advanced technology of protection/recovery system in crisis situations on the territory of the Republic of Serbia.

Internal control system has been continuously improved and monitored through quarterly meetings and as part of the annual evaluation of internal control system on the Bank level. Indicator of good functioning of internal control system is the highest conformity level provided within the annual report referring to the implementation and management of the internal control system of the Bank.

Significant improvements were implemented during 2015 in the areas of project management and project portfolio management. The main achievements include the introduction of selection criteria for the important bank's projects, establishment of the expert team and portfolio prioritization, considering the predefined strategic goals.

Banking Operations Department has continued with the further process optimization and centralization of back office activities with the aim to provide full support to the business needs. Thanks to the efficiency, flexibility and expertize, Banking Operations Department has significantly contributed to the success of the bank in 2015.

During to 2015, Bank has achieved the best results since it started its operations in Serbia. Cost to income ratio was additionally reduced and further improved comparing to the previous year and in comparison to the main competitors. Additional investments comparing to the planned have contributed to the achievement of results through multiply revenue increase comparing to the initial investment.

Strategic goals of Global Banking Services Division in 2016 will be directed to successful realization of the bank's strategic projects, process optimization which will lead to better business efficiency as well as further improvement of Cost management activities.

Special focus in 2016 will be establishing strong pillars related to data quality and data governance system, implementation and automation of sales activities in the branches as well as introduction of functionalities and system changes which lead to process digitalization.

HUMAN RESOURCES

By continuing to provide strategic support in achieving the planned business activities, Human Resources Department during 2015 had several key initiatives aimed, from one side, at positioning UniCredit Bank as the most desirable employer in the market, through the continuation of the successful cooperation with universities, on the other hand, the development of employees, their progress, increasing commitment and engagement.

During the year, we have further improved the system of staff appraisal and supported managers in the implementation of the process by which we continue to foster culture of high achievement and performance management of employees who do not fulfill the goals. We have also further enhanced and optimized communication during the process of evaluation and development of employees.

As well as during 2014, also in 2015 we have fully realized development plans defined during the process of evaluation and development of employees. During 2015 special focus was on increase of investment in employee development. From one side this was done through increased number of trainings and from the other side through their participation in international "on the job" learning programs organized in cooperation with colleagues from UniCredit group.

Providing opportunities for the development of our employees, we have increased the number of cross-divisional moves, and the number of employees who got the chance to do new and different tasks within their division. Such initiative supports our employees in gaining wide knowledge in different areas of banking business in best possible manor. This way they're becoming eligible for taking over more responsibilities and provide them with knowledge and skills for taking over the most responsible positions in our Bank in the future.

As one of our priorities in the plan for 2015, HR Department has put continuing the efforts to respect the values of UniCredit Group, fostering diversity and equal opportunities for all through a program of diversity management in all aspects of cooperation within the bank.

In 2016 we will continue to provide full support to the business in achieving the results through improving internal processes and quality of people management, developing potential leaders for key positions, motivating and retaining high achieving employees with the required technical skills, behaviors and values through monitoring and realization of their individual development plans and continuous support in their daily work, as well as by increasing the number of internal, cross-divisional moves and closing open positions internally.

In order to position the UniCredit bank as the most desirable employer in the market, we will continue cooperation with universities through internship programs, study visits and scholarships for the best students.

The Department will continue to work to improve the system for evaluating employees through improving the functionality of the staff appraisal application based on customer feedback (both employees and their managers) and providing continuous support to managers in communicating with employees, the definition and implementation of appropriate, individual development plans established in the employee evaluation process.

IDENTITY AND COMMUNICATION

During 2015, the Identity and communication Unit's team continuously worked on promotion of our unique concept ''Real-life banking" with special focus on digitalization of banking business. Considering that our communication platform "Life is full of ups and downs. We are here for both" aims at providing clients with concrete answers to real life problems, the creation of innovate products and services, but also the alignment of overall working environment with the most modern technological achievements, has been set up as essential component in order to maintain competitiveness in the domestic market and keep one of the leading positions.

The project which marked 2015 was certainly Digitalization, which is in focus of entire UniCredit Group. Namely, within this process numerous activities have been conducted in order that bank aligns its business with the most innovative technologies and, from one side, improve the client business via introduction of new digital products and services, and from the other to facilitate its employee's daily operations. For Serbian market, UniCredit Bank launched completely new internet platform in accordance with clients' needs and digital era in which we live. The design of new web site is completely focused on clients' needs. Calculators and other interactive tools help clients to find products which mostly suit their needs in simple and transparent way. Products and services are described with simple language and clear terms. One of the most important benefits of new, sales oriented web site, is to provide clients, private individuals, the possibility to apply for any loan thanks to calculators which immediately calculate the monthly instalment and associate costs, as well as to schedule meeting online.

New service model has been introduced in all branches in 2015, while the branch in Rajiceva will be renewed during next year. New service model represents completely new concept of providing banking services, and its primary goal is to ensure that clients feel comfortable and spend more productively time in the branch.

In 2015 several commercial campaigns were conducted successfully. Selector current account campaign was out of most importance for clients' acquisition especially considering the Digitalization process and transfer of all clients to this product. In addition, big success was reached thanks to Dinar cash loan campaign. Since the bank offered by far the lowest interest rate on local market, within the promotional video we metaphorically showed this parameter as the lowest tone of the human voice. For the first time, in cooperation with Frikom, we participated in prize game "Lick carefully" with an aim to increase the number of clients and, at the same time, to raise awareness of the bank's brand. UniCredit Bank's logo was printed on every stick and cones' wrappers of Frikom ice-creams, and participants who gathered non-profit sticks and cones' wrappers left them in our branches throughout Serbia in order to win the prize money. Another cooperation which had extremely good clients' response was with iStyle Serbia, within which we included in our offer Apple products with discount and possibility to purchase them in instalments. Also for the first time, we decided to advertise product via viral video which met with great response in public. For 24 hours, over 50,000 people have seen the video on our YouTube channel. For this creative concept we received two international and two national awards.

In accordance with our communication strategy, UniCredit Bank, through various activities in 2015 on national and local level, sought to increase its presence in media and in that way contribute to recognisability of the bank. In additional to overall negative trend on domestic market, when media coverage of banking sector is concerned, our bank managed to maintain one of the leading positions in terms of number of media reports, thanks to high quality communication.

Due to upgrade of internal portal, IntraNet, communication with employees is significantly facilitated and therefore improved. In addition to news and information related to business of both, our bank and entire Group, in 2015 we launched first bank blog where were shared real life topics of colleagues. Topics related to travel, sport, best place to eat and similar. Also, within blog there is a completely private chat. Thanks to Road Show, "You are in driver's seat" which was held in 5 cities, members of Management team had the opportunity to personally hear all suggestions of employees related to possible improvements of business.

Identity and communication Unit will in 2016 continue to support employees with aim to contribute to further development of bank's business and increase of client base via various communication channels with carefully designed campaigns. We will continue to build the image of a competent speaker in the media that we have acquired in previous years.

CORPORATE SOCIAL RESPONSABILITY

With aim to contribute to economic and social development of local communities in which operates and to support young people, vulnerable categories of people and the youngest in sports, UniCredit Bank during 2015 supported numerous CSR activities. In this way, UniCredit Bank seeks to reconfirm the status of socially responsible citizen of Serbia and thanks to continuous support of UniCredit Group, UniCredit Foundation and UniCredit & Universities Foundation in 2015 bank invested nearly RSD 12.5 million in this type of activities in our country.

In 2015, bank invested the most of its capacity in conduction of second edition of competition Idea for better tomorrow. Within this competition, organized in cooperation with UniCredit Foundation and Foundation Ana & Vlade Divac, and with support of Smart Kolektiv and National Tourism organization of Serbia, grants in total amount of EUR 45,000 were allocated as contribution to development of social entrepreneurship and existing business. Social enterprises, enterprises with income from producing and selling goods and services that have a social goal as the main reason for activities, enterprises which reinvest the part of profit to achieve social goal, small cooperatives, civic associations, limited liability companies, artisan workshops and others applied for grants in amount from EUR 5,000 to EUR 10,000. Out of totally 67 ideas for products and services that in the best way promote Serbia, the expert committee has chosen the best 7.

As in previous years, bank continued to support traditional manifestation with cultural character and significant importance for local communities, such as Days of Bora Stanković, Days of Zoran Radmilović and Days of Mokranjac. In 2015 for the first time we supported Buongiorno Italia, organized by Italian-Serbian Chamber of commerce with aim to promote Italian culture and language in Serbia as well as improvement of economic cooperation between two countries. We also supported the opening of third Italian cultural centre in our country, Piazza Italia in Subotica.

Thanks to strong cooperation with UniCredit & Universities foundation, UniCredit Bank for years provides support to Serbian students and young researchers in field of economy and finance. Namely, with scholarships for various international programs, bank is offering them the unique opportunity to enrich their knowledge at some of the most famous European economic faculties, but also helps students of international master programs at Economic faculty in Belgrade.

In addition, in 2015 the bank supported numerous initiatives which included its employees. As within the previous edition, also in this year competition Idea for better tomorrow UniCredit Bank's employees have selected one winner whose idea won grant of EUR 5,000.

Besides, employees traditionally participated in December initiative "Old doll for a new smile", which UniCredit Bank has organized since 2008 and which each year gathers more and more colleagues. The aim is to prepare Christmas gifts for children with disabilities who live in foster homes throughout Serbia. Employees donate clothes, shoes and toys which their children have outgrown and bank participates by providing food and beverage.

The last, but not the least, we would like to point out that UniCredit Bank is continuously providing support to various organizations by participating in sport activities with humanitarian character. Therefore bank's basketball team participated in UNICEF Fair Play tournament, bowling team participated in BELhospice humanitarian tournament and this year, for the first time, we gathered a team who run the CorD Charity Masters within Belgrade marathon.

STATEMENT OF FINANCIAL POSITION as of December 31, 2015

(Thousands of RSD)

	Note	December 31, 2015	December 31, 2014
Cash and cash funds held with the central bank	3.k, 19	43,747,168	29,942,038
Financial assets at fair value through profit and loss, held for trading	3.j, 3.o, 20	2,563,666	685,490
Financial assets available for sale	3.j, 3.p, 21	69,683,951	54,871,603
Financial assets held to maturity	3.j, 3.n, 22	221,362	584,474
Loans and receivables due from banks and other financial institutions	3.j, 3.m, 23	8,467,556	10,631,808
Loans and receivables due from customers	3.j, 3.m, 24	180,375,137	164,982,403
Fair value adjustments of risk hedged items	3.l, 25	171,733	97,950
Intangible assets	3.r, 3.t, 26	934,118	919,595
Property, plant and equipment	3.q, 3.t, 27	1,181,740	1,186,429
Investment property	28	1,430	1,463
Current tax assets	3.i, 18.4	0	772,408
Deferred tax assets	3.i, 29	141,956	42,912
Other assets	30	793,994	553,890
Total assets		**308,283,811**	**265,272,463**
Financial liabilities carried at fair value through profit and loss, held for trading	3.j, 31	141,623	207,354
Liabilities per financial derivatives designated as risk hedging instruments	3.l, 32	492,401	454,559
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.j, 3.u, 33	82,818,208	70,299,097
Deposits and other liabilities due to customers	3.j, 3.u, 34	155,008,349	134,459,546
Subordinated liabilities	3.j, 3.u, 35	3,019,370	2,698,019
Provisions	3.v, 3.y, 36	837,182	447,823
Current tax liabilities	3.i, 18.4	99,256	0
Other liabilities	37	4,453,140	1,447,828
Total liabilities		**246,869,529**	**210,014,226**
Issued capital	39.1	24,169,776	24,169,776
Profit	39.1	6,366,383	5,464,805
Reserves	39.1	30,878,123	25,623,656
Total equity		**61,414,282**	**55,258,237**
Total liabilities and equity		**308,283,811**	**265,272,463**

INCOME STATEMENT year ended December 31, 2015

(Thousands of RSD)

	Note	2015	2014
Interest income	3.d, 7	17,534,837	16,375,843
Interest expenses	3.d, 7	(5,230,656)	(5,700,847)
Net interest income		**12,304,181**	**10,674,996**
Fee and commission income	3.e, 8	3,588,795	3,007,002
Fee and commission expenses	3.e, 8	(861,418)	(736,589)
Net fee and commission income		**2,727,377**	**2,270,413**
Net (losses)/gains on the financial assets held for trading	3.f, 9	(15,133)	64,619
Net gains on the hedges against risks	3.g,10	11,501	13,794
Net gains on the financial assets available for sale	3.p, 11	137,609	63,847
Net foreign exchange gains and positive currency clause effects	3.c, 12	1,528,839	1,171,095
Net gains from the investments in associates and joint ventures	30.3	-	60
Other operating income	13	338,976	77,401
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	3.j, 14	(3,766,429)	(3,110,503)
Staff costs	15	(2,355,980)	(2,153,719)
Depreciation and amortization charge	3.q, 3.r, 16	(531,579)	(530,719)
Other expenses	17	(3,793,123)	(2,861,392)
Profit before taxes		**6,586,239**	**5,679,892**
Income tax	3.i, 18	(219,856)	(215,087)
Profit after taxes		**6,366,383**	**5,464,805**
Earnings per share			
Basic earnings per share (in RSD, rounded)	39.2	2,697	2,315
Diluted earnings per share (in RSD, rounded)	39.2	2,697	2,315

STATEMENT OF OTHER COMPREHENSIVE INCOME
year ended December 31, 2015

(Thousands of RSD)

	Note	2015	2014
PROFIT FOR THE YEAR		6,366,383	5,464,805
Components of other comprehensive income that cannot be reclassified to profit or loss:			
- Actuarial losses		(9,246)	(2,130)
Components of other comprehensive income that can be reclassified to profit or loss:			
- Net fair value adjustments of financial assets available for sale		2,297,522	(730,130)
Gains from taxes on the other comprehensive income for the year	29.2	1,386	913
Total positive/(negative) other comprehensive income for the year	39.3	2,289,662	(731,347)
TOTAL POSITIVE OTHER COMPREHENSIVE INCOME FOR THE YEAR		**8,656,045**	**4,733,458**

STATEMENT OF CHANGES IN EQUITY
year ended December 31, 2015

(Thousands of RSD)

	Note	2015	2014
ISSUED CAPITAL			
Balance, beginning of year		23,607,620	23,607,620
Balance, end of year	39.1	23,607,620	23,607,620
SHARE PREMIUM			
Balance, beginning of year		562,156	562,156
Balance, end of year	39.1	562,156	562,156
OTHER RESERVES FROM PROFIT			
Balance, beginning of year		25,289,292	21,457,759
Prior year's retained earnings distribution		2,964,805	3,831,533
Balance, end of year	39.1	28,254,097	25,289,292
REVALUATION RESERVES			
Balance, beginning of year		433,922	1,101,373
Effect of the market value adjustment of securities available for sale		2,373,998	(667,451)
Balance, end of year	39.1	2,807,920	433,922
UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE			
Balance, beginning of year		(97,748)	(35,662)
Effect of the market value adjustment of securities available for sale		(76,476)	(62,086)
Balance, end of year	39.1	(174,224)	(97,748)
ACTUARIAL LOSSES PER DEFINED BENEFIT PLANS			
Balance, beginning of year		(1,810)	0
Movements during the year		(7,860)	(1,810)
Balance, end of year	39.1	(9,670)	(1,810)
RETAINED EARNINGS			
Balance, beginning of year		5,464,805	3,831,533
Prior year's profit distribution – allocation to dividend		(2,500,000)	0
Prior year's profit distribution – allocation to reserves		(2,964,805)	(3,831,533)
Profit for the year		6,366,383	5,464,805
Balance, end of year	39.1	6,366,383	5,464,805
TOTAL EQUITY		**61,414,282**	**55,258,237**

STATEMENT OF CASH FLOWS
year ended December 31, 2015

(Thousands of RSD)

	Note	2015	2014
Cash generated by operating activities		**21,345,732**	**18,169,973**
Interest receipts		12,675,304	12,067,193
Fee and commission receipts		3,629,351	3,017,349
Receipts of other operating income		5,040,628	3,085,274
Dividend receipts and profit sharing		449	157
Cash used in operating activities		**(15,124,337)**	**(12,558,550)**
Interest payments		(4,983,344)	(5,749,380)
Fee and commission payments		(871,627)	(724,475)
Payments to, and on behalf of employees		(1,988,681)	(1,863,037)
Taxes, contributions and other duties paid		(70,613)	(394,676)
Payments for other operating expenses		(7,210,072)	(3,826,982)
Net cash inflows from operating activities prior to changes in loans and deposits		**6,221,395**	**5,611,423**
Decrease in loans and increase in deposits received and other liabilities		**32,305,704**	**23,610,932**
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not intended for investments		0	130,348
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		32,305,704	23,480,584
Increase in loans and decrease in deposits received and other liabilities		(24,260,016)	(8,186,763)
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(22,784,862)	(8,186,763)
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not intended for investments		(1,475,154)	0
Net cash generated by operating activities before income taxes		14,267,083	21,035,592
Income taxes paid			(407,181)
Net cash generated by operating activities		14,267,083	20,628,411
Cash generated by investing activities		0	7,129
Other proceeds from investing activities		0	7,129
Cash used in investing activities		(7,897,605)	(3,246,279)
Outflows per investments in investment securities		(7,329,344)	(2,653,999)
Purchases of intangible assets, property, plant and equipment		(568,261)	(592,280)
Net cash used in investing activities		(7,897,605)	(3,239,150)

STATEMENT OF CASH FLOWS (CONTINUED)
year ended December 31, 2015

(Thousands of RSD)

	Note	2015	2014
Cash generated by financing activities		0	0
Cash used in financing activities		(1,878,632)	(24,327,303)
Net cash used for subordinated liabilities		0	(924,089)
Net cash used in the repayment of borrowings		(1,878,632)	(23,403,214)
Net cash used in financing activities		(1,878,632)	(24,327,303)
Total cash inflows		53,651,436	41,788,034
Total cash outflows		(49,160,590)	(48,726,076)
Net cash increase/(decrease)		4,490,846	(6,938,042)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.k, 40	15,651,919	22,514,819
Foreign exchange gains		264,847	75,142
CASH AND CASH EQUIVALENTS, END OF YEAR	3.k, 40	20,407,612	15,651,919

Notes to the financial statements

1) Bank's establishment and activity

UniCredit Bank Srbija a.d. Beograd (the: "Bank") was originally established as HVB Banka Jugoslavija ("HVB") in 2001 after obtaining an operating license from the National Bank of Yugoslavia on July 2, 2001. On October 1, 2005, a status change of merger and acquisition of entities HVB Banka Srbija i Crna Gora A.D. Beograd, as the Acquirer and Eksport-Import banka Eksimbank A.D. Beograd, as the Acquiree was registered. The Bank changed its name to UniCredit Bank Srbija a.d. Beograd on March 30, 2007.

The Bank is a member of UniCredit Bank Austria AG, domiciled in Vienna, and a member of UniCredit Group. UniCredit Bank Austria AG is the sole owner and shareholder of the Bank.

The Bank is registered in the Republic of Serbia to provide banking services associated with payment transfers, lending and depositary activities in the country and abroad.

As of December 31, 2015, the Bank was comprised of the Head Office in Belgrade and 71 branch offices located in towns throughout the Republic of Serbia (December 31, 2014: 71 branch offices).

As of December 31, 2014, the Bank had 1.145 employees (December 31, 2014: 1.089 employees).

2) Basis of preparation and presentation of the financial statements

(a) Basis of Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred as: the "Law", Official Gazette of the Republic of Serbia no. 63/2013). As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by the International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance. In addition, in accordance with the Amendments and Supplements to the Law on Banks (Official Gazette of the Republic of Serbia no. 14/2015), upon preparation of the annual financial statements, banks in the Republic of Serbia are obligated to apply the International Financial Reporting Standards, subsequent revisions and amendments thereto and related interpretations as from their issue date by the competent authorities.

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).

These financial statements were prepared at historical cost principle, except for the measurement of the following significant balance sheet items:

- financial assets available for sale stated at fair value;
- derivative financial instruments stated at fair value; and
- financial assets and liabilities held for trading stated at fair value.

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair vlaue of assets or liabilities, the Bank takes into account characteristics of assets or liabiliies that other market participants would also consider upon deermining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for share-based payment transactions, which are in the scope of IFRS 2, leasing transactions, which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as the net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3.

The Bank's financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia.

Standards and interpretations issued that came into effect in the current period are disclosed in Note 2(b). Standards and interpretations in issue but not yet in effect are disclosed in Note 2(c).

(b) Standards and Interpretations Issued that Came into Effect in the Current Period

In the current year the Bank applied the following amendments and revisions to IFRS issued by the International Accounting Standards Board ("IASB") mandatorily effective for the accounting periods beginning on or after January 1, 2015:
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.
- Amendments resulting from Annual Improvements to IFRSs 2010-2012 Cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.
- Amendments resulting from Annual Improvements to IFRSs 2011-2013 Cycle (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to

Notes to the financial statements (CONTINUED)

2) Basis of preparation and presentation of the financial statements (CONTINUED)

removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014). The adoption of these amendments had no material impact on the disclosures of amounts recognized in the Bank's financial statements.

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

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

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

IFRS 9 "Financial Instruments"

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

The Key requirements of IFRS 9 are:

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

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

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after January 1, 2016. Management of the Bank anticipates that the application of these amendments to IFRS 11 may have an impact on the Bank's financial statements in future periods should such transactions arise.

Amendments to IAS 1 "Disclosure Initiative"

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

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

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

- when the intangible asset is expressed as a measure of

2) Basis of preparation and presentation of the financial statements (CONTINUED)

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

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

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

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The application of these amendments to IAS 16 and IAS 41 will have a material impact on the Bank's financial statements as the Bank is not engaged in agricultural activities.

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

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Management of the Bank does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Bank's financial statements, as the Bank is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Annual Improvements to IFRSs 2012-2014 Cycle

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

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

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

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

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

(d) Comparative Information

Comparative information in the accompanying financial statements represents the data from the Bank's financial statements for 2014.

(e) Use of Estimates

Preparation of the financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period. Actual amounts of assets and liabilities may vary from these estimates.

These estimations and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods.

(f) Statement of Compliance

The Bank's financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS) issued by the International Accounting Standards Board ("IASB").

Notes to the financial statements (CONTINUED)

3) Summary of significant accounting policies

The accounting policies presented hereinafter have been consistently applied for all years presented.

(a) Consolidation

As of the financial statements preparation date the Bank had no control over any other legal entity and hence prepared no consolidated financial statements. In January 2016 the Bank became the sole (100%) owner of the entities UniCredit Leasing Srbija LLC Belgrade and UniCredit Partner LLC Belgrade.

(b) Going Concern

The financial statements have been prepared under going concern assumption, which means that the Bank will continue its operations for an indefinite period in the foreseeable future.

(c) Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official exchange rates effective at the date of each transaction.

Monetary assets and liabilities denominated in foreign currencies, as well as those indexed to a currency clause, are translated into dinars by applying the official exchange rates prevailing at the reporting date.

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/negative currency clause effects.

The official middle exchange rates determined by the National Bank of Serbia and applied in the translation of the balance sheet components into dinars for the following major currencies were as follows:

In RSD	December 31, 2015	December 31, 2014
USD	111,2468	99,4641
EUR	121,6261	120,9583
CHF	112,5230	100,5472

(d) Interest Income and Expenses

Interest income and expenses are recognized in profit and loss and are calculated using the effective interest method. The effective interest rate is the rate that precisely discounts the estimated future cash disbursement or payment through the expected duration of the financial instrument or, where appropriate, a shorter period, on the net carrying value of financial assets or financial liabilities. When calculating the effective interest rate, the Bank performs an assessment of cash flows, taking into consideration all conditions of the agreement related to the financial instrument, but not considering future loan losses.

The calculation includes all fees and commissions paid and received, which are a constituent part of the effective interest rate. Transaction costs are costs directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expenses recognized in profit or loss include:
- interest on financial assets and financial liabilities that are measured at amortized cost calculated using the effective interest rate method;
- interest on securities available for sale calculated using the effective interest rate method.

Interest income and expenses from all trading assets and liabilities are deemed secondary to the trading activities of the Bank and are presented together with all other changes in the fair value of trading assets and liabilities within net gains on financial assets held for trading.

Regular interest income from impaired loans and receivables due from customers is calculated based on the net amounts of loans using the effective interest method in accordance with IAS/IFRS. Calculation of penalty interest income from impaired loans is suspended from the assignment of the default status to the client and recorded therefrom within off-balance sheet items.

Impaired loans and receivables ae those due from customers with default status (internal ratings 8-, 9 and 10), which is explained in more detail in the Rulebook on Calculating Provisions under IAS/IFRS and the Methodology for Default Status Identification under Basel II standards.

(e) Fee and Commission Income and Expenses

Fee and commission income and expenses that are integral parts of the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate and therefore stated within interest income and expenses.

Other fee and commission income is recorded upon service rendering. It mainly comprises fees for services rendered in the domestic and foreign payment transfers, issue of guarantees and letters of credit and other banking services.

Other fee and commission expenses mostly relate to fees for transactions and services provided and are recorded upon receipt of services.

(f) Net Gains on the Financial Assets Held for Trading

Net gains on the financial assets held for trading comprise net gains arising from trade in assets and liabilities, including all realized and unrealized changes in the fair values thereof.

Notes to the financial statements (CONTINUED)

Notes to the financial statements (CONTINUED)

3) Summary of significant accounting policies (CONTINUED)

3) Summary of significant accounting policies (CONTINUED)

(g) Net Gains on the Hedges against Risks

Net gains on the hedges against risks include net gains on changes in fair values of derivatives designated as risk hedging instruments and changes in fair values of loans, receivables and securities as hedged items, arising from the risks against which the items are hedged.

(h) Lease Liabilities

Payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Income Tax Expenses

Tax expense comprises current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

i. Current Income Tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Current income tax represents an amount calculated in accordance with the Republic of Serbia Corporate Income Tax Law. The prescribed tax rate for 2015 equals 15% (2014: 15%). The taxable base is the profit before taxes shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia.
The Republic of Serbia Corporate Income Tax Law was amended at the end of 2015 with the amendments effective as from the preparation of the .tax statement for 2016, i.e., a tax period ending in 2016. Accordingly, the Bank's tax statement for 2015 has been prepared under the same rules that applied in the previous year.

ii. Deferred Income Taxes

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.
A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized

iii. Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as propery tax, payroll contributions charged to the employeer and other public duties. These are included under other expenses within the income statement.

(j) Financial Assets and Liabilities

i. Recognition and Initial Measurement

The Bank initially recognizes financial assets and liabilities at the settlement date.
A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities held for trading, whose measurement does not include these costs.

ii. Classification

The Bank classified its financial assets into the following categories:
- loans and receivables;
- held-to-maturity investments;
- financial assets and liabilities at fair value through profit and loss;
- financial assets available for sale.

Please refer to accounting policies 3(m), 3(n), 3(o) and 3(p).
The Bank classifies its financial liabilities as measured at amortized cost or held for trading. Please refer to accounting policy 3(u).

iii. Derecognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expire.

iv. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.
Income and expenses are presented on net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

v. Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

vi. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.
When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.
If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other optional models.
The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.
Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.
Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price. When the Bank has position with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate.
Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.
The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received. However, in some cases, the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation

3) Summary of significant accounting policies (CONTINUED)

technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial recognition of the instrument. In other cases the difference is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

vii. Impairment Identification and Measurement

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

The Bank writes off certain loans and receivables and investment securities when they are determined to be uncollectable (please refer to Note 4(b)).

(k) Cash and Cash Funds Held with the Central Bank

Cash and cash funds held with the central bank include cash on hand, balances held on the Bank's gyro account, other cash funds and the obligatory foreign currency reserve held with the central bank. Cash and cash funds held with the central bank are stated at amortized cost within the statement of financial position.

For the purposes of cash flow statement preparation cash and cash funds include funds held on the accounts with foreign banks, while the obligatory foreign currency reserve held with the central bank is not included in the cash flow statement.

(l) Derivatives Held for Hedges against Risks and Hedge Accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet.

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes as assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument is

Notes to the financial statements (CONTINUED)

3) Summary of significant accounting policies (CONTINUED)

expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range from 80% to 125%.

i. Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If only certain risks attributable to hedged items are subject to hedging, the recognized changes in fair value of the hedged items that are not associated with the risk subject to hedging are recognized in accordance with the Bank's policy on financial instrument measurement depending on the instrument classification.

(m) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Loans and receivables are presented net of specific and collective allowances for impairment. Specific and collective allowances are made against the carrying amount of loans and advances that are identified as being impaired in order to reduce their value to recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement within the line item "net losses from impairment of financial assets."

(n) Held-to-Maturity Financial Assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value,
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal, and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(o) Financial Assets at Fair Value through Profit and Loss

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or upon initial recognition are designated by the Bank as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that the Bank acquired or incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or derivatives.

Financial assets at fair value through profit or loss are measured at fair value. Changes in the fair value are presented within the income statement.

(p) Financial Assets Available for Sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as another category of financial asset. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income from debt instruments classified as assets available for sale is recognized in profit or loss using the effective interest method. Dividend income from debt instruments classified as assets available for sale is recognized in profit or loss when the Bank

Notes to the financial statements (CONTINUED)

3) Summary of significant accounting policies (CONTINUED)

becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in other comprehensive income until the investment is sold or impaired, where upon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss under net gains/losses on financial assets available for sale.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial assets for the foreseeable future or until maturity.

(q) Property, Plant and Equipment

i. Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.
Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.
Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognized net within other income in profit or loss.

ii. Subsequent Expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of expenditure will flow to the Bank. The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

iii. Depreciation

Items of property and equipment are depreciated from the following month when they are available for use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The depreciation rates used for the current and comparative periods are as follows:

Assets	Estimate Useful Life (Years)	Minimum Annual Rate (%)
Buildings	Maximum 50	2
Furniture	Maximum 25	4
IT equipment and electronic systems	Maximum 15	6.67
Other	Maximum 10	10

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

(r) Intangible Assets

Intangible assets comprise of software, licenses and other intangible assets.

Intangible assets purchased by the Bank are stated at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use. The estimated useful life of intangible assets is five years and amortization rate used is 20%, except for the assets whose usage periods are contractually defined, when these assets are amortized over the contractually defined periods. Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

(s) Leases – the Bank as a Lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Bank's statement of financial position.

Notes to the financial statements (CONTINUED)

3) Summary of significant accounting policies (CONTINUED)

(t) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(u) Deposits, Borrowings and Subordinated Liabilities

Deposits, borrowings from banks and customers and subordinated liabilities are the Bank's source of debt funding.

The Bank classifies equity instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs and subsequently measured at their amortized cost using the effective interest method.

(v) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Bank does not perform discounting of the future cash flows expected to arise in the near term.

(w) Financial Guarantees

Financial guarantee represent contracts whereby the Bank is obligated to make the designated payment to the guarantee holder for the loss incurred due to the designated debtor's failure to make the relevant payment in timely manner in accordance with the debt instrument terms.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within contingent liabilities.

(x) Employee Benefits

In accordance with regulatory requirements of the Republic of Serbia, 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 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. These taxes and contributions payable on behalf of the employee and employer are charged to staff costs in the period in which they arise.

Pursuant to the Labor Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfillment of the prescribed conditions stated at December 31, 2015 represent the present value of the expected future payments to employees determined by actuarial assessment using assumptions such as mortality rate tables, employee turnover and disability rates, projected annual salary growth rate of 2%, annual discount rate 5.25% with expected inflation rate of 1.5%, as well as margins on annuities to a vanishing point as prepared by the actuary. In addition, in 2015 the Bank accrued expenses for unused annual leaves (vacations).

Notes to the financial statements (CONTINUED)

4) Financial risk management

(a) Introduction and Overview

In its operations the Bank is particularly exposed to the following risks:
- Credit risk, including the residual risk, dilution risk, settlement/delivery risk, and counterparty risk;
- Concentration risk, which includes risks of exposure to a single entity or a group of related entities;
- Liquidity risk;
- Market risks (interest rate risk, currency risk and other market risks);
- Operational risk;
- Investment risk;
- Strategic risk; and
- Compliance risk.

Credit risk is the risk of possible negative effects on financial result and equity of the Bank caused by the borrower default on its obligations to the Bank. Credit risk includes risks which represent the likelihood of occurrence of adverse effects on the financial result and equity due to:
- Residual risk –the fact that credit risk mitigation techniques are less efficient than anticipated or their implementation does not have sufficient influence on reduction of risks to which the bank is exposed.
- Dilution risk – reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the debtor
- Settlement/delivery risk – unsettled transactions or counterparty's failure to fulfil his part of the deal in a transaction or settlement of monetary liabilities under that transaction
- Counterparty risk – consequence of failure to fulfil his part of the deal in a transaction before final settlement of cash flows of the transaction or settlement of monetary liabilities under that transaction.

Liquidity risk is the possibility of occurrence of adverse effects on financial result and equity of the Bank caused by the Bank's inability to fulfil its due obligations as a result of withdrawal of existing sources of financing and/or impossibility of securing new sources of financing, or difficulties in converting assets into liquid funds due to market disturbances.

Market risks include interest rate risk, foreign exchange risk and other market risks. Interest rate risk is a risk of negative effects on financial result and equity of the Bank caused by changes in the level of interest rate. Foreign exchange risk is the risk of negative effects on financial result and equity of the Bank caused by changes in the exchange rate. Other market risks include price risk on equity securities, price risk on debt securities, settlement/delivery risk and counterparty risk.

Operational risk is the risk of negative effects on financial result and equity of the Bank caused by human error, inadequate internal procedures and processes, inadequate management of the information system and other systems in the Bank, as well as by unpredictable external events.

Risk Management Framework

The most important role in the risk management is assigned to the Supervisory Board (SB) of the Bank, which is responsible for risk management system establishing and monitoring. SB is defining strategies and policies for managing key risk types that the Bank is exposed to in its operations. Also, SB is in charge of approval of large exposures to single person or group of related entities towards whom the Bank's exposure is over 10% of capital of the Bank also for the case of increasing of that exposure over 20% of capital of the Bank. Audit Committee is supporting SB in its functioning by considering the most important internal regulations of the Bank before final approval by SB. The Management Board of the Bank is in charge of implementation of approved risk strategies and policies and for approval of procedures for identification, measuring, estimation and managing of risks.

Important role in loan approval process is assigned to the Credit Committee, which is in charge of making decisions about credit applications within its competence level, or giving recommendation for higher credit approval competence level. ALCO is monitoring Market and Liquidity Risks.

Internal organization of the Bank ensures functional and organizational separation of risk management and other regular business activities. The Bank has a separate Risk Management Division in its organizational structure, with a comprehensive and very important function of maintaining and developing a stable and profitable loan portfolio. Risk Management Division now covers the management of credit, market, operational and liquidity risk through the activity of five departments: Strategic Risk Management and Control, Retail Credit Operations, Corporate Underwriting, Corporate Special Credit, and Market and Operational Risk Department.

All departments report directly to the member of the Management Board in charge of Risk Management, thereby ensuring increased supervision of all phases of the credit process as well as global overview and assessment of all risks the Bank is exposed to.

Internal Audit Department

The Internal Audit Department conducts its activities based on the annual operating plan and strategic five year internal audit plan approved by the Management Board. The frequency of internal audit (frequency or length of audit cycle) of a particular business area varies from one to five years, and directly depends on estimated level of risk. The Internal Audit Department regularly monitors implementation of recommendations (action plans) made and reports to the Audit Committee and the Managing Board on all potential delays in the implementation of the measures.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

(b) Credit Risk

Credit process in the Bank is based on strict segregation of the competences and responsibilities in credit operations between risk taking activities, "business" function responsibilities on one side and credit risk management function on the other side. Business function is represented with sectors that are dealing with client acquisition and relationship management, while credit risk management function is represented by mentioned Departments in the Risk Management Division in charge of loan underwriting, monitoring, restructuring and collection. According to "four eye" principle, decision on credit application is proposed by business side (first vote) and final decision or recommendation for credit approval decision is given by risk management function (second vote). Exception can be made for standardized products in retail segment, when due to a large number of relatively small loan amounts and simplification of the procedure, approval process can be completely realized within business function, with mandatory applied "four-eye" principle, in accordance with predefined criteria and parameters, approved by risk management function.
With the aim to ensure adequate and timely risk management, in the area of credit activity the Bank applies following internal regulations: Risk Management Rulebook, Rules on Competences for Credit Business, documents which define rules for internal credit rating assignment, Rules of Procedure for Credit Committee, Collateral Policy, Valuation Policy, Guideline for the Management of Corporate Special Credit Clients, Rules on the IAS/IFRS provision calculation and other regulations. The goal is to manage and optimize exposure to risks, by defining adequate procedures and individual responsibilities in the risk management process.

In order to define a consistent policy for the credit activity and a general framework for risk management, the Bank makes credit risk management strategies for Retail (Credit Risk Retail Strategy) and Corporate (Industry Credit Risk Strategy) segments for each year.

The strategies include general guidelines for the basic parameters of risk management, principles of analysis of the creditworthiness of each customer segment, and the determination of the direction of development of individual products, as well as detailed strategy direction of portfolio development by individual industries and the largest groups of related persons. In this way, the Bank ensures that approved business policies are implemented, resulting in an acceptable level of exposure to credit risk at the level of individual placement, as well as adequate diversification and general quality of the loan portfolio.

Competences, responsibilities and authorities of persons involved in risk management system are defined in Rules on Competences for Crediting Business. In credit process "four eye" principle has to be followed in order to ensure that each side in credit process is checked – the one that propose credit decision, and the other that approves application.

Credit Risk Reporting

Timely identification, measuring, monitoring and managing of credit risk on portfolio level of the Bank is supported by Risk Management Information System (hereinafter: RMIS). By reporting at total portfolio level or particular client level, RMIS provides complete, accurate and timely information about the quality and changes of the loan portfolio.

RMIS has to fulfil 4 main functions:
1. Collecting and processing of data and indicators of credit risk;
2. Analysis of movements and changes in the entire loan portfolio and its structural characteristics;
3. Continuous monitoring of credit risk; and
4. Providing basis for credit risk management decision making process.

The scope of monitoring, management and reporting on credit risk on portfolio level includes monitoring of loan loss provisions (impairment allowances of balance sheet assets and provisions for probable losses per off-balance sheet items), as well as special reserves for estimated losses, calculated in accordance with the NBS Decision on Classification and relevant internal regulations of the Bank.

Credit Risk Parameters

Quantification of credit risk is done by measuring of expected loss. Main indicators that are used to monitor credit risk and to calculate expected loss and loan loss provisions are:

- Exposure of the Bank at default moment (EaD)
- Probability of default (PD)
- Loss given default (LGD)
- Loss confirmation period (LCP)

The Bank uses internal credit rating models. Rating models define specific rating for clients with similar credit risk level. Each rating grade is related to certain PD parameter. The Bank also internally calculates other credit risk parameters.

Rating models, credit risk parameters and collaterals are used for loan loss provisions calculation in line with IFRS, as defined by the special internal regulation of the Bank.

In order to fulfil above mentioned functions, RMIS is using IT systems of the Group and internally generated databases with figures about portfolio by types of placement. Group systems provide rating and overdue days data, as important parameters of credit risk of client.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

Limits

The Bank manages credit risk concentration in portfolio by determining limits. Limits are defined by internal regulations and/or NBS regulations; they are constantly monitored and reported.

In accordance with NBS regulation, total exposure limit toward one client or group of related entities should not be over 25% of total capital of the Bank, after applying all prescribed deducted positions. Sum of all exposures that exceed 10% of capital of the Bank, cannot be higher than 400% of capital of the Bank. Total exposure limit toward one client or group of related entities that exceed 10% of capital of the Bank have to be approved by Supervisory Board.

Reports

In monitoring of credit risk on portfolio level, the following reports are used:
- Risk Report (RR);
- Credit Risk Monitoring Report (CRM); and
- Assets Quality Report (AQ).

RR is prepared monthly and quarterly, and quarterly report is more detailed and with wider scope.
Standard monthly RR, among other, includes:
- Structure and development of portfolio by risk classes;
- Amounts and changes of provisions in accordance with IFRS;
- Collateral coverage of portfolio;
- Main indicators of credit risk and their development;
- Comment on main changes and credit risk tendency; and
- Overview of largest clients with default status.

Quarterly RR includes data shown on monthly level but dispersed by segments as well as additional information related to:
- Collateral structure;
- Off balance sheet structure;
- Overview of portfolio by type and currency of placement;
- Overview of portfolio by industrial sectors;
- Structure of portfolio depending on loan tenor; and
- Overview of large exposures toward one client or group of related entities.

CRM is prepared on monthly level. Data are shown in sub segment level (large companies, mid companies, financing real estate, business clients and freelancers and retail), with comparable data from previous month and end of previous year. Report contains, among other, the following information:
- Loan Structure (type and currency);
- Portfolio collateral coverage and collateral structure;
- Maturity structure of portfolio;
- Amounts and changes of provisions in accordance with IFRS;
- Structure of portfolio by rating categories; and
- Structure of portfolio by criteria of (non)-default status

AQ is prepared on monthly level, data are shown by sub segments with comparable data from all months in reporting year. Report contains:
- Outstandings, EAD, collaterals, each sub segment collateral coverage and collateral structure;
- Additional impairment allowances and reversal thereof, individual and general loan loss provisions and NPL impairment allowances;
- Cost of risk evolution; and
- NPL breakdown according to NBS.

Beside standardized reports, there are many activities in order to provide accurate parameters used in monitoring of credit risk: ad hoc analysis and reporting and other activities that contribute to the accuracy of parameters of credit risk.

Ad hoc analysis and reporting are applied in case of higher risk exposure, especially if the credit risk level is changing drastically and promptly and when timely reaction is expected. For example: deterioration of internally defined rating grades, significant need for additional provisions, mismatching signs in organization, implemented system or procedures, change of any of credit risk parameters and provisions calculation.

Other activities include: control of data quality that are used in monitoring, managing and reporting of credit risk, improving of existing systems and procedures, annual process of budgeting and additional controlling and correcting of budget parameters.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

Credit Risk Exposure

The table below shows the Bank's maximum credit risk exposure per financial instrument type:

Thousands of RSD

	Cash and cash funds held with the central bank		Held-to-maturity financial assets		Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Financial assets at FVTPL held for trading		Available-for-sale financial assets		Other assets		Off-balance sheet items	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Individually impaired																
Corporate clients, rating 10	-	-	16,252	16,252	-	-	14,739,127	13,553,170	-	-	-	-	112,179	104,747	28,148	48,264
Corporate clients, rating 9	-	-	-	-	-	-	68,419	11,254,978	-	-	-	-	135	80,828	-	119,077
Corporate clients, restructured loans	-	-	-	-	2	-	15,085,145	947,485	-	-	-	-	119,310	28,989	229,003	134,877
Retail clients, > 90 days past due	-	-	-	-	-	-	4,113,123	3,567,539	-	-	-	-	84,821	70,726	1,002	7,874
Gross loans	-	-	16,252	16,252	2	-	34,005,814	29,323,172	-	-	-	-	316,446	285,290	258,153	310,092
Impairment allowance	-	-	16,252	16,252	1	-	19,899,044	17,661,214	-	-	-	-	294,594	262,507	79,538	188,674
Carrying value	-	-	-	-	1	-	14,106,770	11,661,958	-	-	-	-	21,851	22,783	178,615	121,418
Group-level impaired																
Corporate clients, rating 1 - 6	36,431	41,052	222,454	487,891	1,061,101	9,491,052	114,921,292	98,818,505	-	-	2,897,174	3,457,008	20,843	520,209	94,119,737	93,354,676
Corporate clients, rating 7	-	-	8,021	100,237	270	1,173,254	3,697,462	12,425,190	-	-	-	-	312	6,979	1,145,760	2,339,182
Corporate clients, rating 8	-	-	-	-	-	-	1,757,840	1,680,729	-	-	-	-	166	4,435	305,360	214,332
Retail clients, < 90 days past due	-	-	-	-	-	-	46,842,306	41,201,528	-	-	-	-	1,061	1,781	1,427,551	1,614,904
Gross loans	36,431	41,052	230,475	588,128	1,061,371	10,664,306	167,218,900	154,125,952	-	-	2,897,174	3,457,008	22,382	533,404	96,998,408	97,523,094
Impairment allowance	398	449	9,113	3,654	15,747	32,498	1,005,727	805,507	-	-	-	-	10,952	2,308	132,563	106,431
Carrying value	36,033	40,603	221,362	584,474	1,045,624	10,631,808	166,213,173	153,320,445	-	-	2,897,174	3,457,008	11,430	531,096	96,865,845	97,416,663
Carrying value of rated assets	36,033	40,603	221,362	584,474	1,045,625	10,631,808	180,319,943	164,982,403	-	-	2,897,174	3,457,008	33,282	553,879	97,044,460	97,538,081
Carrying value of non-rated assets	43,711,135	29,901,435	-	-	7,421,931	-	55,194	-	2,563,666	685,490	66,786,777	51,414,595	760,712	11	-	-
Total carrying value	**43,747,168**	**29,942,038**	**221,362**	**584,474**	**8,467,556**	**10,631,808**	**180,375,137**	**164,982,403**	**2,563,666**	**685,490**	**69,683,951**	**54,871,603**	**793,994**	**553,890**	**97,044,460**	**97,538,081**

* Category "corporate clients – restructured loans" includes corporate customers with internal rating 8-, whose impairment allowance was made on a group-level and not individually.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

Implementation of Basel II Standards

In the area of Basel II standard implementation the focus of activities was placed mainly on the monitoring of predictive capabilities of the internally developed rating models and their parameters for corporate, retail, entrepreneur and small entity segments. In 2015 the Bank implemented the enhanced versions of the internally developed models for the said segments. A forbearance tool was also implemented according to the latest standards of the European Banking Authority (EBA), which is aligned with the methodologies of UniCredit Group, and allows better monitoring and recording of rescheduled/restructured loans where borrowers encounter financial difficulties in repayment.

Internal Rating System (Rating Scale)

The ranking rules for customers are established at the level of the UniCredit Group and as such are unique for each member of the group. The Bank's rating system was developed and has been in use since 2004 at the Group level for clients classified in the corporate clients group. For retail clients and entrepreneurs, the rating system was internally developed and has been in use since 2010. In 2015 the Bank made improvements to and implemented all internally developed rating models thus enhancing their predictive capabilities. The Master Scale is used as a unique rating assignment method which ensures that customers with the same rating have the same credit characteristics and the same probability that they will not settle their obligations, in part or in full, within the period of 1 year.

The Master Scale is divided into 10 rating classes that are further broken down into a total of 26 rating subgroups.

The internal master scale is compliant with Basel II standards, meaning that each rating subgroup has a PD parameter associated with it, with probability that a customer with particular characteristics will be unable to settle liabilities toward the Bank and will be in default. For the first 24 subgroups the probability of default ranges between 0.02% and 20.00%, where those clients are rated between 1+ and 8. Their probability of default is based on statistical analysis based on historical data.

Ratings from 1+ to 6-: These rating notches are reserved for customers determined in an internal credit assessment to have a credit standing of very good to just acceptable. For customers with this rating periodic review of credit rating is performed annually.

Ratings 7+ to 7-: Cover three subgroups for transactions with low credit rating. Customers assigned these rating notches have substantially greater risk factors and must be constantly monitored.

Ratings 8+ and 8- cover those companies without individual provisioning which are subject to special workout or credit-reduction measures.

Rating 8- relates to customers in default according to the Basel II criteria.

Rating 9 comprises customers who are individually provisioned or for which a part of the claim has been written off.

Rating 10 contains customers who are in a state of liquidation or bankruptcy.

Ratings 8-, 9 and 10 are by definition assigned to customers in default in accordance with Basel II measures, with loan loss provisioning.

Impairment Allowance and Provisioning Methodology

The procedure which is based on the Rulebook on Calculating Provisions in accordance with IAS/IFRS provision calculation and adopted rules is conducted in two steps:

- assessment of individual/specific provision (at group or individual level) for clients where impairment of value already occurred, and
- assessment of impairment on a portfolio level for loans where impairment in value does not exist or exists but it has not yet been identified.

Special Provisioning/Individual impairment Allowance Rules and Principles

A financial asset is impaired and impairment has occurred if there is objective evidence of impairment resulting from one or more events after initial recognition which impact future cash flows associated with such financial asset. The Bank reviews at least once in three months whether there is objective evidence of impairment of a financial assets or group of assets. If there is such evidence, the Bank is required to calculate the amount of impairment for the purpose of deciding whether to recognize an impairment loss. In other words, if there is any such evidence of impairment, the Bank should estimate the recoverable amount for such assets or group of assets and recognize an impairment loss.

In determining the adequate amount of provision a distinction is made between the need for calculating a special provision on an individual basis and a special provision on a group basis for clients grouped in categories with similar risk characteristics, including segments to which the client belongs and total amount of exposure at client level. Total exposure of clients consists of the balance of receivable and off-balance balance of receivables, including undrawn amounts of loans.

The process of calculating a special provision on an individual basis is intended to measure impairment at client level. Individual provisions are measured as the difference between the book value of a receivable and present value of expected future cash flows (excluding future impairments not recognized as already occurred) discounted using the effective interest rate for the particular financial asset (e.g. effective interest rate specified in the contract). In other words, the provision is set in the amount of the individual receivable for which collection is doubtful. In the event that the effective interest rate is not available, in calculating the provision an alternative interest rate is used which is compliant with rules specified in the Bank`s internal regulations. In determining the present value of a receivable, first the discounted cash flow from repayment of principal, interest and any other cash flows associated with the placement are determined. After that, the discounted cash flow from the net realizable value of impaired assets is determined for the given placement. Finally, the net present value of future cash flows is compared to the carrying amount of the particular asset and the amount of the provision for impairment of the given placement is calculated and reported in the income statement.

Calculation of provisions for exposures that are impaired and which are not classified as individually significant is performed on a group basis by grouping clients with a default status into homogenous categories with similar risk characteristics. In defining homogenous categories, the Bank uses segmentation criteria in developing the model for computing the loss rate upon occurrence of loss given default (LGD model).

General Provisioning Rules and Principles

In determining provisions for exposures for which there are no objective evidence of impairment the Bank uses the general provisioning method (IBNR). According to this method, provisions are calculated not just for exposures for which an event has been identified which leads to impairment, but also for exposures for which an event that leads to impairment has occurred, but has not been identified yet by the Bank. Even though for such placements no indications of impairment exist, nor any credit risk losses as at balance sheet date, historical information suggest that over time, for a portion of these placements, contractual obligations toward the Bank will not be performed.

The method of general provisioning is based on the concept of expected loss according to Basel II standards. Expected loss represents the average loss for a credit portfolio in the period of one year and depends on credit risk parameters. A parameter which links the concept of expected losses with the method of general provisioning is the period of identification of an occurred loss (Loss Confirmation Period – LCP). LCP represents a time period expressed as the number of months between the moment of occurrence or potential occurrence of an event that results in placement impairment and the moment when an event has been identified by the Bank. Identification of the event itself is linked to the fulfilment of criteria for default status.

In order for an occurred (but still not identified) loss to be covered for a part of the credit portfolio without the existence of objective evidence of placement impairment, a general provision is calculated as the product of the expected loss for the period of one year and the LCP parameter expressed for parts of the year.

The value of the LCP parameter is 12 months for legal entities, SME and entrepreneurs and individuals in accordance with the internal segmentation (corporate and retail segments) and 4 months for banks in accordance with the range recommended by the UniCredit Group, which is from 4 to 12 months.

4) Financial risk management (CONTINUED)

The table below shows gross and net NP loans due from banks and customers. Non-performing loans are loans which have at least one repayment instalment over 90 days past due. Such loans are impaired and provided for in full, after considering collection from operating cash flow and collateral foreclosure as well.

Thousands of RSD

	Held-to-maturity financial assets		Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Other assets		Off-balance sheet assets	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2015										
Corporate clients, rating 10	16,252	-	-	-	14,739,127	2,011,873	112,179	8,904	28,148	4,031
Corporate clients, rating 9	-	-	-	-	68,419	50,072	135	2	-	-
Corporate clients, restructured loans	-	-	2	1	15,085,145	10,505,094	119,310	11,821	229,003	173,734
Retail clients, > 90 days past due	-	-	-	-	4,113,123	1,539,731	84,821	1,125	1,002	850
Total	**16,252**	**-**	**2**	**1**	**34,005,814**	**14,106,770**	**316,446**	**21,851**	**258,153**	**178,615**
December 31, 2014										
Corporate clients, rating 10	16,252	-	-	-	13,553,170	2,709,632	104,747	10,962	48,264	44,205
Corporate clients, rating 9	-	-	-	-	11,254,978	6,699,606	80,828	37	119,077	67,079
Corporate clients, restructured loans	-	-	-	-	947,485	813,112	28,989	9,008	134,877	3,979
Retail clients, > 90 days past due	-	-	-	-	3,567,539	1,439,608	70,726	2,776	7,874	6,155
Total	**16,252**	**-**	**-**	**-**	**29,323,172**	**11,661,958**	285,290	22,783	**310,092**	**121,418**

The aging structure of matured and unimpaired loans as of December 31, 2015 is provided in the table below:

(Thousands of RSD)

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
Loans and receivables due from customers					
Gross	1,688,564	304,854	109,670	109,670	**2,212,759**
Impairment allowance	(59,271)	(9,127)	(4,673)	(945)	**(74,015)**
Net carrying value	1,629,293	295,727	104,998	108,725	**2,138,744**

Security Instruments - Collaterals

Mitigation of credit risk is done with adequate collateral requirements. The purpose of acquiring all available collaterals, proper booking, assessment and monitoring is to minimize risk as much as possible. Therefore the Bank is especially dedicated to the management of collaterals, maintaining the acceptable relationship between the undertaken risk and real rate of the collateral recovery, control and mitigation of risks related to quality, concentration, or insurance of the receivables, maturity, currency, etc. Aiming at further enhancement of processes and systems with regards to credit risk mitigation, Bank set-up a special unit within Strategic Risk Management and Control Department – Collateral Management Unit (CMU).

The Bank uses relevant policies for collateral management. Collaterals accepted and used by the Bank for minimizing credit risk comprise:

- financial collaterals (cash deposits), allowed to be recognized in full amounts;
- payment guarantees issued by first-class banks and governments, allowed to be recognized at full amounts;
- mortgages on residential or commercial property, recognized up to 70% or 60%, respectively of appraised value of property;
- pledge liens over receivables, recognized up to 70%;
- pledge liens over movable assets, recognized up to 50%; and
- securities issued by governments, central banks or institutions with adequate credit rating.

In the event that the currency of a security instrument differs from the currency of the loan for which it provides security, the value of the security instrument must be further reduced using a factor defined for every currency combination, as specified by the Bank's policy "Credit risk Mitigation Policy – Special Local Standards".

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

Appraised fair values of collaterals securitizing the Bank's loans up to the credit risk exposure level as of December 31, 2015 are presented in the table below:

Thousands of RSD

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Held-to-maturity financial assets		Available-for-sale financial assets		Other assets		Off-balance sheet assets	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Corporate clients, rating 10	**-**	**-**	**1,188,406**	**1,849,356**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	1,188,406	1,835,473	-	-	-	-	-	-	-	-
Other	-	-	-	13,883	-	-	-	-	-	-	-	-
Corporate clients, rating 9	**-**	**-**	**61,847**	**6,431,002**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,051**
Real estate	-	-	61,847	3,155,095	-	-	-	-	-	-	-	13,051
Other	-	-	-	3,275,907	-	-	-	-	-	-	-	-
Corporate clients, restructured loaans	**-**	**-**	**7,422,265**	**732,437**	**-**	**-**	**-**	**-**	**-**	**-**	**33,251**	**25,750**
Real estate	-	-	4,587,567	292,416	-	-	-	-	-	-	32,885	25,585
Other	-	-	2,834,698	440,021	-	-	-	-	-	-	366	165
Retail clients, > 90 days past due	**-**	**-**	**473,214**	**429,721**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	471,667	428,510	-	-	-	-	-	-	-	-
Other	-	-	1,547	1,211	-	-	-	-	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**-**	**1,071**	**58,653,183**	**51,567,425**	**-**	**-**	**-**	**-**	**-**	**-**	**11,037,243**	**18,676,407**
Real estate	-	-	41,087,689	37,597,593	-	-	-	-	-	-	2,984,518	3,042,261
Other	-	1,071	17,565,494	13,969,832	-	-	-	-	-	-	8,052,725	15,634,146
Total	**-**	**1,071**	**67,798,915**	**61,009,941**	**-**	**-**	**-**	**-**	**-**	**-**	**11,070,495**	**18,715,208**

(c) Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, calls on guarantees, margins and other obligations to pay out cash and cash equivalents. The Bank does not maintain cash resources to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is not unusual for banks never to cover their balances, given that business transactions are often carried out for indefinite periods and are of different types. Open positions potentially increase profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, the interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.
The Bank's management judges that the diversification of deposits by the type of deposit placed and the number of customers, as well as the historical experience of the Bank, provide adequate assurance that its deposits represent a stable and reliable source of finance.

The Bank's liquidity is expressed through the liquidity ratio. The Bank is under obligation to maintain the ratio between the sum of liquid receivables of first order and liquid receivables of second order, on the one hand, and the sum of the Bank's call deposit liabilities and deposits without contractual maturity and deposits with contracted maturity, as follows:

- at least 1.0 – when calculated as an average of all working days in a month;
- not below 0.9 for over three consecutive days; and
- at least 0.8 – when calculated for one working day.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

In addition, the Bank is obligated to maintain the liquidity levels so that the rigid/cash liquidity ratios are as follows:

- at least 0.7 – when calculated as an average of all working days in a month;
- not below 0.6 for over three consecutive days,
- at least 0.5 – when calculated for one working day.

The Bank is under obligation to report to the National Bank of Serbia if the liquidity ratio is not within prescribed parameters for two working days, and must do so on the next working day. If the Bank determines a critically low liquidity ratio, it must report this to the National Bank of Serbia at the latest by the next working day. Such report should contain information on the amount of liquid assets that are not available, on the reasons for the lack of liquidity and on planned activities for resolving the cause of illiquidity. The Market and Operating Risk Department prepares a report on daily liquidity for the National Bank of Serbia at daily and monthly levels.

The Bank's liquidity management is the responsibility of the head of Assets and Liabilities Management ("ALM") and Head of the Markets Department. The Liquidity Centre of the UniCredit Group monitors the liquidity of its subsidiaries, maintains liquidity policy in the region and, when needed, orders corrective measures that are to be carried out by a subsidiary. Short term liquidity management in responsibility of Markets Department.

Depending on the crisis severity, the Bank may declare the Warning Stage or the Alert Stage. The Bank's liquidity policy in unforeseen events describes the engagement rules for each of the two stages. There are specific rules for activation of and response in each stage and each stage has a dedicated task force. Whenever a stage is activated, the relevant responsibility lines convene, assess the situation and make a decision on further actions. The Liaison Officer (LO) appointed by CRO (Chief Risk Officer) and CFO (Chief Finance Officer) is responsible for scheduling the meeting, its agenda and minutes, and the further distribution of the minutes. LO enables transparency of the process and allows the organization to analyze the effectiveness of the liquidity policy in unforeseen events after the end of the crisis. CFO is responsible for liquidity transaction performance and coordination of all relevant operations, taking care of full harmonization of internal and external communications. CRO has an independent supervisory role.

Liquidity ratio (I grade)	2015	2014
- as at 31 December	1.59	1.50
- average for the period – December	1.55	1.58
- maximum for the period – December	1.61	1.74
- minimum for the period – December	1.45	1.38

Rigid/cash liquidity ratio:	2015	2014
- as of December 31	1.29	1.05
- average for the period – December	1.20	1.11
- maximum for the period – December	1.31	1.37
- minimum for the period – December	1.12	0.87

Early warning signals or indicators have been defined and the Bank monitors them on a daily basis. Early warning signals are aimed at assisting those in charge of liquidity maintenance to estimate the market.

The indicators are:

- Cumulative liquidity flow for all currencies up to 3 months in millions of EUR;
- Structural liquidity ratios for all currencies;
- Liquid assets and liabilities in the ensuing 30 days;
- Rigid liquid assets and liabilities in the ensuing 30 days;
- Volume of loans approved to non-banking institutions after provisioning divided by stable local resources;
- Risk associated with short-term items;
- Fluctuations of 1-month BELIBOR; and
- Fluctuations of EUR and RSD.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as of December 31, 2015:

(Thousands of RSD)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash funds held with the central bank	43,747,168	-	-	-	-	**43,747,168**
Financial assets at fair value through profit and loss, held for trading	-	-	1,474,974	1,073,428	15,264	**2,563,666**
Financial assets available for sale	2,208,528	5,590,491	17,658,102	41,021,934	3,204,896	**69,683,951**
Financial assets held to maturity	189,656	31,706	-	-	-	**221,362**
Loans and receivables due from banks and other financial institutions	7,380,874	-	765,890	320,792	-	**8,467,556**
Loans and receivables due from customers	8,340,556	2,147,623	30,735,553	95,530,081	43,621,324	**180,375,137**
Other assets	793,994	-	-	-	-	**793,994**
Total assets	**62,660,776**	**7,769,820**	**50,634,519**	**137,946,235**	**46,841,484**	**305,852,834**
Liabilities						
Financial liabilities at fair value through profit and loss, held for trading	9,817	-	-	116,542	15,264	**141,623**
Liabilities per financial derivatives designated as risk hedging instruments	-	-	-	-	492,401	**492,401**
Deposits and other liabilities due to banks other financial institutions and the central bank	10,871,936	1,128,043	17,945,025	44,270,248	8,602,956	**82,818,208**
Deposits and other liabilities due to customers	106,189,287	12,124,223	18,987,983	15,377,869	2,328,987	**155,008,349**
Subordinated liabilities	378	-	-	3,018,992	-	**3,019,370**
Current tax liabilities	99,256	-	-	-	-	**99,256**
Other liabilities	4,453,140	-	-	-	-	**4,453,140**
Total liabilities	**121,623,814**	**13,252,266**	**36,933,008**	**62,783,651**	**11,439,608**	**246,032,347**
Net liquidity gap as at December 31, 2015	**(58,963,038)**	**(5,482,446)**	**13,701,511**	**75,162,584**	**35,401,876**	**59,820,487**

The structure of asset and liability maturities as at December 31, 2015 is indicative of maturity mismatch between the outstanding maturities of assets and those of liabilities in the time buckets of up to a month and from one to three months, primarily due to maturity structure of deposits, i.e., a significant share of demand deposits and short-term deposits in the total deposits due to banks and customers. However, based on historical data and experience, a significant portion of demand deposits may be considered a long-term source of financing given the transactions and withdrawals realized; in addition, a large number of term deposits are commonly renewed and placed for another term immediately upon maturity. At the same time, the Bank is in possession of liquid instruments, securities that can be pledged with the National Bank of Serbia at any time, as well as agreed and not yet withdraws loan facilities approved by the international financial institutions and the Parent Bank.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as of December 31, 2014:

(Thousands of RSD)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash funds held with the central bank	29,942,038	-	-	-	-	**29,942,038**
Financial assets at fair value through profit and loss, held for trading	89,210	8,497	169,416	418,367	-	**685,490**
Financial assets available for sale	1,823,954	873,967	17,534,824	28,987,727	5,651,131	**54,871,603**
Financial assets held to maturity	463,892	120,582	-	-	-	**584,474**
Loans and receivables due from banks and other financial institutions	9,454,340	-	1,137,200	40,268	-	**10,631,808**
Loans and receivables due from customers	9,768,260	2,120,357	25,848,005	87,777,961	39,467,820	**164,982,403**
Current tax assets	772,408	-	-	-	-	**772,408**
Other assets	553,890	-	-	-	-	**553,890**
Total assets	**52,867,992**	**3,123,403**	**44,689,445**	**117,224,323**	**45,118,951**	**263,024,114**
Liabilities						
Financial liabilities at fair value through profit and loss, held for trading	-	-	118,500	88,854	-	**207,354**
Liabilities per financial derivatives designated as risk hedging instruments	-	-	-	-	454,559	**454,559**
Deposits and other liabilities due to banks other financial institutions and the central bank	8,947,701	586,857	4,649,122	44,607,022	11,508,395	**70,299,097**
Deposits and other liabilities due to customers	85,508,055	9,743,621	24,073,740	11,913,672	3,220,458	**134,459,546**
Subordinated liabilities	-	-	-	2,698,019	-	**2,698,019**
Other liabilities	1,447,828	-	-	-	-	**1,447,828**
Total liabilities	**95,903,584**	**10,330,478**	**28,841,362**	**59,307,567**	**15,183,412**	**209,566,403**
Net liquidity gap as at December 31, 2014	**(43,035,592)**	**(7,207,075)**	**15,848,083**	**57,916,756**	**29,935,539**	**53,457,711**

(d) Market Risks

The Bank takes on exposure to market risks. Market risk arise from open positions in interest rate, currency and securities, all of which are exposed to general and specific market movements. The Bank applies a "value at risk" ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Supervisory Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

i. Interest Rate Risk

The Bank is exposed to various risks that due to market interest rate fluctuations affect its financial position and cash flows. Interest rate margins can increase as the result of these fluctuations, but at the same time they can be reduced or cause losses in the event of unexpected fluctuations. Review of risk of fluctuation in interest rates is made using reports of acceptable interest rates based on which monetary assets and liabilities can be revaluated very quickly, with all risk of interest rate fluctuation becoming materially insignificant. The Supervisory Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The Bank is focused on interest rate spreads. The Bank is aware that volatility of Interest Rate Risk (IRR) spread is potential interest rate risk indicator. This spread is managed by loan pricing, deposit pricing, and investing.

The methodology used to assess the Investment book interest rate risk is the Gap/Duration analysis. The difference between the interest bearing assets and liabilities within the separate time "buckets" shows how two balance sheet sides react differently to interest rate changes:

- in case of positive GAP the bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency fall,
- in case of negative GAP, bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency rise.

The number and the "buckets" schedule are defined on the ALCO and level of UniCredit Group. Gap limits are defined according to the currency (limits per currency).

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

Resulting short and long positions are weighted by factors designed to reflect the sensitivity of the positions in the different time buckets to an assumed change in interest rates, based on an assumed parallel shift of 200 basis points throughout the time spectrum, and on proxies of modified duration.

	December 31, 2015		December 31, 2014	
	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp
RSD	-	(1,381,936)	-	(1,311,714)
EUR	-	(189,123)	-	64,251
USD	-	40,725	-	(8,171)
GBP	-	-	-	-
CHF	-	(114,134)	-	(136,829)
JPY	-	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
DKK	-	-	-	-
NOK	-	-	-	-
SEK	-	-	-	-
Total effect	**-**	**(1,644,467)**	**-**	**(1,392,463)**

The Bank prepares reports for measuring interest rate risk for all positions of assets, liability and off-balance items, as well as for all other compensations or expenditures that are exposed to interest rate risk. These reports are used to measure risk to Net Interest Income ("NII") arising from the re-pricing of assets and liabilities over time. The risk is measured upon the size and duration potential movements in interest rates.

In addition to the GAP analyses, interest rate risk management also entails monitoring the sensitivity of the Bank's assets and liabilities to different standard and non-standard scenarios of changes in interest rates. The standard scenarios prepared on a daily basis entail parallel changes (increases and decreases) in the yield curve by 200 basis points (b.p.) in Serbia.

One of the objective targets of ALM is managing of the interest rate risk of the Bank through acting on financial market (through Interbank trading) in order to hedge the risk return profile desired by the Bank and providing sufficient earnings by managing the Bank's investment portfolio. Approved instruments for ALM to take an interest related strategic position to improve the profitability of the banking book.

The Bank's sensitivity analysis, i.e. impact on the Bank's financial performance of the increase/decrease in the interest rates assuming symmetrical movement in yield curves and constant financial position is presented in the table below:

Thousands of RSD

	Parallel increases by 200 b.p.	Parallel decreases by 200 b.p.
2015		
As at December 31	1,837,718	(1,837,718)
Average for the year	2,050,426	(2,050,426)
Maximum for the year	2,360,799	(2,360,799)
Minimum for the year	1,828,786	(1,828,786)
2014		
As at December 31	1,744,650	(1,744,650)
Average for the year	1,851,915	(1,851,915)
Maximum for the year	2,170,318	(2,170,318)
Minimum for the year	1,657,668	(1,657,668)

Breakdown of VaR position of the Bank's trading portfolio:

Thousands of RSD

	As at December 31	Average	Maximum	Minimum
2015				
Currency risk	2,954	4,735	12,971	118
Interest rate risk	9,077	5,627	9,902	609
Credit spread risk	4,554	3,821	6,970	896
Other price risks	-	-	-	-
Covariance	(7,114)	-	-	-
Overall	9,471	8,902	20,259	1,310
2014				
Currency risk	6,923	4,610	17,035	154
Interest rate risk	4,932	8,910	29,298	4,932
Credit spread risk	1,169	1,844	435	11,212
Other price risks	-	-	-	-
Covariance	(5,909)	-	-	-
Overall	7,115	9,916	29,298	4,946

4) Financial risk management (CONTINUED)

Exposure to interest rate movements as at December 31, 2015

(Thousands of RSD)

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and cash funds held with the central bank	43,747,168	13,111,755	-	-	-	-	30,635,413
Financial assets at fair value through profit and loss, held for trading	2,563,666	1,808,941	-	618,292	-	-	136,433
Financial assets available for sale	69,683,951	-	-	69,683,951	-	-	-
Financial assets held to maturity	221,362	50,051	165,816	5,495	-	-	-
Loans and receivables due from banks and other financial institutions	8,467,556	7,376,713	1,975	1,042,748	-	43,839	2,281
Loans and receivables due from customers	180,375,137	5,262,666	2,443,663	145,288,164	16,319,833	9,689,413	1,371,398
Other assets	793,994	-	-	-	-	-	793,994
Total assets	**305,852,834**	**27,610,126**	**2,611,454**	**216,638,650**	**16,319,833**	**9,733,252**	**32,939,519**
Financial liabilities at fair value through profit and loss, held for trading	141,623	-	-	-	-	-	141,623
Liabilities per financial derivatives designated as risk hedging instruments	492,401	-	-	-	-	-	492,401
Deposits and other liabilities due to banks other financial institutions and the central bank	82,818,208	8,988,610	52,689,410	1,229,831	13,320,326	6,081,303	508,728
Deposits and other liabilities due to customers	155,008,349	47,671,851	49,915,663	25,700,041	22,649,215	-	9,071,579
Subordinated liabilities	3,019,370	-	3,019,370	-	-	-	0
Current tax liabilities	99,256	-	-	-	-	-	99,256
Other liabilities	4,453,140	-	-	-	-	-	4,453,140
Total liabilities	**246,032,347**	**56,660,461**	**105,624,443**	**26,929,872**	**35,969,541**	**6,081,303**	**14,766,727**
Net interest rate risk sensitivity exposure at December 31, 2015	**59,820,487**	**(29,050,335)**	**(103,012,989)**	**189,708,778**	**(19,649,708)**	**3,651,949**	**18,172,792**

Exposure to interest rate movements as at December 31, 2014

(Thousands of RSD)

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and cash funds held with the central bank	29,942,038	11,090,023	-	-	-	-	18,852,015
Financial assets at fair value through profit and loss, held for trading	685,490	106,340	-	288,149	-	-	291,001
Financial assets available for sale	54,871,603	-	-	54,871,603	-	-	-
Financial assets held to maturity	584,474	441,801	97,078	43,686	-	-	1,909
Loans and receivables due from banks and other financial institutions	10,631,808	9,445,146	-	1,138,271	-	-	48,391
Loans and receivables due from customers	164,982,403	1,208,618	70,084,426	60,279,541	24,837,226	2,034,093	6,538,499
Current tax assets	772,408	-	-	-	-	-	772,408
Other assets	553,890	-	-	-	-	-	553,890
Total assets	**263,024,114**	**22,291,928**	**70,181,504**	**116,621,250**	**24,837,226**	**2,034,093**	**27,058,113**
Financial liabilities at fair value through profit and loss, held for trading	207,354	-	-	-	-	-	207,354
Liabilities per financial derivatives designated as risk hedging instruments	454,559	-	-	-	-	-	454,559
Deposits and other liabilities due to banks other financial institutions and the central bank	70,299,097	3,779,533	48,325,859	3,278,632	13,856,662	-	1,058,411
Deposits and other liabilities due to customers	134,459,546	39,200,494	48,024,893	25,520,371	13,152,506	448,735	8,112,547
Subordinated liabilities	2,698,019	-	-	-	-	2,698,019	-
Other liabilities	1,447,828	-	-	-	-	-	1,447,828
Total liabilities	**209,566,403**	**42,980,027**	**96,350,752**	**28,799,003**	**27,009,168**	**3,146,754**	**11,280,699**
Net interest rate risk sensitivity exposure at December 31, 2014	**53,457,711**	**(20,688,099)**	**(26,169,248)**	**87,822,247**	**(2,171,942)**	**(1,112,661)**	**15,777,414**

4) Financial risk management (CONTINUED)

ii. Currency Risk

Foreign currency risk is the risk of potential negative effects on the Bank's financial result and equity due to fluctuations in the foreign currency exchange rates.

The foreign currency risk ratio is the relation between total foreign currency balance and the Bank's risk based capital, calculated in accordance with the decision that regulates the adequacy of the Bank's risk based capital. The Bank is under obligation to maintain the relation between assets and liabilities in such a way that its foreign currency balance at the end of a working day must not exceed 20% of its equity capital. The Market and Operational Risk Department prepares a report on daily liquidity for the NBS at daily and monthly levels.

The Bank is exposed to the effects of exchange rate fluctuations of the most important foreign currencies on its financial position and cash flows. Bank management sets limits for risk of exposure to particular foreign currencies and constantly monitors whether balances of various foreign currencies are within prescribed limits. Limits are effective for all relevant foreign currency products within the Financial Markets Trading Sector (Markets). They comprise trade balances as well as selected strategic foreign currency ALM balances. These limits are defined in the General section of the MIB Manual. All sensitivities that result from foreign currency balances are limited by the general VaR limit set for UniCredit Bank Serbia, both for the Bank in the aggregate and for the Markets and ALM departments individually.

For the purpose of protecting itself against the risk of fluctuations in the foreign currency exchange rate the Bank concludes derivative contracts and concludes loan and investment contracts linked to foreign currency.

Foreign currency risk management at the operating level of a bank that is a member of the UniCredit Group is the responsibility of the Markets Department.

	2015	2014
Foreign exchange risk ratio:		
as at December 31	6,36	4,33
maximum for the period – December	6,36	6,77
minimum for the period – December	0,15	0,19

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

The Bank's net currency position as at December 31, 2015

(Thousands of RSD)

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and cash funds held with the central bank	96,616	24,738,817	80,789	88,743	18,742,203	43,747,168
Financial assets at fair value through profit and loss, held for trading	-	754,724	-	-	1,808,942	2,563,666
Financial assets available for sale	-	18,241,127	-	-	51,442,824	69,683,951
Financial assets held to maturity	-	-	-	-	221,362	221,362
Loans and receivables due from banks and other financial institutions	2,554,924	5,596,001	16,040	300,579	12	8,467,556
Loans and receivables due from customers	8,020,254	120,572,709	6,742,842	-	45,039,332	180,375,137
Fair value adjustments of risk hedged items	-	-	171,733	-	-	171,733
Intangible assets	-	-	-	-	934,118	934,118
Property, plant and equipment	-	-	-	-	1,181,740	1,181,740
Investment property	-	-	-	-	1,430	1,430
Deferred tax assets	-	-	-	-	141,956	141,956
Other assets	1,045	94,386	1,205	4	697,354	793,994
Total assets	**10,672,839**	**169,997,764**	**7,012,609**	**389,326**	**120,211,273**	**308,283,811**
Financial liabilities carried at fair value through profit and loss, held for trading	-	141,623	-	-	-	141,623
Liabilities per financial derivatives designated as risk hedging instruments	-	237,125	255,276	-	-	492,401
Deposits and other liabilities due to banks, other financial institutions and the central bank	5,616,348	67,639,119	2,667,596	2,894	6,892,251	82,818,208
Deposits and other liabilities due to customers	6,869,620	93,126,826	1,051,652	476,579	53,483,672	155,008,349
Subordinated liabilities	-	-	3,019,370	-	-	3,019,370
Provisions	-	-	-	-	837,182	837,182
Current tax liabilities	-	-	-	-	99,256	99,256
Other liabilities	97,244	758,399	1,642	35,383	3,560,472	4,453,140
Equity	-	-	-	-	61,414,282	61,414,282
Total liabilities and equity	**12,583,212**	**161,903,092**	**6,995,536**	**514,856**	**126,287,115**	**308,283,811**
Off-balance sheet financial instruments	2,062,260	(10,218,645)	(11,252)	22,272	8,159,346	13,981
Net currency position as of December 31, 2015	**151,887**	**(2,123,973)**	**5,821**	**(103,258)**	**2,083,504**	**13,981**

Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

The Bank's net currency position as at December 31, 2014:

(Thousands of RSD)

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and cash funds held with the central bank	73,879	16,202,236	46,809	45,310	13,573,804	29,942,038
Financial assets at fair value through profit and loss, held for trading	-	512,450	-	-	173,040	685,490
Financial assets available for sale	-	15,302,264	-	-	39,569,339	54,871,603
Financial assets held to maturity	-	-	-	-	584,474	584,474
Loans and receivables due from banks and other financial institutions	7,215,407	2,477,340	412,213	526,699	149	10,631,808
Loans and receivables due from customers	2,552,108	106,625,086	6,778,878	-	49,026,331	164,982,403
Fair value adjustments of risk hedged items	-	-	97,950	-	-	97,950
Intangible assets	-	-	-	-	919,595	919,595
Property, plant and equipment	-	-	-	-	1,186,429	1,186,429
Investment property	-	-	-	-	1,463	1,463
Current tax assets	-	-	-	-	772,408	772,408
Deferred tax assets	-	-	-	-	42,912	42,912
Other assets	945	121,336	4,456	82	427,071	553,890
Total assets	**9,842,339**	**141,240,712**	**7,340,306**	**572,091**	**106,277,015**	**265,272,463**
Financial liabilities carried at fair value through profit and loss, held for trading	-	207,354	-	-	-	207,354
Liabilities per financial derivatives designated as risk hedging instruments	-	280,707	173,852	-	-	454,559
Deposits and other liabilities due to banks, other financial institutions and the central bank	4,195,844	55,414,131	3,397,747	7,900	7,283,475	70,299,097
Deposits and other liabilities due to customers	6,863,257	80,665,487	747,307	544,405	45,639,090	134,459,546
Subordinated liabilities	-	-	2,698,019	-	-	2,698,019
Provisions	-	-	-	-	447,823	447,823
Other liabilities	30,771	664,091	8,055	4,484	740,427	1,447,828
Equity	-	-	-	-	55,258,237	55,258,237
Total liabilities and equity	**11,089,872**	**137,231,770**	**7,024,980**	**556,789**	**109,369,052**	**265,272,463**
Off-balance sheet financial instruments	1,253,637	(6,237,990)	(346,888)	12,387	5,400,489	81,635
Net currency position as of December 31, 2014	**6,104**	**(2,229,048)**	**(31,562)**	**27,689**	**2,308,452**	**81,635**

Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

(e) Concentration Risk

Concentration risk directly or indirectly arises from the Bank's exposure to the same or similar risk origination source or the same or similar risk type. Concentration risk relates to:
- large exposures;
- exposure groups with the identical or similar risk factors, such as industry, product type and the like;
- collaterals, including maturity and currency mismatching between large exposures and collaterals securitizing large exposures.

Concentration risk mitigation and control is achieved through active management of the loan portfolio and definition of appropriate exposure limits enabling portfolio diversification. The process of deciding on approval of the Bank's large exposures involves the Supervisory Board, Credit Committee and relevant organizational units within the Group, which ensures another aspect of concentration risk control.

Concentrations of loans and receivables due from customers are disclosed in Notes 24.1 and 24.5.

(f) Exposure Risk

The Bank's exposure risks encompass either risks of exposure to a single entity or a group of related entities or risk of exposure to an entity related to the Bank. In accordance with the NBS regulations, the Bank's total exposure to a single entity or a group of related entities cannot exceed 25% of the Bank's total equity, net of prescribed deductible items. The aggregate amount of all Bank's exposures in excess of 10% of the Bank's equity cannot exceed 400% of the Bank's equity. The total exposure to a single customer or a group of related customers in excess of 10% of the Bank's equity must be approved by the Supervisory Board. The manner of large exposure calculation is defined under the Bank's Decision on the Risk Management.

(g) Investment Risk

The Bank's investment risk relates to the risk of investing in other entities and capital expenditures. The Bank's investments in a non-financial sector entity cannot exceed 10% of the Bank's equity, whereby such investments entail investments through which the Bank acquires equity interest or shares in a non-financial sector entity. The total Bank's investment in non-financial sector entities and Bank's own fixed assets cannot exceed 60% of the Bank's equity, but this restriction does not apply to the acquisition of shares for further trading and sales thereof within six months from the acquisition date.

(h) Country Risk

Country risk is the risk of occurrence of negative effects on the Bank's financial result and equity, arising from the Bank's inability to collect receivables from borrowers from other countries, for reasons that are associated with political, economic or social conditions in the borrower's country of origin. Country risk comprises:
- political-economic risk which consists of the probability that losses will be incurred due to the impossibility of collecting the Bank's receivables due to limitations stipulated by state and other institutions of the borrower's country of origin, as well as general and systemic conditions in that country;
- transfer risk which comprises the probability that losses will be incurred due to the impossibility of collecting receivables denominated in a currency that is not the official currency of the borrower's country of origin, due to limitations on payments of liabilities to creditors from other countries in specific currencies, as prescribed by regulations issued by state and other institutions of the borrower's country of origin;

The Bank's exposure to this risk is significantly limited due to the Bank's business focus on the customers domiciled and operating in the territory of the Republic of Serbia.

(i) Compliance Risks

The Bank's internal bylaws stipulate the Compliance Unit's responsibility for identifying and estimating main compliance risks of the Bank and reporting thereon to the Management Board and the Audit Committee, as well as the Supervisory Board, proposing plans for major risk management in accordance with its competences defined by the Program and Annual Activity Plan.

The Program and relevant policies of UniCredit Group adopted at the Bank level as well, define the regulatory areas and remit of the compliance control function, organizational and legal prerequisites and operational methodology and manner of reporting. The Annual Activity Plan sets forth the volume of activities (per type) and expected results in the forthcoming year.

In addition to its advisory role in the implementation of the effective regulations, the Bank's Compliance Unit monitors activities aimed at implementing control level II, i.e. internal control system improvement.

(j) Strategic Risks

The Bank's organizational structure is defined and adjusted in such a manner that resources dedicated to the preparation and application of crediting policies and strategies, development and implementation of the respective methodologies, rulebooks and other bylaws. The Bank continuously monitors, assesses and adjusts all the relevant bylaws and enactments and crediting processes and proposes improvements or actions to be taken in response to the changes in the environment in order to adequately alleviate their impact on the Bank's financial performance.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

(k) Operational Risks

Operational risk is the risk of loss resulting from error, breach, interruption, damage caused by internal processes, employees or systems or external events. Operational risk is defined as an event occurring as the result of inappropriate or unsuccessful internal processes, actions of employees and systems or systemic and other external events: internal or external embezzlement, employment practice and safety at work, receivables from clients, distribution of products, fines and penalties for injury, damage to property, disruption in operation and system errors, process management. Strategic risks, business risks and reputation risks differ from operational risks, while legal risks and compliance risk are included in the definition of operational risk.

The Market and Operational Risk Department is responsible for recording, monitoring and managing the Group's operating risk and directly answers to the Chief Risk Officer (CRO).This Department's basic task is to coordinate and cooperate with operating risk managers and to communicate with colleagues at the Operational Risk Department in Vienna and Milano, with the purpose of securing information for the efficient monitoring of operating risk at all levels. On a daily basis the department monitors changes in specially defined accounts and on a weekly basis it reports to members of the Executive Board regarding all changes in operational risks.
For the purpose of efficient monitoring of operational risks the Bank appoints operational risk managers and their deputies from various organizational units that are responsible for the accuracy and timeliness of data relating to all damaging events in their organizational unit, as well as for recording all damaging events into a database. The Bank uses ARGO application for the operational risk evidence.

The Operational risk Committee meets quarterly for more efficient internal control and process improvement for minimizing risks arising from operational risk. The Department is also responsible for the calculation of capital requirements for operational risks that are calculated using the Standardized Approach, as well as reporting for local management and at Group level.

(l) Capital Management

The Bank's regulator, the National Bank of Serbia ("NBS"), sets and monitors capital requirements for the Bank. The capital requirements of the regulator are based on the Basel II framework. The Bank monitors on the monthly basis its capital adequacy in compliance with the standardized approach.
The capital adequacy ratio is equal to the ratio between capital and risk assets. In accordance with the NBS Decision on Capital Adequacy ("Decision") the Bank is required to maintain its capital adequacy ratio at a level that cannot be lower than 12%. If the capital adequacy ratio specified in Decision, due to profit distribution, is greater by less than 2.5%, profit distribution can only be carried out from elements of basic capital.

The Bank is required to maintain basic capital in the dinar equivalent amount of EUR 10,000,000, using the official exchange rate. The Bank is required to maintain at all times its capital at a level required for covering all risks to which it is exposed or could be exposed in its operations, and at least in the aggregate sum of the following capital requirements:
- Capital requirements for credit risk and for counterparty risk for all of the Bank's banking activities and capital requirements for settlement/supply risk for its trading activities;
- Capital requirements for price risk for trading activities;
- Capital requirements for foreign currency risk and commodity risk for all banking activities;
- Capital requirements for operational risks for all banking activities.

The Bank's regulatory capital is comprised of:
- Core capital (Tier 1 capital) and
- Supplementary capital (Tier 2 capital).

Tier 1 capital consists of:
- Paid in share capital, except for cumulative preference shares;
- Reserves from profit – all types of reserves of the Bank formed from profits after taxes, based on a decision by the Bank's Shareholder Assembly;
- Retained earnings from prior years as well as for the current year.

When calculating Tier 1 capital, the Bank is obliged to reduce sum of Tier 1 capital elements for the following categories:
- Previous years' losses;
- Current year loss;
- Intangible assets;
- Purchased common and preference shares, except for cumulative preference shares, in the amount of the book value (nominal value increased for share issue premium);
- Common and preference shares, except for cumulative preference shares, that the Bank received as collateral in the lower amount of receivables secured with pledged shares and nominal value of shares received as collateral increased for related share issue premium;
- Regulatory adjustments in value in compliance with International Financial Reporting Standards and International Accounting Standards (IFRS/IAS), which comprise:
  - Unrealized losses on available-for-sale securities;
  - Other revaluation reserves in the negative net amount which relate to deductible items of basic equity or elements which are included in additional equity;
  - Profit based on the Bank's liabilities measured at fair value which are reduced because of change in the Bank's credit rating;
  - Amount of required reserve for estimated losses on balance sheet assets and off-balance sheet items of the Bank.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

Tier 2 capital consists of:

- Paid in share capital for cumulative preference shares – the nominal value of paid in cumulative preference shares and associated share issue premium;
- Part of positive revaluation reserves – the Bank includes the part of positive revaluation reserves (85%) occurred from effects of changes in the fair value of fixed assets, securities and other assets that, in accordance with IFRS/IAS, are reported under these reserves, and that are reduced for tax liabilities;
- Hybrid capital instruments;
- Subordinated liabilities (with the following characteristics: fully paid in; with date of maturity of at least 5 years from date of payment; repayment to or purchase from creditors is not possible before contractual date of maturity, except in the case of conversion of these liabilities into the Banks' shares which are not cumulative preference shares; in the event of bankruptcy or liquidation of the Bank, they can be settled only after settlement of all other liabilities which are not subordinated, and before the Bank's shareholders and owners of hybrid instruments issued by the bank; they are not the subject of collateral issued by the Bank or any of its related parties; the Bank's creditor is not at the same time its debtor in respect of subordinated receivables). The amount of subordinated liabilities of the Bank included in additional equity, in the last 5 years before the date of maturity of such liabilities, is reduced by 20% per annum, so that in the last year before the date of maturity of such subordinated liability they are not included in additional equity;
- Surplus provisions, reserves and required reserves in respect of expected losses – if the Bank receives NBS approval for use of IRB approach.

When calculating Tier 2 capital, the Bank is obliged to reduce sum of Tier 2 capital elements for the following categories:

- Purchased cumulative preference shares for the amount of their book value;
- The Bank's cumulative preference shares that the Bank accepted as collateral in the lower amount of the receivable secured with a pledge over such shares and of the nominal value of shares accepted as collateral, increased for related share issue premium;
- Receivables for balance sheet assets and off-balance sheet items of the Bank which are secured with hybrid instruments or subordinated liabilities, up to the amount for which such instruments/liabilities are included in supplementary capital.

The capital of the Bank shall be the sum total of its Tier 1 and Tier 2 minus following deductions:

- Direct and indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entities;
- Investment in hybrid instruments and subordinated obligation of other banks and entities in financial sector in which Bank has direct and indirect investment that exceed 10% of the capital of such banks and/or other financial sector entities;
- Total of direct and indirect investment in banks and other financial sector entities up to exceed 10% of the capital of such banks and /or other financial sector entities and investment in hybrid instruments and subordinated obligation that exceed 10% of tier 1 and tier 2 capital of such banks;
- Amount that exceed qualified investment in entities in other sectors;
- Amount of exposure to free delivery if other party has not fulfilled its obligation within four working days;
- All claims and contingent liabilities of entities related to the Bank or employees of the Bank that were contracted on more favorable terms and conditions than those contracted with entities that are not related with the Bank.

Notes to the financial statements (CONTINUED)

4) Financial risk management (CONTINUED)

The table below provides the balances of capital and total risk-weighted assets as of December 31, 2015:

	December 31, 2015	December 31, 2014
Core capital – Tier 1		
Share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	28,254,097	25,289,292
Less:		
Intangible assets	(934,118)	(919,595)
Unrealized losses on securities available for sale	(174,224)	(99,559)
Required reserve from profit for estimated losses	(15,342,697)	(12,911,468)
Total qualifying tier 1 capital	(9,670)	-
Core capital – Tier 1	**35,963,164**	**35,528,446**
Supplementary capital – Tier 2		
Qualifying subordinated loans	1,207,597	1,618,609
Revaluation reserves	2,386,732	368,836
Total qualifying Tier 2 capital	**3,594,329**	**1,987,445**
Deductible items		
Receivables and liabilities to related parties with better conditions comparing to conditions for non-related parties	-	(6,771)
Total deductible items	-	(6,771)
Reduction in Tier 1 capital	-	(3,386)
Reduction in Tier 2 capital	-	(3,385)
Total Tier 1 capital	35,963,164	35,525,060
Total Tier 2 capital	3,594,329	1,984,060
Total regulatory capital	**39,557,493**	**37,509,120**

In both 2015 and 2014 the Bank achieved capital adequacy ratio and performance indicators within limits defined by the Decision on Capital Adequacy and Decision on Risk Management.

Notes to the financial statements (CONTINUED)

5) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Revision to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

These disclosures supplement the comments on financial risk management (Note 4).

(a) Key Sources of Estimation Uncertainty

i. Provisions for Credit Losses

Assets accounted at amortized cost are assessed for impairment on a basis described in accounting policy 3(j)(vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowances, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective (group-level) allowances.

ii. Fair Value Estimates

Determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(j)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Critical Accounting Judgments in Applying the Bank's Accounting Policies

Critical accounting judgments made in applying the Bank's accounting policies include the following:

i. Measurement of Financial Instruments

The Bank's accounting policy on fair value measurement is disclosed in accounting policy 3(j)(vi).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs other than quoted prices, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable price exist and other valuation models. Assumptions and

Notes to the financial statements (CONTINUED)

5) Use of estimates and judgments (CONTINUED)

inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, bond and equity prices, foreign exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the future markets.

ii. Estimated Useful Lives of Intangible Assets, Property and Equipment and Amortization/Depreciation Rates Used

The calculation of amortization/depreciation charge and amortization/depreciation rates applied are based on the estimated useful lives of intangible assets, property and equipment, which are subject to an ongoing review. The estimated useful lives are reviewed for adequacy at least annually, or more frequently if there is any indication that significant changes have occurred to the factors determining the previously defined estimated useful lives or other events affecting the estimated useful lives. Useful life estimates require the management to make significant estimates and judgments based on the historical experience with similar assets, as well as anticipated technical advancement and changes in economic and industrial factors.

iii. Impairment of Non-Financial Assets

At each statement of financial position date, the Bank's management reviews the carrying amounts of the its non-financial assets other than investment property and deferred tax assets in order to determine the indications of impairment losses. 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 impairment loss. If the estimated recoverable amount of an asset is below its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense of the current period. Assessment of indicators and objective evidence of impairment requires the management to make significant estimates regarding the expected cash flows, discount rates and usage capacity of the assets subject to review.

iv. Deferred Tax Assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which such deferred tax assets may utilize. The Bank's management needs to make prudent assessments of deferred tax assets which may be recognized, based on their period of inception and mounts, as well as on the amount of future taxable income and tax policy planning strategy.

v. Provisions for Litigations

The Bank is involved in a number of lawsuits and labor disputes. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Estimates of the provisions for legal suits requires the Bank's management and Legal Unit to make significant estimates and judgments, including the estimate of the probability of negative suit outcomes and probable and reasonable estimates of loss amounts. The required provision amounts represent the best estimates made by the management based on the information available as at the reporting date. However, they may be subject to future changes due to new events taking place or obtaining new information.

vi. Provisions for Employee Benefits

The costs of provisions for employee retirement benefits determined by actuarial calculation. The actuarial calculation includes an assessment of the discount rate, future salary growth rate, future employee turnover rate and mortality rates. Actual outcome may vary significantly from the said estimates, particularly given the long term they relate to.

Notes to the financial statements (CONTINUED)

6) Financial assets and liabilities - accounting classification and fair values

The following table show the breakdown of financial instruments measured at fair value at the end of the reporting period, grouped in fair value hierarchy levels:

(Thousands of RSD)

	Note	Level 1	Level 2	Level 3	Tota
2015					
Financial assets at fair value through profit and loss, held for trading	20	-	105,332	2,458,334	2,563,666
Financial assets available for sale	21	-	75,522	69,608,429	69,683,951
Fair value adjustments of risk hedged items	25	-	71,527	100,206	171,733
		-	**252,381**	**72,166,969**	**72,419,350**
Financial liabilities at fair value through profit and loss, held for trading	31	-	129,213	12,410	141,623
Liabilities per financial derivatives designated as risk hedging instruments	32	-	492,401	-	492,401
		-	**621,614**	**12,410**	**634,024**
2014					
Financial assets at fair value through profit and loss, held for trading	20	-	494,092	191,398	685,490
Financial assets available for sale	21	-	485,199	54,386,404	54,871,603
Fair value adjustments of risk hedged items	25		97,950	-	97,950
		-	**1,077,241**	**54,577,802**	**55,655,043**
Financial liabilities at fair value through profit and loss, held for trading	31	-	199,462	7,892	207,354
Liabilities per financial derivatives designated as risk hedging instruments	32	-	454,559	-	454,559
		-	**654,021**	**7,892**	**661,913**

Notes to the financial statements (CONTINUED)

6) Financial assets and liabilities - accounting classification and fair values (CONTINUED)

i. Fair Value Hierarchy for Assets and Liabilities Other than Measured at Fair Value

Estimated fair values of financial assets and liabilities other than measured at fair value are provided in the table below, according to the fair value hierarchy levels under IFRS 13:

(Thousands of RSD)

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2015						
Cash and cash funds held with the central bank	19	-	-	43,747,168	43,747,168	43,747,168
Financial assets held to maturity	22	-	-	235,325	235,325	221,362
Loans and receivables due from banks and other financial institutions	23	-	8,093,310	373,836	8,467,146	8,467,556
Loans and receivables due from customers	24	-	68,706,771	128,891,893	197,598,664	180,375,137
Other assets	30	-	793,994	-	793,994	793,994
		-	**77,594,075**	**173,248,222**	**250,842,297**	**233,605,217**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	27,032,639	58,409,843	85,442,482	82,818,208
Deposits and other liabilities due to customers	34	-	57,641,839	97,725,651	155,367,490	155,008,349
Subordinated liabilities	35	-	3,019,370	-	3,019,370	3,019,370
Current tax liabilities	18.4	-	99,256	-	99,256	99,256
Other liabilities	37	-	4,453,140	-	4,453,140	4,453,140
		-	**92,246,244**	**156,135,494**	**248,381,738**	**245,398,323**
2014						
Cash and cash funds held with the central bank	19	-	-	29,942,038	29,942,038	29,942,038
Financial assets held to maturity	22	-	346,328	270,683	617,011	584,474
Loans and receivables due from banks and other financial institutions	23	-	10,294,552	289,731	10,584,283	10,631,808
Loans and receivables due from customers	24	-	86,760,316	93,313,046	180,073,362	164,982,403
Current tax assets	18.4	-	772,408	-	772,408	772,408
Other assets	30	-	553,890	-	553,890	553,890
		-	**98,727,494**	**123,815,498**	**222,542,992**	**207,467,021**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	25,961,714	44,381,465	70,343,179	70,299,097
Deposits and other liabilities due to customers	34	-	61,629,830	73,400,211	135,030,041	134,459,546
Subordinated liabilities	35	-	2,698,019	-	2,698,019	2,698,019
Other liabilities	37	-	1,447,828	-	1,447,828	1,447,828
		-	**91,737,391**	**117,781,676**	**209,519,067**	**208,904,490**

Valuation techniques and models the Bank uses for fair value calculations are disclosed in Note 5b(i).

ii. Assets The Fair Values of which Approximate their Carrying Values

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amounts approximate their fair values. The basic assumption used here is that in the near term, for highly liquid assets, no significant market changes will occur that can affect the fair value. This assumption is also applied to demand deposits, savings accounts without specified maturity and variable interest rate financial instruments.

iii. Financial Instruments with Fixed Interest Rates

The fair values of fixed 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 offered for similar financial instruments. The estimated fair values of fixed interest bearing financial instruments are based on discounted cash flows using prevailing money-market interest rates for financial instruments with similar credit risk characteristics and maturities.

Financial assets held to maturity, loans and deposits include a portion of the portfolio at fixed interest rates, which caused differences between their carrying amounts and fair values.

Notes to the financial statements (CONTINUED)

7) Net interest income

Net interest income includes:

Thousands of RSD

	2015	2014
Interest income		
Cash and cash funds held with the central bank	475,845	355,216
Financial assets at fair value through profit and loss, held for trading	282,577	306,552
Financial assets available for sale	4,720,755	4,329,861
Financial assets held to maturity	9,389	7,117
Loans and receivables due from banks and other financial institutions	249,523	619,044
Loans and receivables due from customers	11,611,463	10,557,200
Financial derivatives and assets held for risk hedging purposes	185,285	200,853
Total interest income	17,534,837	16,375,843
Interest expenses		
Financial liabilities carried at fair value through profit and loss, held for trading	182,786	234,604
Liabilities per financial derivatives designated as risk hedging instruments	72,918	70,114
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,045,507	2,360,831
Deposits and other liabilities due to customers	2,788,959	2,911,448
Subordinated liabilities	140,486	123,850
Total interest expenses	5,230,656	5,700,847
Net interest income	**12,304,181**	**10,674,996**

In accordance with accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 379.823 thousand in 2015 (2014: RSD 385.457 thousand).

Notes to the financial statements (CONTINUED)

8) Net fee and commission income

Net fee and commission income includes:

Thousands of RSD

	2015	2014
Fee and commission income		
Payment transfer business	1,116,069	944,722
Fees on issued guarantees and other contingent liabilities	680,806	615,351
Brokerage fees	63,989	55,880
Custody fees	444,606	389,621
Fees arising from card operations	665,617	513,869
Fees and commissions for other banking services	617,708	487,559
Total fee and commission income	**3,588,795**	**3,007,002**
Fee and commission expenses		
Payment transfer business	124,506	79,322
Commission expenses arising on guarantees and letters of credit	46,535	45,666
Fees arising from card operations	564,766	499,795
Fees and commissions for other banking services	125,611	111,806
Total fee and commission expenses	861,418	736,589
Net fee and commission income	**2,727,377**	**2,270,413**

Notes to the financial statements (CONTINUED)

9) Net (losses)/gains on the financial assets held for trading

Net (losses)/gains on the financial assets held for trading include:

Thousands of RSD

	2015	2014
Net gains on the sales of securities held for trading	119,385	47,299
Net losses on the changes in the fair value securities held for trading	(459)	(4,406)
Net (losses)/gains on the fair value changes of derivatives held for trading	(134,059)	21,726
Net (losses)/gains on the financial assets held for trading	**(15,133)**	**64,619**

Notes to the financial statements (CONTINUED)

10) Net gains on the hedges against risks

Net gains on the hedges against risks include:

Thousands of RSD

	2015	2014
Net gains on the fair value changes of loans, receivables and securities	8,796	220,267
Net gains/(losses) on the fair value changes of derivatives held for risk hedging purposes	2,705	(206,473)
Net gains on the hedges against risks	**11,501**	**13,794**

11) Net gains on the financial assets available for sale

Net gains on the financial assets available for sale include:

Thousands of RSD

	2015	2014
Gains on the sale of securities available for sale	141,422	68,855
Losses on the sale of securities available for sale	(3,813)	(5,008)
Net gains on the financial assets available for sale	**137,609**	**63,847**

Notes to the financial statements (CONTINUED)

12) Net foreign exchange gains and positive currency clause effects

Net foreign exchange gains and positive currency clause effects:

Thousands of RSD

	2015	2014
Foreign exchange gains and positive currency clause effects	97,572,015	52,588,545
Foreign exchange losses and negative currency clause effects	(96,043,176)	(51,417,450)
Net foreign exchange gains and positive currency clause effects	**1,528,839**	**1,171,095**

Notes to the financial statements (CONTINUED)

13) Other operating income

Other operating income includes:

Thousands of RSD

	2015	2014
Reversal of unreleased provisions for litigations	4,000	7,505
Dividend income	449	157
Gains on the sale of other loans and receivables	248,439	-
Other operating income	86,088	69,739
Total other operating income	**338,976**	**77,401**

Notes to the financial statements (CONTINUED)

14) Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets

Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets include:

Thousands of RSD

	2015	2014
Loans and receivables due from customers		
Additional individual impairment allowance, net	3,541,168	2,504,906
Additional collective impairment allowance, net	198,035	348,652
	3,739,203	2,853,558
Contingent liabilities		
Reversal/additional individual impairment allowance (Note 36)	(109,136)	174,183
Additional collective impairment allowance (Note 36)	26,132	63,651
	(83,004)	237,834
Write-off	110,230	19,111
Total	**3,766,429**	**3,110,503**

Notes to the financial statements (CONTINUED)

15) Staff costs

Staff costs comprise:

Thousands of RSD

	2015	2014
Net salaries	1,413,246	1,300,504
Payroll taxes and contributions	531,870	510,266
Net losses/(gains) on provisions for retirement benefits and unused annual leaves (vacations)	8,546	(3,353)
Other staff costs	402,318	346,302
Total	**2,355,980**	**2,153,719**

Notes to the financial statements (CONTINUED)

16) Depreciation and amortization charge

Depreciation and amortization charge includes:

Thousands of RSD

	2015	2014
Amortization of intangible assets (Note 26.2)	324,819	356,199
Depreciation of investment property (Note 28)	33	32
Depreciation of property and equipment (Notes 27.2, 27.3)	206,727	174,488
Total	**531,579**	**530,719**

Notes to the financial statements (CONTINUED)

17) Other expenses

Other expenses include:

Thousands of RSD

	2015	2014
Business premises costs	90,944	77,862
Office supplies	48,356	28,102
Rental costs	629,939	520,878
IS maintenance	377,186	383,685
Property and equipment maintenance	53,226	52,149
Marketing, advertising and entertainment	284,774	291,375
Lawyer fees and other consultant services	143,600	78,744
Telecommunications and postage services	114,802	94,848
Insurance premiums	609,834	480,179
Insurance of property and security services	89,349	83,225
Professional training	8,319	10,648
Servicing	64,528	65,623
Transportation services	19,306	15,798
Employee commuting allowance	34,900	33,229
Accommodation and meal allowance – business travel costs	30,858	25,854
Other taxes and contributions	408,525	382,906
Provisions for litigations and other provisions	465,303	74,630
Losses on disposal of property, equipment and intangible assets	6,137	4,643
Other costs	313,237	157,014
Total	3,793,123	2,861,392

Notes to the financial statements (CONTINUED)

18) Income taxes

18.1 Basic components of income taxes as at December 31 are the following:

Thousands of RSD

	2015	2014
Current income tax expense	(317,514)	(87,843)
Increase in deferred tax assets and decrease in deferred tax liabilities	97,658	1
Decrease in deferred tax assets and increase in deferred tax liabilities	-	(127,245)
Total	**(219,856)**	**(215,087)**

18.2 Numerical reconciliation of the effective tax rate is provided below:

Thousands of RSD

	2015	2014
Profit before taxes	6,586,239	5,679,892
Income tax at the legally prescribed tax rate of 15%	987,936	851,984
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	5,081	14,357
Tax effects of income adjustment	(768,718)	(794,063)
Tax effects of temporary differences:		
Difference between depreciation/amortization calculated for tax and financial reporting purposes	18,034	20,487
Tax effects of expenses recognized in the forthcoming period	75,181	15,494
Tax effects of reduction:		
Capital expenditures	-	(20,416)
Current income tax expense	**317,514**	**87,843**
Effective tax rate	4.82%	1.55%

18.3 Income taxes recognized within other comprehensive income are provided below:

Thousands of RSD

	2015			2014		
	Before taxes	Tax expense	After taxes	Before taxes	Tax expense	After taxes
Securities available for sale	2,633,696	-	2,633,696	335,581	593	336,174
Actuarial losses	(11,056)	1,386	(9,670)	(2,130)	320	(1,810)
Balance at December 31	**2,622,640**	**1,386**	**2,624,026**	**333,451**	**913**	**334,364**

18.4 The calculated current income tax payable for the year 2015 amounting to RSD 317.514 thousand was settled in the amount of RSD 218.258 thousand through several tax advance payments. The outstanding current tax liabilities as of December 31, 2015 hence amounted to RSD 99.256 thousand.

19) Cash and cash funds held with the central bank

19.1 Cash and cash funds held with the central bank include:

Thousands of RSD

	2015	2014
RSD cash on hand	1,140,882	886,490
Gyro account balance	17,592,398	12,676,531
Foreign currency cash on hand	1,022,061	588,435
Other foreign currency cash funds	36,431	41,052
Obligatory foreign currency reserve held with NBS	23,955,794	15,749,979
	43,747,566	**29,942,487**
Impairment allowance	(398)	(449)
Balance at December 31	**43,747,168**	**29,942,038**

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. The reserve is thereafter held on the Bank's gyro account. In 2015 NBS paid interest on the balance of the Bank's obligatory RSD reserve at the annual interest rate of 2.5%.

The obligatory foreign currency reserve with the National Bank of Serbia represent the minimum foreign currency reserve amount allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month and the rates used ranged from 26% in August 2015 to 22% in December 2015 for foreign currency deposits with maturities of up to 2 years and between 19% and 15% in the same periods for foreign currency deposits with maturities of over 2 years. Exceptionally, the rate of 50% applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index rose to 100% in December 2015.

The Bank is under obligation to maintain the average daily balance of the allocated foreign currency reserve in the amount of the calculated foreign currency obligatory reserve on the foreign currency accounts held with NBS. Foreign currency obligatory reserve does not accrue interest.

19.2 Movements on the account of impairment allowance of cash and cash funds held with the central bank during the current year are provided in the table below:

Thousands of RSD

	Individual level		Group level	
	2015	2014	2015	2014
Balance at January 1	-	-	(449)	-
Charge for the year / reversal	-	-	318	(449)
Foreign exchange effects	-	-	(267)	-
Balance at December 31	**0**	**0**	**(398)**	**(449)**

Notes to the financial statements (CONTINUED)

20) Financial assets at fair value through profit and loss, held for trading

Financial assets at fair value through profit and loss, held for trading include:

Thousands of RSD

	2015	2014
Securities held for trading:		
- RS Ministry of Finance Treasury bills in RSD	1,808,942	106,341
- RS foreign currency bonds	618,292	288,149
	2,427,234	**394,490**
Receivables per derivative held for trading		
currency swaps and forwards	-	66,700
interest rate swaps	136,432	224,300
	136,432	**291,000**
Balance at December 31	**2,563,666**	**685,490**

As of December 31, 2015 investments in securities held for trading totaling RSD 1.808.942 thousand represent investments in the Treasury bills of the Republic of Serbia Ministry of Finance with maturities up to 2018, while the amount of RSD 618.292 thousand represents investments in bonds of the Republic of Serbia with maturities up to 2017.

21) Financial assets available for sale

Financial assets available for sale comprise:

Thousands of RSD

	2015	2014
Securities available for sale		
- RS Ministry of finance Treasury bills	66,554,257	51,079,616
- local self-governance bonds – hedged items	3,129,694	3,381,898
- RS foreign currency bonds	-	410,089
Balance at December 31	**69,683,951**	**54,871,603**

As of December 31, 2015 investments in available-for-sale securities totaling RSD 3.129.694 thousand represent investments in bonds issued by local self-governance as hedged items with maturities up to 2023; while the amount of RSD 66.554.257 thousand relates to investments in the Treasury bills of the Republic of Serbia Ministry of Finance with maturities up to 2020.

For hedging local self-governance bonds against the interest rate risk, the Bank implemented micro fair value hedging, i.e., designated as hedge items investments in bonds issued by local self-governance with face value of EUR 23,2 million, while an interest rate swap of EUR 23,2 million was designated as a hedging instrument. As of December 31, 2015 an effectiveness test was performed, which showed that the hedging was highly effective.

Notes to the financial statements (CONTINUED)

22) Financial assets held to maturity

22.1 Financial assets held to maturity comprise:

Thousands of RSD

	2015	2014
Securities held to maturity:		
- receivables per discounted bills of exchange	246,727	604,380
Impairment allowance	(25,365)	(19,906)
Balance at December 31	**221,362**	**584,474**

As of December 31, 2015 receivables per discounted bills of exchange of RSD 246.727 thousand represent investments with maturities of up to a year and at a discount rate equal to 1-month BELIBOR-plus 2,00% to 5,30% per annum.

22.2 Movements on the account of impairment allowance of financial assets held to maturity during the year are provided in the table below:

Thousands of RSD

	Individual level		Group level	
	2015	2014	2015	2014
Balance at January 1	(16,252)	(55,316)	(3,654)	(610)
Impairment loss:				
Charge for the year	-	-	(5,459)	(3,044)
Reversal of impairment allowance	-	-	-	-
Write-offs	-	39,064	-	-
Total impairment allowance	**-**	**39,064**	**(5,459)**	**(3,044)**
Balance at December 31	**(16,252)**	**(16,252)**	**(9,113)**	**(3,654)**

23) Loans and receivables due from banks and other financial institutions

23.1 Loans and receivables due from banks and other financial institutions include:

Thousands of RSD

	December 31, 2015	December 31, 2014
Foreign currency accounts held with:		
- other banks within UniCredit Group	253,835	1,311,071
- other foreign banks	362,004	148,340
Total foreign currency accounts	**615,839**	**1,459,411**
Overnight deposits:		
- in foreign currencies	2,486,439	7,985,754
Total overnight deposits	**2,486,439**	**7,985,754**
Guarantee foreign currency deposit placed for purchase and sale of securities	4,865	4,838
Foreign currency earmarked deposits	4,269,833	-
Short-term loans:		
- in RSD	731,847	1,171,829
Total short-term loans	**731,847**	**1,171,829**
Long-term loans:		
- in RSD	324,679	1,363
- in foreign currencies	37	-
Total long-term loans	**324,716**	**1,363**
Secured letters of credit and other foreign currency sureties	43,839	39,196
Other foreign currency loans	2,142	1,915
Foreign currency factoring receivables	**3,784**	**-**
Impairment allowance	**(15,748)**	**(32,498)**
Balance at December 31	**8,467,556**	**10,631,808**

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

Thousands of RSD

	Individual level		Group level	
	2015	2014	2015	2014
Balance at January 1	-	-	(32,498)	(1,608)
Impairment loss				
Charge for the year	(1)	-	16,803	(30,692)
Foreign exchange effects	-	-	(52)	(198)
Write-off	**-**	**-**	**-**	**-**
Total impairment allowance	(1)	-	16,751	(30,890)
Balance at December 31	**(1)**	**-**	**(15,747)**	**(32,498)**

24) Loans and receivables due from customers

24.1 Loans and receivables due from customers include:

Thousands of RSD

	December 31, 2015	December 31, 2014
Short-term loans:		
- in RSD	29,437,370	31,204,251
- in foreign currencies	4,678,724	3,233,568
Total short-term loans	**34,116,094**	**34,437,819**
Long-term loans:		
- in RSD	152,887,291	134,359,267
- in foreign currencies	8,321,245	9,076,141
Total long-term loans	**161,208,536**	**143,435,408**
Receivables in respect of acceptances, sureties and payments made per guarantees:		
- in RSD	302,830	368,890
- in foreign currencies	4,754,922	4,818,742
Total	**5,057,752**	**5,187,632**
RSD factoring receivables	897,526	388,265
Impairment allowance	(20,904,771)	(18,466,721)
Balance at December 31	**180,375,137**	**164,982,403**

Loans with a currency clause index (EUR, CHF, USD) are presented within RSD loans.

24.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

Thousands of RSD

	Individual level		Group level	
	2015	2014	2015	2014
Balance at January 1	(17,661,214)	(14,672,198)	(805,507)	(511,648)
Impairment loss				
Charge for the year	(3,508,868)	(2,476,382)	(201,053)	(312,766)
Foreign exchange effects	(278,886)	(839,832)	833	18,907
Interest income adjustment	(132,062)	(114,775)	-	-
Portfolio sale effects	1,521,730	-	-	-
Write-offs	**160,256**	**441,973**	**-**	**-**
Total impairment allowance	(2,237,830)	(2,989,016)	(200,220)	(293,859)
Balance at December 31	**(19,899,044)**	**(17,661,214)**	**(1,005,727)**	**(805,507)**

24.3 Breakdown of loans and receivables due from customers is provided below:

Thousands of RSD

	December 31, 2015			December 31, 2014		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	6,398,133	(30,082)	6,368,051	7,991,971	(64,421)	7,927,550
Corporate customers	141,945,937	(17,824,578)	124,121,359	128,752,730	(15,938,788)	112,813,942
Retail customers	52,935,838	(3,050,111)	49,885,727	46,704,423	(2,463,512)	44,240,911
Balance at December 31	**201,279,908**	**(20,904,771)**	**180,375,137**	**183,449,124**	**(18,466,721)**	**164,982,403**

24) Loans and receivables due from customers (CONTINUED)

24.4 Corporate loans were mostly approved for maintaining daily liquidity (current account overdrafts), financing working capital, imports and investments. They were used for funding business activities in trade and services, manufacturing industry, construction industry, agriculture and food industry and other purposes. Short-term loans were approved for periods ranging from 30 days to a year. Interest rates on short-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 3,93% annually on the average, while RSD short-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 6,23% annually on the average.

Long-term loans were approved for periods from 2 to 10 years. Interest rate applied to long-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 4,22% annually on the average, while RSD long-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased 9,2% annually on the average, according to other costs and the Bank's interest rate policy.

Retail housing loans were approved for periods of 5 to 30 years, at the nominal interest rates ranging from 6-month EURIBOR plus 3,0% to 6,0% annually.

Long-term RSD cash loans were approved to retail customers for periods of up to 7 years and up to 10 years for loans with insurance. In 2015 the Bank offered cash loans at fixed interest rates over the entire loan term, with repayment periods from 6 to 60 months, with and without insurance, at interest rates ranging from 6,5% to 21,5%.

Further, the Bank continued sales of cash loans approved to pensioners with life insurance at either a fixed interest rate of 17.9% or a rate equal to 3-month BELIBOR plus 5.7% annually.

In 2015, interest rates applied to investment funding of small entities and entrepreneurs equaled 6-month EURIBOR plus maximum 8,5% (6%-8,5%), while interest rates applied to short-term financing up to 12 months equaled 6-month EURIBOR plus maximum 10% (7%-10%). Interest rates applied to RSD loans equaled 1-month BELIBOR plus maximum 6%.

All collateralized and impaired loans were adjusted to their recoverable amounts with impairment allowance apportioned as a reduction of loans and receivables due from customers.

As a hedge against credit risk, the Bank implemented micro fair value hedging, i.e. it designated as a hedged item a customer loan with the present value of EUR 3.935.486 as at December 31, 2015, while an interest swap of the same amount was designated as a hedging instrument. As of December 31, 2015 an effectiveness test was performed, which showed that the hedging was highly effective.

24) Loans and receivables due from customers (CONTINUED)

24.5 The concentration of total loans and receivables per industry was as follows:

Thousands of RSD

	December 31, 2015	December 31, 2014
Corporate customers		
- Mining industry and energy	7,780,271	6,789,826
- Agriculture	5,601,966	4,486,061
- Construction industry	6,882,338	6,509,234
- Industry	51,000,124	51,102,938
- Trade	21,695,425	20,122,461
- Services	16,312,781	16,220,788
- Transportation and logistics	22,983,309	16,615,872
- Other	9,689,723	6,905,550
	141,945,937	**128,752,730**
Public sector	6,398,133	7,991,971
Retail customers		
- private individuals	51,059,106	44,625,692
- entrepreneurs	1,876,732	2,078,731
	52,935,838	**46,704,423**
Total	**201,279,908**	**183,449,124**
Impairment allowance	**(20,904,771)**	**(18,466,721)**
Balance at December 31	**180,375,137**	**164,982,403**

The Bank' management structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the geographic and industry segments. Such risks are monitored on an ongoing basis and are subject to an annual or more frequent review. Exposure to credit risk is managed by the regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral.

Notes to the financial statements (CONTINUED)

25) Fair value adjustments of risk hedged items

Fair value adjustments of risk hedged items include:

Thousands of RSD

	December 31, 2015	December 31, 2014
Fair value adjustments of risk hedged items	171,733	97,950
Balance at December 31	**171,733**	**97,950**

As a hedge against the interest rate risk inherent in loans approved in CHF at fixed interest rates, the Bank implemented macro fair value hedging. As of December 31, 2015 an effectiveness test was performed, which showed that the hedging was highly effective.

Notes to the financial statements (CONTINUED)

26) Intangible assets

26.1 Intangible assets, net:

Thousands of RSD

	December 31, 2015	December 31, 2014
Intangible assets	783,720	753,617
Investments in progress	150,398	165,978
Balance at December 31	**934,118**	**919,595**

26.2 Movements on the account of intangible assets in 2015 are presented in the table below:

Thousands of RSD

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2015	2,401,184	165,978	2,567,162
Additions	358,192	(14,121)	344,071
Disposal and retirement	-	-	-
Other	(93,970)	(1,459)	(95,429)
Balance at December 31, 2015	**2,665,406**	**150,398**	**2,815,804**
Accumulated amortization and impairment losses			
Balance at January 1, 2015	1,647,567	-	1,647,567
Amortization for the period	324,819	-	324,819
Disposal and retirement	-	-	-
Other	(90,700)	-	(90,700)
Balance at December 31, 2015	**1,881,686**	**-**	**1,881,686**
Net book value at December 31, 2015	**783,720**	**150,398**	**934,118**
Net book value at January 1, 2015	**753,617**	**165,978**	**919,595**

Movements on the account of intangible assets in 2014 are presented in the table below:

Thousands of RSD

	Intangible Assets	Investment in Progress	Total
Cost			
Balance at January 1, 2014	2,393,307	75,088	2,468,395
Additions	274,427	91,295	365,722
Disposal and retirement	(266,550)	(176)	(266,726)
Other	-	(229)	(229)
Balance at December 31, 2014	**2,401,184**	**165,978**	**2,567,162**
Accumulated amortization and impairment losses			
Balance at January 1, 2014	1,556,168	-	1,556,168
Amortization for the period	356,199	-	356,199
Disposal and retirement	(264,800)	-	(264,800)
Balance at December 31, 2014	**1,647,567**	**-**	**1,647,567**
Net book value at December 31, 2014	**753,617**	**165,978**	**919,595**
Net book value at January 1, 2014	**837,139**	**75,088**	**912,227**

Notes to the financial statements (CONTINUED)

27) Property, plant and equipment

27.1 Property, plant and equipment comprise:

Thousands of RSD

	December 31, 2015	December 31, 2014
Buildings	594,026	607,390
Equipment and other assets	456,995	443,044
Leasehold improvements	105,176	121,026
Investments in progress	25,543	14,969
Balance at December 31	**1,181,740**	**1,186,429**

27.2 Movements on the account of property and equipment in 2015 are presented below:

Thousands of RSD

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance at January 1, 2015	671,034	1,328,166	377,178	14,969	2,391,347
Additions	-	-	-	206,368	206,368
Transfer from investments in progress	1,258	166,737	27,548	(195,543)	-
Disposal and retirement	(1,258)	(97,913)	(15,837)	-	(115,008)
Other	-	(9,002)	-	(251)	(9,253)
Balance at December 31, 2015	**671,034**	**1,387,988**	**388,889**	**25,543**	**2,473,454**
Accumulated depreciation and impairment losses					
Balance at January 1, 2015	63,644	885,122	256,152	-	1,204,918
Depreciation for the period	13,485	152,036	41,206	-	206,727
Disposal and retirement	(121)	(97,475)	(13,645)	-	(111,241)
Other	-	(8,690)	-	-	(8,690)
Balance at December 31, 2015	**77,008**	**930,993**	**283,713**	**-**	**1,291,714**
Net book value at December 31, 2015	**594,026**	**456,995**	**105,176**	**25,543**	**1,181,740**
Net book value at January 1, 2015	**607,390**	**443,044**	**121,026**	**14,969**	**1,186,429**

27.3 Movements on the account of property and equipment in 2014 are presented below:

Thousands of RSD

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance at January 1, 2014	668,752	1,184,345	379,969	2,089	2,235,155
Additions	-	-	-	230,561	230,561
Transfer from investments in progress	2,282	173,869	41,530	(217,681)	-
Disposal and retirement	-	(30,048)	(44,321)	-	(74,369)
Other	-	-	-	-	-
Balance at December 31, 2014	**671,034**	**1,328,166**	**377,178**	**14,969**	**2,391,347**
Accumulated depreciation and impairment losses					
Balance at January 1, 2014	50,259	788,141	262,244	-	1,100,644
Depreciation for the period	13,385	124,247	36,856	-	174,488
Disposal and retirement	-	(27,266)	(42,948)	-	(70,214)
Other	-	-	-	-	-
Balance at December 31, 2014	**63,644**	**885,122**	**256,152**	**-**	**1,204,918**
Net book value at December 31, 2014	**607,390**	**443,044**	**121,026**	**14,969**	**1,186,429**
Net book value at January 1, 2014	**618,493**	**396,204**	**117,725**	**2,089**	**1,134,511**

Notes to the financial statements (CONTINUED)

28) Investment property

Movements on the account of investment property in 2015 are presented below:

Thousands of RSD

	Investicione nekretnine	Investicione nekretnine u pripremi	Ukupno
Cost			
Balance at January 1, 2015	1,642	-	1,642
Additions	-	-	-
Disposal and retirement	-	-	-
Other	-	-	-
Balance at December 31, 2015	**1,642**	**-**	**1,642**
Accumulated depreciation and impairment losses			
Balance at January 1, 2015	179	-	179
Depreciation for the period	33	-	33
Other	-	-	-
Balance at December 31, 2015	**212**	**-**	**212**
Net book value at December 31, 2015	**1,430**	**-**	**1,430**
Net book value at January 1, 2015	**1,463**	**-**	**1,463**

Notes to the financial statements (CONTINUED)

29) Deferred tax assets and liabilities

29.1 Deferred tax assets and liabilities relate to:

Thousands of RSD

	December 31, 2015			December 31, 2014		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	39,036	-	39,036	31,930	-	31,930
Deferred tax assets in respect of unrecognized current year expenses	101,214	-	101,214	10,662	-	10,662
Deferred tax assets in respect of actuarial losses based on defined benefit plans	1,706	-	1,706	320	-	320
Deferred tax assets in respect of available-for-sale securities valuation	-	-	-	-	-	-
Total	**141,956**	**-**	**141,956**	**42,912**	**-**	**42,912**

29.2 Movements on temporary differences during 2015 are presented as follows:

Thousands of RSD

	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	31,930	7,106	-	39,036
Deferred tax assets in respect of unrecognized expenses	10,662	90,552	-	101,214
Deferred tax assets in respect of actuarial losses based on defined benefit plans	320	-	1,386	1,706
Deferred tax assets in respect of available-for-sale securities valuation	-	-	-	-
Total	**42,912**	**97,658**	**1,386**	**141,956**

Notes to the financial statements (CONTINUED)

30) Other assets

30.1 Other assets relate to:

Thousands of RSD

	December 31, 2015	December 31, 2014
Other assets in RSD:		
Fee and commission receivables calculated per other assets	192,794	187,832
Advances paid, deposits and retainers	32,810	8,121
Other receivables from operations	701,777	430,723
Assets acquired in lieu of debt collection	4,927	4,927
Receivables from employees in RSD	3,214	3,621
Other investment in associates	4,992	4,992
Accrued other income receivables	7,919	4,258
Deferred other expenses	79,769	74,865
Total	**1,028,202**	**719,339**
Other assets in foreign currencies:		
Fee and commission receivables calculated per other assets	2,651	8,761
Advances paid, deposits and retainers	1,572	1,563
Foreign currency receivables from employees	4,356	4,338
Other receivables from operations	44,036	17,911
Accrued other income receivables	16,554	17,593
Deferred other expenses	2,169	49,200
Total	**71,338**	**99,366**
Impairment allowance	**(305,546)**	**(264,815)**
Balance at December 31	**793,994**	**553,890**

30.2 Movements on the impairment allowance accounts of other assets are provided in the table below:

Thousands of RSD

	Individual level		Group level	
	2015	2014	2015	2014
Balance at January 1	(262,507)	(244,077)	(2,308)	(607)
Impairment loss				
Charge for the year	(32,299)	(28,524)	(8,644)	(1,701)
Foreign exchange effects	(83)	(507)	-	-
Write-off	295	10,601	-	-
Total impairment allowance	**(32,087)**	**(18,430)**	**(8,644)**	**(1,701)**
Balance at December 31	**(294,594)**	**(262,507)**	**(10,952)**	**(2,308)**

30.3 Other investments in associates comprise equity investments of up to 10% in the following companies:

Thousands of RSD

	December 31, 2015	December 31, 2014
FAP Priboj a.d.	4,737	4,737
Fund for Supplementary Education of Young Farmers	147	147
Tržište novca a.d. [Money Market, shareholding company]	108	108
	4,992	4,992
Impairment allowance	(4,992)	(4,992)
Balance at December 31	**0**	**0**

Investments in associates totaling RSD 4,992 thousand were impaired in full. In 2014 the bank sold its equity interest held in RTL TV d.o.o. and realized a net gain on the sale in the amount of RSD 60 thousand.

31) Financial liabilities carried at fair value through profit and loss, held for trading

Financial liabilities carried at fair value through profit and loss, held for trading include:

Thousands of RSD

	December 31, 2015	December 31, 2014
Instrument types:		
- currency swaps and forwards	9,817	-
- interest rate swaps	131,806	207,354
Balance at December 31	**141,623**	**207,354**

Notes to the financial statements (CONTINUED)

32) Liabilities per financial derivatives designated as risk hedging instruments

Liabilities per financial derivatives designated as risk hedging instruments include:

Thousands of RSD

	December 31, 2015	December 31, 2014
Instrument types:		
- interest rate swaps	492,401	454,559
Balance at December 31	**492,401**	**454,559**

The Bank uses interest rate swaps to protect itself from the exposure to the changes in the fair value of EUR bonds with fixed return rates and loans extended in CHF at fixed interest rates (Notes 21 and 25).

Notes to the financial statements (CONTINUED)

33) Deposits and other liabilities due to banks, other financial institutions and the central bank

33.1 Deposits and other liabilities due to banks, other financial institutions and the central bank include:

Thousands of RSD

	December 31, 2015	December 31, 2014
Demand deposits:		
- in RSD	2,332,737	3,171,854
- in foreign currencies	1,119,051	981,169
Total demand deposits	**3,451,788**	**4,153,023**
Overnight deposits:		
- in RSD	1,084,707	1,443,578
- in foreign currencies	4,189,590	1,665,534
Total overnight deposits	**5,274,297**	**3,109,112**
Short-term deposits:		
- in RSD	3,240,389	2,798,837
- in foreign currencies	577,981	1,598,344
Total short-term deposits	**3,818,370**	**4,397,181**
Long-term deposits:		
- in RSD	446,988	100,024
- in foreign currencies	18,644,667	4,725,822
Total long-term deposits	**19,091,655**	**4,825,846**
Long-term borrowings:		
- in foreign currencies	51,148,449	53,604,214
Other financial liabilities:		
- in foreign currencies	33,649	209,721
Balance at December 31	**82,818,208**	**70,299,097**

RSD demand deposits of other banks were placed with the Bank at interest rates of up to 2,0% per annum.

RSD short-term deposits of other banks were placed with the Bank for a period of up to a year at interest rates ranging from 1,98% to 9,6% annually. Short-term deposits of other banks in other currencies were placed with the Bank for a period of up to a year at interest rates ranging from 0,05% to 9% annually, depending on the currency.

33.2 Breakdown of foreign borrowings from banks is provided below:

Thousands of RSD

	December 31, 2015	December 31, 2014
European Bank for Reconstruction and Development (EBRD)	9,989,650	9,117,581
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	6,212,805	6,865,845
European Investment Bank, Luxembourg	1,208,247	1,726,540
International Financial Corporation, Washington	3,269,322	4,985,540
Deutsche Investitions und Entwicklungsgesellschaft mbH, Germany (DEG),	-	403,569
MIDF B.V, Netherlands	91,298	-
UniCredit Bank Austria AG	24,271,787	24,496,906
EFSE Netherlands B.V.	6,105,340	6,008,233
Balance at December 31	**51,148,449**	**53,604,214**

The above listed long-term borrowings were approved to the Bank for periods from 5 to 15 years at nominal interest rates ranging from 0,122% to 3,862% per annum.

Notes to the financial statements (CONTINUED)

34) Deposits and other liabilities due to customers

34.1 Deposits and other liabilities due to customers comprise:

Thousands of RSD

	December 31, 2015	December 31, 2014
Demand deposits:		
- in RSD	34,016,080	25,108,990
- in foreign currencies	50,199,629	36,266,344
Total demand deposits	**84,215,709**	**61,375,334**
Overnight deposits:		
- in RSD	4,465,494	2,606,167
- in foreign currencies	72,702	93,260
Total overnight deposits	**4,538,196**	**2,699,427**
Short-term deposits:		
- in RSD	14,405,852	17,724,214
- in foreign currencies	25,248,675	32,177,217
Total short-term deposits	**39,654,527**	**49,901,431**
Long-term deposits:		
- in RSD	577,005	232,159
- in foreign currencies	15,719,320	11,523,150
Total long-term deposits	**16,296,325**	**11,755,309**
Long-term borrowings		
- in foreign currencies	9,980,556	8,697,774
Total long-term borrowings	**9,980,556**	**8,697,774**
Other financial liabilities		
- in RSD	19,241	-
- in foreign currencies	303,795	30,271
Total other financial liabilities	**323,036**	**30,271**
Balance at December 31	**155,008,349**	**134,459,546**

34.2 Breakdown of deposits and other liabilities due to customers:

Thousands of RSD

	December 31, 2015	December 31, 2014
Public sector	567,249	1,635,029
Corporate customers	92,735,447	77,536,553
Retail customers	51,725,097	46,590,190
Long-term borrowings (Note 34.3)	9,980,556	8,697,774
Balance at December 31	**155,008,349**	**134,459,546**

RSD demand deposits of corporate customers accrued interest at the annual rate of 2,17%, on the average, while EUR-denominated demand deposits accrued interest at the annual rate of 0,88% on the average. Corporate RSD term deposits accrued interest at the rates of as much as up to 6,34% annually on the average, while EUR-denominated corporate deposits were placed at an interest rate of 1,5% annually. Retail customers' RSD demand deposits accrued interest at annual rates of up to 1,00%. Foreign currency retail demand deposits accrued interest at the rates from 0,10% to 0,90% annually, while funds held on current accounts accrued interest at the annual rate of 0,10% annually. Short-term foreign currency deposits of retail customers were placed at interest rates ranging from 0,30% to 2,50% annually, depending on the period of placement, including favorable terms offered during the "Savings Week." Annual interest rates applied to medium-term deposits (18 to 36 months) were in the range between 1.20% and 2.75%. Short-term RSD deposits of retail customers accrued interest at the rates ranging from 2,50% to 7,00% annually, depending on the period of placement, including favorable terms offered during the "Savings Week." RSD deposits placed by small entities and entrepreneurs were deposited at annual interest rates between 2,00% and 3,50%, while foreign currency deposits of these customers accrued interest at the rates ranging from 0,30% to 1,10% annually.

34) Deposits and other liabilities due to customers (CONTINUED)

34.3 Breakdown of foreign borrowings from customers is provided below:

Thousands of RSD

	December 31, 2015	December 31, 2014
NBS - European Investment Bank, Luxembourg	9,883,859	7,920,075
BA CA Leasing (Germany) GmbH, Bad Hamburg	-	685,052
NBS Revolving Credit Fund	19,030	30,749
Government of the Republic of Italy	77,667	61,898
Balance at December 31	**9,980,556**	**8,697,774**

Long-term borrowings obtained from customers were approved to the Bank for periods from 6 to 13 years at nominal interest rates ranging from 0,127% to 2,153% per annum.

Notes to the financial statements (CONTINUED)

35) Subordinated liabilities

Subordinated liabilities relate to:

Thousands of RSD

	December 31, 2015	December 31, 2014
UniCredit Bank Austria AG, Vienna	3,019,370	2,698,019
Balance at December 31	**3,019,370**	**2,698,019**

As at December 31, 2015 subordinated liabilities in foreign currencies in the amount of RSD 3.019.370 thousand pertain to the subordinated long-term borrowing received from UniCredit Bank Austria AG in the amount of CHF 26.830.000. This loan was approved to the Bank for a period of 12 years at the interest rate equal to 3-month CHF LIBOR increased by 2,93%, but the interest rate was subsequently set at the fixed rate of 4,511%. The loan is not securitized with collateral and all the liabilities arising from this loan agreement are considered subordinated, i.e. in the event of the Bank's liquidation or bankruptcy, such liabilities will be settled only after settlement of liabilities to all other creditors.

36) Provisions

Provisions relate to:

Thousands of RSD

	December 31, 2015	December 31, 2014
Individual provisions for off-balance sheet items	79,538	188,674
Group provisions for off-balance sheet items	132,563	106,431
Provisions for other long-term employee benefits	48,354	37,024
Provisions for potential litigation losses	216,865	92,060
Provisions for other liabilities	359,862	23,634
Balance at December 31	**837,182**	**447,823**

Movements on the accounts of provisions during the year are provided below:

Thousands of RSD

	Individual Provisions for Off- Balance Sheet Items	Group Provisions for Off- Balance Sheet Items	Provisions for Long-Term Employee Benefits	Provisions for Potential Litigation Losses	Provisions for Other Liabilities	Total
Balance, January 1	188,674	106,431	37,024	92,060	23,634	447,823
Charge for the year	11,446	91,155	11,330	129,075	336,228	579,234
Release of provisions	-	-	-	(270)	-	(270)
Reversal of provisions	(120,582)	(65,023)	-	(4,000)	-	(189,605)
Balance, at December 31	**79,538**	**132,563**	**48,354**	**216,865**	**359,862**	**837,182**

37) Other liabilities

Other liabilities include:

Thousands of RSD

	December 31, 2015	December 31, 2014
Advances received, deposits and retainers:		
- in RSD	61,570	198,418
- in foreign currencies	52,361	109,383
Trade payables:		
- in RSD	176,389	91,735
- in foreign currencies	182,566	188,743
Other liabilities:		
- in RSD	334,293	170,673
- in foreign currencies	422,890	277,503
Fees and commissions payable per other liabilities:		
- in RSD	7,762	5,132
- in foreign currencies	12,958	22,181
Deferred other income:		
- in RSD	125,640	110,615
- in foreign currencies	99,429	47,251
Accrued other expenses:		
- in RSD	288,158	200,621
- in foreign currencies	6,080	7,209
Liabilities per managed funds	45,280	11,995
Dividend payment liabilities	2,500,000	-
Taxes and contributions payable	137,764	6,369
Balance at December 31	4,453,140	1,447,828

Notes to the financial statements (CONTINUED)

38) Reconciliation of outstanding balances of receivables and liabilities with creditors and debtors

In accordance with the Law on Accounting, the Bank reconciled its balances of payables and receivables with its debtors and creditors. The balance reconciliations were made as of September 30, 2015. Out of the total amount of receivables for which the Bank delivered outstanding item statement forms for balance reconciliation, unreconciled balances totaled RSD 23.573 thousand, gross, while balance confirmation requests for receivables not responded to amounted to RSD 44.040.238 thousand. Out of the total amount of liabilities for which the Bank requested balance confirmation, unreconciled balances totaled RSD 5.493 thousand, while balance confirmation requests for liabilities not responded to amounted to RSD 38.709.310 thousand. As for off-balance sheet items, the unreconciled balances amounted to RSD 6.566 thousand and confirmation requests totaling RSD 110.461.471 thousand were not responded to (out of which RS 84.872.355 thousand refers to items not presented within the Bank's commitments and contingent liabilities).

Notes to the financial statements (CONTINUED)

39) Equity

39.1 Equity is comprised of:

Thousands of RSD

	December 31, 2015	December 31, 2014
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	6,366,383	5,464,805
Reserves	30,878,123	25,623,656
Balance at December 31	**61,414,282**	**55,258,237**

As of December 31, 2015 the Bank's share capital totaled RSD 23.607.620 thousand and comprised 2.360.762 common stock (ordinary) shares with the individual par value of RSD 10.000. All shares issued by the Bank are ordinary shares.

Ordinary share holders are entitled to dividend payment pursuant to the relevant decision on profit distribution enacted by the Bank's Supervisory Board and to one vote per share in the Bank's Shareholder General Meeting.

UniCredit Bank Austria AG, Vienna is the sole (100%) owner of the Bank's share capital.

Reserves from fair value adjustments relate to the net cumulative changes in the fair values of securities available for sale.

39.2 Earnings per Share

The basic earnings per share totaled RSD 2.697 in 2015 (2014: RSD 2.315).

Diluted earnings per share are equal to the basic earnings per share given that the Bank has no contingent shares, i.e., shares embedded in other financial instruments or contracts that may entitle their holders to the ordinary shares of the Bank.

39.3 Breakdown of other comprehensive income after taxes is provided in the table below:

Thousands of RSD

	December 31, 2015	December 31, 2014
Actuarial losses per defined employee benefits	(7,860)	(1,810)
Net fair value adjustments of financial assets available for sale	2,297,522	(729,537)
Other comprehensive income, net of taxes	**2,289,662**	**(731,347)**

40) Cash and cash equivalents

Breakdown of cash and cash equivalents as reported within the statement of cash flows is provided below:

Thousands of RSD

	December 31, 2015	December 31, 2014
In RSD:		
Gyro account	17,592,398	12,676,531
Cash on hand	1,140,882	886,490
	18,733,280	**13,563,021**
In foreign currencies:		
Foreign currency accounts	615,840	1,459,411
Cash on hand	1,022,061	588,435
Other cash funds	36,431	41,052
	1,674,332	**2,088,898**
Balance at December 31	**20,407,612**	**15,651,919**

Notes to the financial statements (CONTINUED)

41) Contingent liabilities and commitments

41.1 Litigation:

As of December 31, 2015 there were 177 legal suits filed against the Bank (including 8 labor lawsuits) with claims totaling RSD 537.192 thousand, which amount does not include the labor lawsuits. In 6 of these proceedings plaintiffs are legal entities, private individuals appear as plaintiffs.

The Bank made provisions of RSD 216.865 thousand in respect of the legal suits filed against it. The aforesaid amount of provisions includes those for the labor lawsuits filed.

For certain lawsuits, provisions were not made in the exact amount of the claim, primarily based on the estimate of the outcome of such suits as favorable for the Bank, i.e. the estimate that the Bank will incur no outflows in respect of those legal suits or that there are minor contingent liabilities at issue, which require no provisioning.

The Bank is involved in a number of lawsuits filed against third parties, primarily for collection of outstanding receivables.

41.2 The Bank's commitments for operating lease liabilities for business premises are provided below:

Thousands of RSD

	December 31, 2015	December 31, 2014
Commitments due		
- within a year	389,435	424,632
- from 1 to 5 years	1,423,954	682,733
- after 5 years	1,619,910	171,744
Total	**3,433,299**	**1,279,109**

41.3 The Bank's contingent liabilities are provided in the table below:

Thousands of RSD

	December 31, 2015	December 31, 2014
Contingent liabilities		
Payment guarantees		
- in RSD	10,412,279	8,148,731
- in foreign currencies	9,621,742	8,445,433
Performance bonds		
- in RSD	28,076,270	26,298,074
- in foreign currencies	3,414,485	3,553,069
Letters of credit		
- in RSD	1,045,813	15,966
- in foreign currencies	2,249,601	1,896,413
Irrevocable commitments for undrawn loans	17,949,091	10,772,443
Other irrevocable commitments	14,901,332	17,251,532
Balance at December 31	**87,670,613**	**76,381,661**

41.4 Breakdown of irrevocable commitments is provided below:

Thousands of RSD

	December 31, 2015	December 31, 2014
Commitments		
Current account overdrafts approved	1,332,942	1,127,034
Unused portion of approved credit card loan facilities	946,248	1,324,777
Unused framework loans	14,876,675	6,806,214
Letters of intent	793,226	1,514,418
Other irrevocable commitments	14,901,332	17,251,532
Balance at December 31	**32,850,423**	**28,023,975**

41.5 Undrawn foreign loan facility funds as of December 31, 2015 amounted to RSD 7.084.720 thousand (2014: RSD 7.741.331 thousand).

Notes to the financial statements (CONTINUED)

42) Related party disclosures

The Bank is under control of UniCredit Bank Austria AG, Vienna, domiciled and registered in Austria, which is the sole owner of the Bank's common stock shares (100%). In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments. Related party transactions are performed at arm's length.

Balances of receivables and payables from related party transactions as of the year-end are provided in the table below:

Thousands of RSD

		December 31, 2015	December 31, 2014
Statement of financial position			
Loans and receivables due from banks and other financial institutions			
1.	UniCredit Bank Austria AG, Vienna	2,140,728	8,889,811
2.	UniCredit Bank AG, Munich	1,858,535	9,030
3.	UniCredit Bulbank, Sofia	556,257	23
4.	UniCredit S.P.A. Milan	20,363	19,211
5.	UniCredit Banka Slovenia, Ljubljana	280	239
6.	Zagrebačka banka d.d.	430	1,274
7.	UniCredit Bank Hungary Z.r.t., Hungary	13,068	34,866
8.	UniCredit Bank ZAO Moscow	18,819	11,721
		4,608,480	**8,966,175**
Loans and receivables due from customers			
1.	The Bank's Management Board	11,120	11,453
2.	UniCredit Rent d.o.o.	-	135,614
3.	UCTAM D.O.O.	108,552	-
		119,672	**147,067**
Other assets			
1.	UniCredit S.P.A. Milan	12,173	3,554
2.	UniCredit Bank Austria AG, Vienna	139,290	69,501
3.	UniCredit Bank AG, Munich	230	-
4.	Zagrebačka banka d.d.	316	319
5.	UniCredit Bank BIH	6	6
6.	UniCredit Business Partner S.C.P.A., Milan	1,359	708
7.	UniCredit Banka Slovenia, Ljubljana	4	4
8.	UniCredit Bank ZAO Moscow	6	6
9.	UniCredit Rent d.o.o.	1,399	-
10.	UniCredit Leasing Serbia	2,318	208
		157,101	**74,306**
Deposits and other liabilities due to banks, other financial institutions and the central bank			
1.	UniCredit Bank Austria AG, Vienna	40,600,467	28,251,870
2.	UniCredit Leasing Srbija d.o.o.	1,158,197	816,791
3.	UniCredit Partner d.o.o.	174,902	154,109
4.	UniCredit Bank AD Banja Luka	2,535	3,050
5.	Zagrebačka banka d.d.	30,445	26,153
6.	UniCredit Bank AG, London	-	48
7.	UniCredit Banka Slovenia, Ljubljana	20,579	12,918
8.	UniCredit Bank AG, Munich	3,419	71,449
9.	UniCredit Bank Hungary Z.r.t., Hungary	380	19
10.	UniCredit Bulbank, Sofia	2	2
11.	UniCredit S.P.A. Milan	2,592	4,143
12.	UniCredit Bank Czech Republic	210	324
13.	UniCredit Bank ZAO Moscow	-	12,385
		41,993,728	**29,353,261**

Notes to the financial statements (CONTINUED)

42) Related party disclosures (CONTINUED)

Thousands of RSD

		2015.	2014.
Statement of financial position			
Deposits and other liabilities due to customers			
1.	The Bank's Management Board	25,864	20,945
2.	UniCredit Rent d.o.o.	264,982	84,604
3.	UniCredit CAIB AG, Vienna	65	64
4.	BA CA Leasing Deutschland GmbH, Germany	1,075	722,940
5.	Ambassador Park Dedinje d.o.o.	1,768	3,468
6.	CA IMMO d.o.o.	5,124	7,617
7.	CA IMMO SAVA CITY d.o.o. Beograd	90,267	64,510
8.	UCTAM D.O.O.	30,296	109,493
		419,441	**1,013,641**
Subordinated liabilities			
1.	UniCredit Bank Austria AG, Vienna	3,019,370	2,698,019
		3,019,370	**2,698,019**
Ostale obaveze			
1.	UniCredit Bank AG, Munich	3,336	3,318
2.	UniCredit Bank Austria AG, Vienna	-	2
3.	UniCredit Bank Hungary Z.r.t., Hungary	35	130
4.	UniCredit S.P.A. Milan	170,817	157,125
5.	UniCredit Rent d.o.o.	431	429
6.	UBIS GmbH, Vienna	100	10,402
7.	UniCredit Business Integrated Solutions S.C.P.A, Czech Republic	2,389	2,111
8.	UniCredit Banka Slovenia, Ljubljana	-	9,636
		177,108	**183,153**
Liabilities, net as of December 31		**40,724,394**	**24,060,526**

The following table summarizes income and expenses from related party transactions:

Thousands of RSD

	December 31, 2015	December 31, 2014
Income statement		
Interest income	5,903	6,117
Interest expenses	(1,278,062)	(1,536,573)
Fee and commission income and other income	185,187	108,808
Fee and commission expenses and other expenses	(431,590)	(376,716)
Expenses, net as of December 31	**(1,518,562)**	**(1,798,364)**

Total gross salaries and other remunerations of the Bank's Management Board members amounted to RSD 32.738 thousand in 2015 (2014: RSD 29.725 thousand).

Notes to the financial statements (CONTINUED)

43) Events after the reporting period

There were no events from the reporting date up to these financial statements issue date that would require any adjustments to (adjusting events) or additional disclosures in the accompanying financial statements.

In January 2016 the Bank became the sole (100%) owner of entities UniCredit Leasing Srbija LLC Belgrade and UniCredit Partner LLC Belgrade.

Belgrade, February 24, 2016
Signed by the management of UniCredit Bank Serbia JSC Belgrade:

Claudio Cesario Management Board Chairman	**Ljiljana Berić** Management Board Member, CFO
Miloš Belić Direktor Direkcije za Strategiju, Planiranje i Finansijsku Kontrolu	**Mirjana Kovačević** Head of Accounting Department