ERSTE BANK A.D. NOVI SAD

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENT

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

INDEPENDENT AUDITORS' REPORT

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

Report on Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Building a better working world

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Group. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual consolidated financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual consolidated financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the consolidated financial statements of the Group for the year ended 31 December 2016.

Other matter

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

Belgrade, 17 March 2017

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

Jelena Čvorović

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

Jelena Čvorović
Authorised Auditor

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in RSD thousand)

POSITION	Note	2016	2015
Interest income	4	7,239,279	6,937,331
Interest expenses	4	(1,317,933)	(1,584,729)
Net interest income		5,921,346	5,352,602
Fees and commission income	5	2,187,934	2,297,202
Fees and commission expense	5	(703,912)	(626,231)
Net fee and commission income		1,484,022	1,670,971
Net income from financial assets held for trading	6	198,957	190,700
Net income from risk protection	7	1,238	1,836
Net income from financial assets available for sale	8	-	144
Net income from foreign currency exchange difference and effects of contractual foreign currency clause	9	204,495	131,251
Other operating income	10	272,254	275,291
Net income from impairment of financial assets and credit-risky off-balance sheet items	11	24,620	-
Net expenses from impairment of financial assets and credit-risky off-balance sheet items	11	(630,331)	(1,401,460)
TOTAL NET OPERATING INCOME		7,476,601	6,221,335
Costs of salaries, contributions and other personnel expenses	12	(1,870,076)	(1,716,300)
Depreciation costs	13	(266,926)	(262,201)
Other expenses	14	(3,129,899)	(3,022,514)
		2,209,700	1,220,320
PROFIT BEFORE TAX			
Income tax	15	(11.379)	(3,699)
Profit from deferred tax	15	1,840	343
Loss from deferred tax	15	(90,186)	(25,390)
PROFIT FOR THE YEAR		2,109,615	1,191,574

The accompanying notes are an integral part of these financial statements.

Novi Sad, 15 March 2017

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

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

(in RSD thousand)

POSITION	Note	2016	2015
PROFIT FOR THE YEAR	30	2,098,441	1,191,045
Components of other comprehensive income that can not be reclassified to profit or loss:			
Actuarial profit/(loss)		(2,282)	16,861
Other		-	9,622
Components of other comprehensive income that can be reclassified to profit or loss:			
Positive effects of changes in fair value of financial assets available for sale		78,298	157,876
Unrealized losses / gains on securities available for sale		(474)	396
Loss from taxes related to other comprehensive income		(11,673)	(23,741)
Total other comprehensive income		63,869	161,014
TOTAL RESULT OF PERIOD		2,162,310	1,352,059

The accompanying notes are an integral part of these financial statements.

Novi Sad, 15 March 2017

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

ASSETS	Napomena	31.12.2016.	(in RSD thousand) 31.12.2015.
Cash and cash funds held with the central bank	16	19,246,670	18,523,428
Financial assets at fair value through profit and loss, held for trading	17	13,048,357	8,363,472
Financial assets available for sale	18	7,182,702	3,446,272
Financial assets held to maturity	19	8,635,103	7,008,412
Loans and receivables due from banks and other financial institutions	20	1,209,725	2,733,309
Loans and receivables due from customers	21	96,463,262	79,043,876
Investments in subsidiaries		118	118
Intangible assets	22	281,395	351,826
Property, plant and equipment	22	817,267	741,139
Investment property	22	232,417	238,508
Current tax assets		6,513	17,163
Deferred tax assets	15d	61,745	161,764
Non-current assets held for sale and assets from discontinued operations		56,695	443
Other assets	23	864,863	658,957
TOTAL ASSETS		148,106,832	121,288,687
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities carried at fair value through profit and loss, held for trading	24	54,690	94,235
Deposits and other liabilities due to banks, other financial institutions and the central bank	25	41,815,700	34,001,077
Deposits and other liabilities due to customers	26	84,903,330	68,295,393
Subordinated liabilities	27	1,764,606	1,824,946
Provisions	28	690,714	551,405
Current tax liabilities		1,090	-
Other liabilities	29	622,694	440,944
TOTAL LIABILITIES		129,852,823	105,208,000
EQUITY	30		
Share capital		10,164,475	10,164,475
Retained earnings		2,135,770	1,226,785
Reserves		5,898,872	4,645,736
Non-controlling interest		54,892	43,691
TOTAL EQUITY		18,254,009	16,080,687
TOTAL LIABILITIES AND EQUITY		148,106,832	121,288,687

The accompanying notes are an integral part of these financial statements.

Novi Sad, 15 March 2017

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

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

(in RSD thousand)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total	Non-controlling interest	Total
Balance as at 1 January 2015	10,040,000	124,475	3,160,190	59,273	1,310,621	14,694,559	43,100	14,737,659
Actuarial loss	-	-	-	16,861	-	16,861	62	16,923
Changes in fair value of financial assets available for sale	-	-	-	134,531	-	134,531	-	134,531
Profit for the year	-	-	-	-	1,191,045	1,191,045	529	1,191,574
Transfer of profit to reserves	-	-	1,300,999	9,622	(1,310,621)	-	-	-
Balance as at 31 December 2015	10,040,000	124,475	4,461,189	220,287	1,191,045	16,036,996	43,691	16,080,687
Balance as at 1 January 2016	10,040,000	124,475	4,461,189	220,287	1,191,045	16,036,996	43,691	16,080,687
Actuarial loss	-	-	-	(2,468)	-	(2,468)	27	25,917
Changes in fair value of financial assets available for sale	-	-	-	66,149	-	66,149	-	37,791
Profit for the year	-	-	-	-	2,098,441	2,098,441	11,174	2,109,614
Transfer of profit to reserves	-	-	1,191,044	-	(1,191,044)	-	-	-
Balance as at 31 December 2016	10,040,000	124,475	5,652,233	283,968	2,098,441	18,199,118	54,892	18,254,009

The accompanying notes are an integral part of these financial statements.

Novi Sad, 15 March 2017

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

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	(in RSD thousand)	
A. Cash flows from operating activities		
Cash inflows from operating activities	12,501,865	11,709,650
Inflow from interest	7,033,057	6,811,827
Inflow from fees	2,190,537	2,256,279
Inflow from other operating income	3,277,869	2,641,500
Inflow from dividends and share in profit	401	44
Cash outflows from operating activities	11,501,018	10,143,382
Outflow from interest	1,416,762	1,636,033
Outflow from fees	684,704	604,360
Outflow from gross salaries, wages and other personel expenses	1,827,985	1,704,899
Outflow from taxes , contributions and other duties charged to income	426,969	379,922
Outflow from other operating income	7,144,598	5,818,168
Net cash inflows from operating activities before increase or decrease in placements and deposits	1,000,847	1,566,268
Decrease in placements and increase in deposits	17,706,959	14,851,891
Increase in deposits to banks, other financial intitutions, Central bank and clients	17,706,959	14,851,891
Increase in placements and decrease in deposits and other liabilities	18,153,975	19,776,644
Increase in loans and advances to banks, other financial intitutions, Central bank and clients	12,966,385	19,519,292
Increase in financial assets initially recognized at fair value trough Income statement, financial assets available for sale and other non-investment	5,187,590	257,352
Net cash inflows from operating activities before income tax	553,831	-
Net cash outflows from operating activities before income tax	-	3,358,485
Net cash inflows from operating activities	553,831	-
Net cash outflows from operating activities	-	3,358,485

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	(in RSD thousand)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash outflows from invetment activities	4,915,704	2,702,341
Outflows from purchase of investment securities	4,624,630	2,228,026
Outflows from purchases of intagible asstes, property, plant and equipment	1,977	305
Outflows from purchase of investment properties	289,097	474,010
Net cash outflows from invetment activities	4,915,704	2,702,341
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	8,198,720	6,580,943
Inflow from loans taken	6,936,799	4,630,164
Other cash inflows from financing activities	1,261,922	1,950,779
Cash outflows from financing activities	1,468,033	2,345,418
Cash outflow from subordinated liabilities	60,342	238,803
Outflow from loans taken	406,955	192,613
Outflows from securities issued	1,000,736	1,914,002
Net cash inflows from financing activities	6,730,687	4,235,525
TOTAL NET CASH INFLOW	38,407,544	33,142,484
TOTAL NET CASH OUTFLOW	36,038,731	34,967,785
NET INCREASE IN CASH	2,368,813	-
NET DECREASE IN CASH	-	1,825,301
CASH AT THE BEGINNING OF YEAR	8,726,264	10,417,751
POSITIVE FOREIGN EXCHANGE DIFFERENCES	6,676,853	10,846,093
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	6,471,513	10,712,279
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	11,300,417	8,726,264

The accompanying notes are an integral part of these financial statements.

Novi Sad, 15 March 2017

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

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

1. CORPORATE INFORMATION

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

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

The Bank's shareholders are EGB (Erste Group Bank) CEPS HOLDING GMBH, Vienna, with 74% interest and Steiermärkische Bank und Sparkassen AG, Graz, with 26% interest in the Bank's share capital. In order to simplify the Erste Group Bank AG, a transfer of ownership of shares which were owned by EBG CEPS in European banks to the Erste Group. In doing so, Erste Group became the direct shareholder of the Bank with a 74% share in the share capital. The decision of the General Assembly to amend the founding acts was made on June 30, 2015, and the change in the APR were carried out on 22 July 2015.

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

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

The accompanying financial statements and notes to the financial statements represent the Group's consolidated financial statements. The Bank is the Parent Entity of the Group and as such, in accordance with the requirements of the Law on Banks, it is obligated to prepare consolidated financial statements as of and for the year ended December 31, 2016. The consolidated financial statements include the financial statements of the Leasing, which is 75%-owned by the Bank.

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

The Bank is headquartered in Novi Sad, at no. 5, Bulevar Oslobođenja St. The Bank operates through 6 business centers, 47 branches, 9 sub-branches and 5 counters.

As of December 31, 2016 the Bank had 1,021 employees (December 31, 2015: 1,027 employees).

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

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

The S-Leasing d.o.o. Beograd was established in June 2003.

The Company is organized as a limited liability company and is registered with the Business Registers Agency Decision no. BD 33349/2005 dated 7 June 2005.

The main activity of the Company is the provision of financial leasing of movable assets to individuals and legal entities on the territory of the Republic of Serbia.

The Company´s Head Office is in Belgrade, Milutina Milankovica no. 11a / 4.

Company registration number is 17488104. Its tax identification number is 102941384.
The Company had 41 employees as at 31 December 2016 (31 December 2013: 42 employees).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Consolidated Financial Statements

The Group's consolidated financial statements (the "financial statements") for 2016 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

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

The accompanying financial statements represent the Group's consolidated financial statements. As the Parent Entity of the Group, the bank has prepared and presented a separate set of its unconsolidated financial statements.

These consolidated financial statements were prepared at historical cost principle, except for trading securities and available-for-sale securities, which are measured at fair value.

Figures in the accompanying financial statements are stated in thousands of dinars, unless otherwise specified.

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

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

2.2. Basis for consolidation

The accompanying consolidated financial statements include the financial statements of the Bank and of the company under the Bank's control. Control exists if the Bank has the power to manage the financial and operating policies of the subsidiary in such a manner that it can realize benefits from its activities. Control is achieved if the Bank has exposure to or rights to variable returns from its involvement with the investee and has the ability use its power over the investee to affect the amount of returns.

Income and expenses of the subsidiary are included in the consolidated income statement and other comprehensive income from the effective date of control acquisition. Financial statements of the subsidiary are adjusted as appropriate so as to align its accounting policies with those applied by the Bank as the Parent Entity of the Group. All balances receivable or payable, income and expenses arising from intra-Group transactions are eliminated in full upon consolidation. The non-controlling interest represents a share in the profit or loss and equity of the subsidiary of which the Bank is neither direct nor indirect owner. The non-controlling interest is presented separately in the Group's income statement and within equity in the statement of financial position, separately from the Bank's equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Business Combinations

As at 31 December 2016 the Bank holds 75% ownership of the Leasing. At the date of acquisition, total assets of the Leasing amounted to 3,092,233 thousand, total equity amounted to 60,455 thousand while the loss amounted to 113,284 thousand. On 31 December 2016, total assets of the Leasing amounted to 5,528,888 thousand, total equity amounted to 67,500 thousand while the profit amounts to 151,713 thousand.

A business combination including entities or operations under joint control is a business combination in which the said entities are under joint control of the same party, both before and after the business combination, and such control is not transitory, since IFRS 3 does not apply to business combinations of entities under joint control, in accordance with IAS 8, the Group adopted an accounting policy whereby such transactions are accounted for using the pooling of interest method.

Application of the method is as follows:

- The assets and liabilities of the entity being acquired are shown at carrying value as presented in the separate financial statements of the Parent Entity;
- There are no new estimates of fair value or recognition of any new assets or liabilities, adjustments are only carried out in order to harmonize accounting policies;
- Goodwill arising on acquisition is not recognized;
- The difference between the consideration paid / transfer and "acquired" capital is shown in the equity section;
- The income statement reflects the result of all companies for the whole financial year, if the combination took place earlier at the start of the year and the deviation is immaterial;
- Comparatives are not restated.

2.4. Interest Income and Expenses

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

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

The calculation of the effective interest rate takes into account all contractual terms of the financial instrument but not future credit losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Fee and Commission Income and Expenses

The Bank earns/pays fee and commission income from rendering and using banking services. Fees and commissions are generally recognized on an accrual basis when the service has been provided, i.e. rendered.

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

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

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

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

/ii/ Fee Income Earned from Transaction Services

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

/iii/ Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established.

2.6. Foreign Exchange Translation

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments

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

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

"Day 1" Profit

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

Classification of Financial Instruments

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

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

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

2.7.1. Financial Assets at Fair Value through Profit and Loss

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.2. Financial Assets Held to Maturity

Securities held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity and that do not meet the criteria of the definition of loans and receivables.

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

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

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

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

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

2.7.3. Loans and Receivables due from Banks and Customers

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

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

Derecognition of Financial Assets and Liabilities

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

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

Impairment of Financial Assets and Risk Provisions

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

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

Impairment of Financial Assets and Risk Provisions (continued)

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

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

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement as gain on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet terms. Reversal of the impairment allowance will not result in the carrying value of an asset in excess of the amortized cost as if the asset had not been impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.4. Rescheduled Loans

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

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

Forbearance represents restructuring caused by:
- the borrower's inability to fulfill its contractual obligations due to financial difficulties and
- the need of the Group to make certain concessions to enable the borrower to service its liabilities.

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

2.7.5. Financial Assets Available for Sale

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.5. Financial Assets Available for Sale (continued)

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

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

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

2.7.6. Issued Financial Instruments and Other Financial Liabilities

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

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

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

Deposits and Other Liabilities due to Banks and Customers

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

Borrowings

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

Other Liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if when there is a currently enforceable legal right to offset the recognized amounts and the Group has an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.9. Special Reserves for Estimated Losses on Bank Balance Sheet Assets and Off-Balance Sheet Items

Special reserves for potential losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items (Official Gazette of the Republic of Serbia nos. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016 and 91/2016).

The calculation of reserves for estimated losses are made in order to cover estimated losses on balance sheet assets and off-balance sheet items. The calculation of reserves for estimated losses is based on and is fully in line with the criteria and rules defined by the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items.

Classification of receivables from debtors into categories A to D is performed based on the following groups of criteria:

- assessment of the financial condition and credit worthiness of the borrower;
- timeliness in settling the obligations of the debtor;
- other specific criteria (restructured debts, newly established companies and receivables arising from project finance, timeliness of credit records, foreclosed real estate, etc.);
- quality of collaterals.

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

Special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items. All positive differences will constitute the necessary reserves for estimated losses on balance sheet assets and off-balance sheet items ad represent an equity deductible in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks.

2.10. Cash and Cash Equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Repurchase Transactions ("Reverse Repo" Transactions)

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

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

2.12. Intangible Assets

Intangible assets are measured at cost, less accumulated amortization and impairment losses, if any. Intangible assets comprise licenses and other intangible assets.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

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

Software licenses	Up to 10 years
Other intangible assets	4 years

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13. Property, Plant and Equipment and Investment Property

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

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

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

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

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

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

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

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

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

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

2.14. Impairment of Non-Financial Assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Leases

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

(a) Finance Lease – the Group as a Lessee

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

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

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

(b) Finance Lease – the Group as a Lessor

The lessor should recognize assets given under a finance lease in its statement of financial position as a receivable at an amount equal to the net investment in the lease Under a finance lease substantially all the risks and rewards incident to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal. Initially, assets given under finance lease are recognized as long-term investments equal to the purchase value of the leased object increased for the future interest. Gross investment in the lease is the total amount of minimum lease payments and any non-guaranteed residual values belonging to the lessor. Net investment in leases represent gross investment in leases reduced by unearned finance income.

(c) Operating Lease – the Group as Lessee

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

2.17. Employee Benefits

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

(b) Other Employee Benefits – Retirement Benefits and Jubilee Awards
In accordance with the Labor Law and Collective Bargaining Agreement the Group is obligated to pay its vesting employees retirement benefits in the amount of three average monthly salaries paid in the Republic of Serbia in the month prior to the month of the retirement according to the most recent data published by the Republic of Serbia Statistical Office or three average salaries paid by the Group in the month prior to the month of the retirement, or 3 monthly salaries of the employee prior to the month of the retirement, whichever arrangement is most favorable for the retiree.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Employee Benefits (continued)

(c) Short-Term Compensated Absences

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

2.18. Financial Guarantees

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

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

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

2.19. Taxes and Contributions

(a) Income Taxes

Current Income Tax

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Taxes and Contributions (continued)

(a) Income Taxes (continued)

Deferred Income Taxes

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

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

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

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

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

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

(b) Indirect Taxes and Contributions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Earnings per Share

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

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

2.21. Segment Reporting

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

2.22. Managed Funds

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

2.23. Status of New and Revised Standards and Interpretation

A) Changes in accounting policy and disclosures

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

- **IAS 27 Separate Financial Statements (amended)**
  The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. Management had not made use of this amendment.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Status of New and Revised Standards and Interpretation

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

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

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**
  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**
  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company does not have any plans that fall within the scope of this amendment.

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

  - ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
  - ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Status of New and Revised Standards and Interpretation (continued)

- ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements

  - ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - ***IFRS 7 Financial Instruments***: ***Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
  - ***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
  - ***IAS 34 Interim Financial Reporting:*** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Status of New and Revised Standards and Interpretation (continued)

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

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

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

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair Value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.
The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.
Having completed its initial assessment, the Group has concluded that:

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

- **Impairment of financial assets**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23. Status of New and Revised Standards and Interpretation (Continued)

The Group is in the process of establishing a policy, process and technical solution to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.
To calculate ECL, the Group will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Bank under the contract, and
- The cash flows that the Group expects to receive,

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

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

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

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

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

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

Stage 1

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Status of New and Revised Standards and Interpretation (continued)

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to IAS 39, it will result in increased allowance as most such assets are not considered to be credit-impaired under IAS 39. If the new standard were applied as at 2016, this would result in a substantial additional increase in the impairment allowance.
The assessment of significant risk increase, i.e. the allocation of an asset to Stage 1 or 2, is based on quantitative (the comparison of lifetime PDs) and qualitative (Days past due, Early Warning Signals, Forbearance information, Workout and Fraud flags) criteria. It is the Group's policy to evaluate additional available reasonable and supportive forwarding-looking information as further additional drivers.

Stage 3

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

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

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

Forward looking information

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

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

Limitation of estimation techniques

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

Capital management

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Status of New and Revised Standards and Interpretation (continued)

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

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

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

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

- **IFRS 16: Leases**

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

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Status of New and Revised Standards and Interpretation (continued)

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

- **IAS 7: Disclosure Initiative (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. It is not expected that the amendments of this standard will have effect on the Group's financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the amendments of this standard will have effect on the Group's financial statements.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. Status of New and Revised Standards and Interpretation (continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

(a) Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that the value of a financial assets or group of financial assets has suffered impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

In the process of determining whether an impairment loss needs to be accounted for within the income statement, the Bank assesses whether there is reliable evidence showing a measurable decrease in the estimated future cash flows from the credit portfolio before the impairment, which can be identified within individual loans comprised in the portfolio.

The Group makes assessment based on its experience with losses incurred on loans from prior periods for all assets susceptible to credit risk and showing evidence of impairment similar to the one that existed in the credit portfolio at the time of planning future cash flows. The methodology and assumptions used in the assessment of amounts and time of future cash flows are subject to regular reviews with the aim to decrease differences between the estimated and actually incurred losses.

(b) Determining the Fair Value of Financial Instruments

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(c) Impairment of Equity Investments in Subsidiaries

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

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

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

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

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

(e) Impairment of Non-Financial Assets

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

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

(f) Provisions for Litigations

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

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

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

3. KEY ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(g) Deferred Tax Assets

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

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

(h) Retirement Benefits and Other Post-Employment Benefits

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

4. INTEREST INCOME AND EXPENSES

RSD thousand

	2016	2015
Interest income		
- Banks	150.880	312.974
- Public companies	163.358	220.191
- Corporate customers	2.311.482	1.794.345
- Entrepreneurs	59.742	67.076
- Public sector	1.383.649	1.218.645
- Retail customers	3.064.138	3.220.631
- Non-residents	25.821	2.524
- Agricultural producers	27.110	30.576
- Other customers	53.099	70.369
Total	**7.239.279**	**6.937.331**
Interest expenses		
- Banks	365.093	407.711
- Public companies	10.039	113.968
- Corporate customers	121.399	246.227
- Entrepreneurs	2.281	2.383
- Public sector	110.244	37.034
- Retail customers	221.151	405.971
- Non-residents	386.929	244.440
- Other customers	100.797	126.995
Total	**1.317.933**	**1.584.729**
Net interest income	**5.921.346**	**5.352.602**

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

4. INTEREST INCOME AND EXPENSES (continued)

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

		RSD thousand
	2016	**2015**
Interest income		
Cash and cash funds held with the central bank	109.311	170.825
Bonds and other securities with fixed yield – held to maturity	755.984	659.988
Bonds and other securities with fixed yield – available for sale	333.918	253.557
Bonds and other securities with fixed yield – trading assets	248.708	262.424
Loans and receivables due from customers	5.148.623	5.056.436
Loans and receivables due from financial organizations	8.105	33.141
Other interest income	11.584	-
Per deposits	432.262	336.114
Per other receivables	-	182
Total	190.782	164.664
Interest income	**7.239.279**	**6.937.331**
Interest expenses		
Subordinated liabilities	68.529	71.075
Deposits due to banks	328.515	175.262
Deposits due to the central bank	2	1
Deposits due to customers	719.454	1.256.280
Securities available for sale	24.566	-
Securities held to maturity	74.131	-
Interest-bearing swap	9.945	-
Per borrowings	92.223	81.814
Per other liabilities	569	297
Total	**1.317.933**	**1.584.729**
Net interest income	**5.921.346**	**5.352.602**

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

5. FEE AND COMMISSION INCOME AND EXPENSES

	2016	RSD thousand 2015
Fee and commission income		
Domestic payment transaction services	1.205.964	660.669
Lending activities	78.429	18.711
Deposits	619.294	594597
Payment card operations	53.922	55.973
Guarantees and other sureties	123.984	132.700
Other fees and commissions	106.341	834.552
Total	**2.187.934**	**2.297.202**
Fee and commission expenses		
Foreign and domestic payment transaction services	433.193	65.412
Deposit activities	4	5.874
Other fees and commissions	270.715	554.945
Total	**703.912**	**626.231**
Net fee and commission income	**1.484.022**	**1.670.971**

6. NET GAINS ON FINANCIAL ASSETS HELD FOR TRADING

	2016	RSD thousand 2015
Gains on financial assets held for trading		
Gains on the sale of securities and other financial assets	77.744	11.341
Gains on the fair value adjustments of securities and other financial assets	198.002	274.529
Gains on the fair value adjustment of derivatives	302.740	248.373
Total	**578.486**	**534.243**
Losses on financial assets held for trading		
Losses on the sale of securities and other financial assets	4.425	88.031
Losses on the fair value adjustments of securities and other financial assets	186.597	95.925
Losses on the fair value adjustment of derivatives	188.507	159.587
Total	**379.529**	**343.543**
Net gains on financial assets held for trading	**198.957**	**190.700**

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

7. NET INCOME FROM RISK PROTECTION

	2016	RSD thousand 2015
Income from risk protection		
Income of changes in value of investments and receivables	2.137	3.498
Total	**2.137**	**3.498**
Expense from risk protection		
Expense of changes in value of investments and receivable	899	1.662
Total	**899**	**1.662**
Net income from risk protection	**1.238**	**1.836**

Net gains on risk protection is the result of changes in value of investments that are contracted to follow the growth of retail prices.

8. NET INCOME FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	2016	RSD thousand 2015
Income from financial assets available for sale		
Gains of sales of securities and other financial assets	-	144
Net income from financial assets available for sale	**-**	**144**

In 2016, the Group did not sell securities (in 2015, income from the sale of securities of the Montenegro stock exchange available for sale amounted to RSD 144 thousand).

9. NET INCOME FROM FOREIGN CURRENCY EXCHANGE DIFFERENCE AND THE EFFECTS OF CONTRACTUAL FOREIGN CURRENCY CLAUSE

	2016	RSD thousand 2015
Foreign currency exchange gains	4.911.385	7.954.319
Foreign currency exchange losses	(5.621.476)	(8.368.171)
Positive effects of contractual foreign currency clause	1.834.619	2.921.902
Negative effects of contractual foreign currency clause	(920.033)	(2.376.799)
Net income from foreign currency exchange difference and effects of contractual foreign currency clause	**204.495**	**131.251**

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

10. OTHER OPERATING INCOME

	2016	RSD thousand 2015
Other income from operating activities	-	3.717
Income from reversal of unused provisions for bonuses	88.977	76.679
Income from reversal of unused other provisions	20.290	44.184
Other operating income	48.475	4.286
Other income from operating activities	113.518	146.068
Income from changes in value of financial liabilities	717	-
Income from change in value of fixed assets, investment property and intangible assets	277	357
Total	**272.254**	**275.291**

Other income includes an income of RSD 58,188 thousand that Group generated from the sale of non-performing loans. Also, as other revenues include the revenue from the sale of buildings in the amount of RSD 17,352 thousand, namely building Stara Pazova (fixed assets) and the building Odžaci (collection of receivables in kind).

11. NET EXPENSES FROM IMPAIRMENT ON FINANCIAL ASSETS AND RISKY CREDIT OFF-BALANCE SHEET ITEMS

	2016	RSD thousand 2015
Income from reduction of impairment of financial assets and risky credit off-balance sheet items		
Income from reversal of indirect impairment of on-balance sheet items	9.984.342	7.776.199
Income from reversal of provision for off-balance sheet items	2.824.067	1.476.674
Total	**12.808.409**	**9.252.873**
Expense from reduction of impairment of financial assets and risky credit off-balance sheet items		
Expense from reversal of impairment losses of on-balance sheet items	10.520.753	9.172.816
Expense from reversal of provision for off-balance sheet items	2.893.367	1.481.517
Total	**13.414.120**	**10.654.333**
Net expense from impairment of financial assets and credit risky off-balance sheet items	**(605.711)**	**(1.401.460)**

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

11. NET EXPENSES FROM IMPAIRMENT ON FINANCIAL ASSETS AND RISKY CREDIT OFF-BALANCE SHEET ITEMS (continued)

RSD thousand

	2016	2015
Expenses from the impairment of financial assets and provisions		
Expense from indirect impairment of on- balance sheet items:		
– Loans and receivables banks and other financial institutions (Note 20)	(320.576)	(533.824)
- Loans and receivables to customers (Note 21)	(9.865.731)	(8.555.463)
– other assets (Note 23)	(61.261)	(83.528)
	(10.247.568)	**(9.172.815)**
Provisions for losses of off-balance sheet assets (Note 28)	(2.893.367)	(1.481.517)
Total expenses from impairment of financial assets and risky credit off-balance sheet items	**(13.140.935)**	**(10.654.332)**
Income from the impairment of financial placements and provisions		
Income from indirect impairment of on- balance sheet items:		
– Loans and receivables banks and other financial institutions (Note 20)	321.414	530.981
- Loans and receivables to customers (Note 21)	9.288.485	7.132.516
– other assets (Note 23)	51.595	112.701
– Income from collected suspended interest		
	9.661.493 -	**7.776.198**
Provisions for losses on off-balance sheet assets (Note 28)	2.824.067	1.476.674
Total income from impairment of financial assets and risky credit off-balance sheet items	**12.485.560**	**9.252.872**
Net expenses from the impairment of financial placements and provisions	**(655.375)**	**(1.401.460)**

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

12. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

RSD thousand

	2016	2015
Cost of net salaries	1.181.830	1.135.981
The costs of taxes and contributions paid by employee	449.026	434.925
Redundancy costs, jubilee awards, bonuses and reimbursements	214.555	127.115
Other personnel expense	24.665	18.279
Total	**1.870.076**	**1.716.300**

13. DEPRECIATION COSTS

RSD thousand

	2016	2015
Depreciation expense:		
– Tangible assets (Note 22)	108.153	85.575
– Intangible assets (Note 22)	158.772	176.626
Total	**266.925**	**262.201**

14. OTHER EXPENSES

	2016	2015
Professional services	992.665	934.129
Donations and sponsorships	40.568	42.182
Advertising, marketing and representation	243.067	262.047
Telecommunication services and postage	63.308	68.374
Insurance premiums	358.832	332.984
Rental cost	402.725	422.389
Material	110.101	109.152
Taxes and contributions	87.166	82.806
Maintenance of tangible assets and software	277.201	240.209
Losses on sale and disposal of fixed and intangible assets	723	535
Payroll contributions payable by the employer	261.154	253.378
Per diems and travel expenses	84.306	75.831
Education and counselling	21.017	35.782
Other expenses	187.065	162.716
Total	**3.129.899**	**3.022.514**

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

15. INCOME TAXES

(a) Components of Income Tax

Total tax (expense)/benefit is comprised of:

		RSD thousand
	31.12.2016	**31.12.2015**
Current income tax	(11.739)	(3.699)
Income from deferred tax assets and decrease of deferred tax liabilities	1.840	343
Loss from deferred tax assets and increase of deferred tax liabilities	(90.186)	(25.390)
Total	**(100.085)**	**(28.746)**

The outstanding balance of prepaid current income tax amounting to RSD 1.116 thousand is used to cover current taxes in 2016.

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

		RSD thousand
	31.12.2016	**31.12.2015**
Profit before tax	**2.209.701**	**1.220.320**
Income tax at the rate of 15%	**331.456**	**183.047**
Tax effects of expenses not recognised for the tax purposes	17.725	20.848
Effects of usage of tax loss carry forwards with respect to deferred tax assets that were not recognized	-	-
Tax credits for investment in fixed assets	(1.086)	(767)
Recognition of deferred tax assets with respect to tax loss carry forwards	(136.213)	(35.992)
Non-taxable income (interest on securities issued by the Republic of Serbia, the autonomous province, LS or NBS) interest on securities issued by the Republic of Serbia, the autonomous province, LS or NBS)	(203.433)	(165.761)
Other	(93.145)	(26.523)
Total (expense)/income tax reported in the Income Statement	**(84.696)**	**(25.148)**
Effective tax rate	3,83%	2,06%

15. INCOME TAXES (continued)

(c) Deferred Tax Components

RSD thousand
31.12.2016.

	Temporary difference amount	Deferred tax amount
Deductible temporary difference for difference between the carrying value and tax base of fixed assets – deferred tax assets	71.139	10.671
Deductible temporary difference for adjustment of securities to fair value – deferred tax liabilities	(303.403)	(45.510)
Deductible temporary difference for prior years' tax loss carryforwards – deferred tax assets	280.872	42.131
Deductible temporary difference for impairment losses to be recognized for tax purposes in the ensuing year – deferred tax assets	473	71
Deductible temporary difference for provisions for litigation - deferred tax assets	176.377	26.457
Deductible temporary difference for provisions for jubilee awards - deferred tax assets	102.977	15.447
Deductible temporary difference for provisions for retirement benefits - deferred tax assets	83.197	12.480
Total balance at December 31, 2016	**411.632**	**61.745**

	Temporary difference amount	Deferred tax amount
Deductible temporary difference per difference between the carrying value and tax base of fixed assets – deferred tax assets	45.191	6.779
Deductible temporary difference per adjustment of securities to fair value – deferred tax liabilities	(158.272)	(23.741)
Deductible temporary difference per prior years' tax loss carryforwards – deferred tax assets	1.188.959	214.336
Total balance at December 31, 2016	**1.075.878**	**197.374**

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

15. INCOME TAXES (continued)

(d) Changes in deferred taxes

On 31 December 2016 the Group has transferred tax credit for investments in fixed assets, for which it did not recognize deferred tax assets, in the amount of 25,542 thousand.

		RSD thousand
	2016	**2015**
Balance of deferred tax assets at January 1	161.764	210.553
The effect of temporary tax differences credited to the Income Statement	(88.346)	(25.048)
The effect of temporary tax differences credited to the capital	(11.673)	(23.741)
Balance of deferred tax assets at December 31	**61.745**	**161.764**

(d) Tax credit carried forward on the basis of which deferred tax assets were not recognized

			RSD thousand
	Amount 31.12.2016	**Final Year of Use**	**Amount 31.12.2015**
based on of unused transferable tax credit for investment in fixed assets	25.542	2.023	43.797
Per tax losses incurred up to December 31, 2013	-	-	485.676
Per tax losses incurred after January 01, 2014	280.872	2.019	703.283

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

16. CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

RSD thousand

	31.12.2016	31.12.2015
In RSD		
Gyro account	8.276.530	5.053.943
Cash on hand	1.441.409	1.268.082
Deposited liquid asset surpluses	-	4.000.000
Receivables for interest accrued, fees and commission per funds held with the central bank	-	278
	9.717.939	**10.322.303**
In foreign currencies		
Cash on hand	1.124.746	991.254
Obligatory foreign currency reserve held with NBS	8.403.985	7.209.871
	9.528.731	**8.201.125**
Balance at	**19.246.670**	**18.523.428**

Obligatory reserve represents the minimum reserve in RSD set aside in accordance with the National Bank of Serbia on mandatory reserves with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015,78/2015 and 102/2015), which provides that banks calculate obligatory Reserves at the rate of 5% on the average daily balance of local currency liabilities with agreed maturity up to two years, or at the rate of 0% on the average daily balance local currency liabilities with agreed maturity of over two years, during one calendar month.

During the period the Bank is required to maintain the average daily balance of required reserve on its bank account.

The calculated obligatory reserve whose level has to be maintained on the bank account for the period from 18 December 2016 to 17 January of 2017 amounted to RSD 6.023.858 thousand.

The average interest rate on the amount of bank reserves during the year 2016 amounted to 2.75% per annum.

The obligatory foreign currency reserve represents the minimum foreign currency reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, nos. 3/11, 31/12, 57/12, 78/12, 87/12, 107/12, 62/13, 125/14, 135/14, 4/2015, 78/2015 and 102/2015), which prescribes that banks calculate the obligatory foreign currency reserve at the following rates: 20% on the average daily balance of foreign currency liabilities maturing within 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause maturing within 2 years; 13% on the average daily balance of foreign currency liabilities with maturities of over 2 years, and exceptionally at the rate of 100% on the portion of RSD liabilities indexed to a currency clause with maturities of over 2 years during a calendar month.

The calculated foreign currency obligatory reserves for the period from 18 December 2016 to 17 January in 2017 amounted to EUR 68,113 thousand.

On the average balance of obligatory reserves in foreign currency, the National Bank of Serbia does not pay interest.

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

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS FOR TRADING

RSD thousand

	31.12.2016	31.12.2015
In RSD		
Financial assets at fair value through profit or loss		
–treasury bills	196.192	728.000
– bonds	3.669.730	1.108.290
- receivables arising from derivatives held for trading	92.822	22.421
	3.958.744	**1.858.711**
In foreign currency		
Financial assets at fair value through profit or loss		
–treasury bills	1.964.904	1.438.362
– bonds	7.065.377	4.986.893
- receivables arising from derivatives held for trading	59.332	79.506
	9.089.613	**6.504.761**
Balance as at	**13.048.357**	**8.363.472**

18. FINANCIAL ASSETS AVAILABLE FOR SALE

RSD thousand

In RSD	**31.12.2016**	**31.12.2015**
Financial assets available for sale		
– treasury bills	237.537	198.273
– bonds	2.015.011	1.951.803
– share in capital	136.084	137.027
	2.388.632	**2.287.103**
In foreign currency		
Financial assets available for sale		
– treasury bills	4.879.783	1.245.699
– other financial assets available for sale	34.943	32.918
	4.914.726	**1.278.617**
Gross financial assets available for sale	**7.303.358**	**3.565.720**
Less: Allowance for impairment	(120.656)	(119.448)
Balance as at	**7.182.702**	**3.446.272**

Movements in allowance for impairment during the year are as follows:

RSD thousand

	31.12.2016	31.12.2015
Balance as at 1 January	119.448	117.092
New provisions	-	246
Reversal of impairment losses	(288)	1.159
Foreign exchange differences	1.496	951
Balance as at	**120.656**	**119.448**

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

19. FINANCIAL ASSETS HELD TO MATURITY

		RSD thousand
	31.12.2016	**31.12.2015**
In RSD		
Financial assets available for sale		
– treasury bills	8.635.103	7.008.412
Balance as at	**8.635.103**	**7.008.412**

20. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

RSD thousand

	31.12.2016			31.12.2015		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Revocable deposits and loans	-	-	**-**	453.830	-	**453.830**
Loans	24.747	383	**25.130**	-	522	**522**
Deposits	8.008	-	**8.008**	44.204	-	**44.204**
Other placements			**-**	8.548	407	**8.955**
	32.755	**383**	**33.138**	**506.582**	**929**	**507.511**
Foreign currency						
Foreign currency bank account	458.769	-	**458.769**	1.420.557	-	**1.420.557**
Loans	78.566	209.531	**288.097**	-	509.481	**509.481**
Deposits	427.587	-	**427.587**	4.865	-	**4.865**
Other placements	14.428	-	**14.428**	304.642	-	**304.642**
	979.350	**209.531**	**1.188.881**	**1.730.064**	**509.481**	**2.239.545**
Gross loans and receivables	**1.012.105**	**209.914**	**1.222.019**	**2.236.646**	**510.410**	**2.747.056**
Less: Allowance for impairment	-	-	(12.294)	-	-	(13.747)
	-	-	**(12.294)**	-	-	**(13.747)**
Balance as at	-	-	**1.209.725**	-	-	**2.733.309**

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

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

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

RSD thousand

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Central Bank	-	-	**-**	500.072	-	**500.072**
Domestic Banks	-	-	**-**	-	449	**449**
Insurance companies	-	175	**175**	-	116	**116**
Auxiliary activities of financial services and insurance	-	71	**71**	-	121	**121**
Other loan and financing services	24.785	99	**24.884**	-	243	**243**
Foreign Banks	8.008	-	**8.008**	6.510	-	**6.510**
	32.793	**345**	**33.138**	**506.582**	**929**	**507.511**
Foreign currency						
Domestic Banks	175.722	-	175.722	-	-	-
Finance lease	-	208.879	208.879	-	353.455	353.455
Auxiliary activities of financial services and insurance	19.367	652	20.019	309.507	1.395	310.902
Other loan and financing services	76.369	-	76.369	-	154.631	154.631
Foreign Banks	707.892	-	**707.892**	1.420.557	-	**1.420.557**
	979.350	**209.531**	**1.188.881**	**1.730.064**	**509.481**	**2.239.545**
Gross loans and receivables	**1.012.143**	**209.876**	**1.222.019**	**2.236.646**	**510.410**	**2.747.056**
Less: Allowance for impairment	-	-	(12.294)	-	-	(13.747)
	-	-	**(12.294)**	-	-	**(13.747)**
Balance as at	-	-	**1.209.725**	-	-	**2.733.309**

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

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

b) Maturity of loans and receivables to banks and other financial services

Maturity of loans and receivables to banks and other financial institutions based on the remaining period on the balance sheet date to the contractual maturity date, as at 31 December 2016, 31 December 2013 and 01 January 2015, is as follows:

		RSD thousand
	31.12.2016	**31.12.2015**
Without defined maturity	579.303	1.684.262
Under 30 days	430.680	506.582
From 1 to 3 months	2.160	-
From 3 to 12 months	-	45.802
Over 1 year	209.876	510.410
Balance as at	**1.222.019**	**2.747.056**

Changes of allowance for impairment during year are presented in the following table:

		RSD thousand
	31.12.2016	**31.12.2015**
Opening balance	13.747	18.033
New provisions	320.576	533.824
Reversal of impairment losses	(321.414)	(530.981)
Write-offs on the allowance	-	(14)
Foreign exchange differences	(615)	(7.115)
Balance as at	**12.294**	**13.747**

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

21. LOANS AND RECEIVABLES TO CUSTOMERS

RSD thousand

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Loans	1.273.162	19.233.022	**20.506.184**	601.317	17.032.096	**17.633.413**
Other placements	3.311.786	3.455.348	**6.767.134**	2.291.386	2.499.316	**4.790.702**
	4.584.948	**22.688.370**	**27.273.318**	**2.892.703**	**19.531.412**	**22.424.115**
Foreign currency						
Loans	7.246.303	67.980.895	**75.227.198**	1.427.042	61.173.839	**62.600.881**
Deposits	101.322	-	**101.322**	96.537	-	**96.537**
Other placements	171.877	524.225	**696.102**	203.395	1.631.129	**1.834.524**
	7.519.502	**68.505.120**	**76.024.622**	**1.726.974**	**62.804.968**	**64.531.942**
Gross loans and receivables	**12.104.450**	**91.193.490**	**103.297.940**	**4.619.677**	**82.336.380**	**86.956.057**
Less: Allowance for impairment						
- Individually assessed	-	-	(3.056.826)	-		(4.677.714)
- Collectively assessed	-	-	(3.777.852)	-		(3.234.467)
	-	**-**	**(6.834.678)**	**-**	**-**	**(7.912.181)**
Balance as at	**-**	**-**	**96.463.262**	**-**	**-**	**79.043.876**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

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

RSD thousand

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Holdings	-	687	**687**	-	891	**891**
Public enterprises	104.478	271.415	**375.893**	5.888	4.129	**10.017**
Other companies	3.266.434	3.495.533	**6.761.967**	2.328.925	3.318.756	**5.647.681**
Entrepreneurs	150.760	364.516	**515.276**	67.274	257.673	**324.947**
Public sector	676.856	624	**677.480**	927	853	**1.780**
Retail customers	255.533	18.524.635	**18.780.168**	331.857	15.825.340	**16.157.197**
Foreign entities	342	-	**342**	199	-	**199**
Farmers	34.902	7.827	**42.729**	15.533	19.854	**35.387**
Other customers	95.643	23.133	**118.776**	142.100	103.916	**246.016**
	4.584.948	**22.688.370**	**27.273.318**	**2.892.703**	**19.531.412**	**22.424.115**
Foreign currency						
Holdings	520.947	121.590	**642.537**	50.162	311.709	**361.871**
Public enterprises	4.323	2.791.685	**2.796.008**	1	4.957.054	**4.957.055**
Other companies	6.536.719	44.787.539	**51.324.258**	1.281.414	38.712.731	**39.994.145**
Entrepreneurs	41.952	388.782	**430.734**	11.137	459.371	**470.508**
Public sector	162.832	2.313.408	**2.476.240**	40.128	1.898.229	**1.938.357**
Retail customers	3.455	16.585.325	**16.588.780**	91	14.457.906	**14.457.997**
Foreign entities	112.326	64.099	**176.425**	96.537	43.901	**140.438**
Farmers	29.602	208.086	**237.688**	14.579	285.596	**300.175**
Other customers	107.346	1.244.606	**1.351.952**	232.925	1.678.471	**1.911.396**
	7.519.502	**68.505.120**	**76.024.622**	**1.726.974**	**62.804.968**	**64.531.942**
Gross loans and receivables	**12.104.450**	**91.193.490**	**103.297.940**	**4.619.677**	**82.336.380**	**86.956.057**
Less: Allowance for impairment						
- Individually assessed	-	-	(3.056.826)	-	-	(4.677.714)
- Collectively assessed	-	-	(3.777.852)	-	-	(3.234.467)
	-	-	**(6.834.678)**	-	-	**(7.912.181)**
Balance as at	-	-	96.463.262	-	-	79.043.876

Loans with foreign currency clause are included in the review of loans and deposits in foreign currency.

21. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

b) Maturity of loans and receivables due from customers

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

		RSD thousand
	31.12.2016.	**31.12.2015.**
Without defined maturity	546.786	245.398
Under 30 days	221.699	192.591
From 1 to 3 months	754.615	522.540
From3 to 12 months	10.581.350	3.659.148
Over a year	91.193.490	82.336.380
	103.297.940	**86.956.057**

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

		RSD thousand
	31.12.2016	**31.12.2015**
Balance at beginning of year	7.912.965	7.567.991
New provisions	9.865.731	8.555.462
Reversal of impairment losses	(9.288.485)	(7.132.516)
Write-offs on the allowance	(1.752.867)	(1.094.738)
Foreign exchange differences	97.334	15.982
Balance at	**6.834.678**	**7.912.181**

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

Concentration of loans and receivables due from banks, other financial institutions and customers presented in gross amounts as of December 31, 2016 and December 31, 2015 is significant with the following industries:

		RSD thousand
	31.12.2016	**31.12.2015**
Holding companies	643.224	362.762
Trade	9.825.337	6.974.379
Processing industry	15.575.366	13.771.660
Construction industry	11.440.550	7.409.892
Power generation and supply	8.546.887	9.376.220
Tourism and services industry	12.681.838	10.839.354
Agriculture and food industry	2.314.694	2.115.325
Retail customers	35.433.052	30.659.134
Domestic and foreign banks and other financial institutions	1.222.019	2.752.929
Public sector	3.524.926	1.940.139
Non-resident corporate customers	112.663	96.694
Agricultural producers	280.417	335.563
Other customers	1.972.977	2.276.106
Entrepreneurs	946.009	792.956
	104.519.959	**89.703.113**

21. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (continued)

d) Finance Lease Receivables

		RSD thousand
	31.12.2016	**31.12.2015**
Minimum lease payments	6.120.111	4.565.630
Less: Interest receivables not matured	(395.933)	(274.380)
Finance lease receivables	**5.724.178**	**4.291.250**
Interest receivables matured	15.954	16.845
Other receivables from finance lease activities	49.559	39.660
	5.789.691	**4.347.755**
Less: Deferred income from finance lease origination fees	(50.748)	(33.572)
	5.738.943	**4.314.183**
Less: Impairment allowance of		
- finance lease receivables	(337.277)	(364.248)
- interest receivables matured	(15.905)	(16.776)
- other receivables from finance lease activities	(49.123)	(39.519)
	(402.305)	**(420.543)**
	5.336.638	**3.893.640**

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

RSD thousand

	Land and buildings	Equipment	Equipment underfinance lease	Investment property	Equipment under construction	Total Tangible assets	Intangible assets
COST							
Balance at January 1, 2015	776.968	712.174	1.681	13.827	53	1.504.703	1.012.814
Additions	-	3.868	(1.681)	-	483.112	485.299	-
Transfers	14.418	62.500	41.108	229.806	(483.165)	(135.333)	135.332
Disposal and retirement	(13.299)	(50.428)	-	-	-	(63.727)	(11.465)
Balance at December 31, 2015	**778.087**	**728.114**	**41.108**	**243.633**	-	**1.790.942**	**1.136.681**
Additions	-	1.843	-	-	287.464	289.307	2.473
Transfers	9.611	109.654	82.331	-	(287.464)	(85.868)	85.870
Disposal and retirement	-(43.989)	-(11.701)	-	-	-	(55.690)	(144)
Balance at December 31, 2016	**743.709**	**827.910**	**123.439**	**243.633**	-	**1.938.691**	**1.224.880**
ACCUMULATED DERPECIATION							
Balance at January 1,2015	**248.599**	**528.571**	**1.681**	-	-	**778.851**	**619.696**
Charge for the year (Note 13)	19.157	60.628	663	5.125		85.573	176.626
Disposal and retirement	(4.062)	(47.386)	(1.681)	-	-	(53.129)	(11.465)
Balance at December 31, 2015	**263.694**	**541.813**	**663**	**5.125**	-	**811.295**	**784.857**
Charge for the year (Note 13)	19.013	69.670	13.380	6.091		108.154	158.772
Disposal and retirement	(20.412)	(10.030)	-	-		(30.442)	(144)
Balance at December 31, 2016	**262.295**	**601.453**	**14.043**	**11.216**	-	**889.007**	**943.485**
NET BOOK VALUE							
-December 31, 2016	**481.414**	**226.457**	**109.396**	**232.417**	-	**1.049.684**	**281.395**
-December 31, 2015	**514.392**	**186.301**	**40.445**	**238.508**	-	**979.647**	**351.826**

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

There were no mortgage liens assigned over the Group's building properties to securitize repayment of borrowings. As a result of incomplete land registers, as at December 31, 2016, the Group did not have title deeds as proof of ownership (real estate folio excerpts) for buildings stated at the net book value of RSD 40.155 thousand (December 31, 2015: RSD 72.481 thousand). The Group's management has taken all actions necessary to obtain the appropriate property titles for these buildings. As of December 31, 2016 the net book value of the Group's equipment mostly comprised computers and computer equipment, telecommunication equipment and office furniture. As of December 31, 2016 the net book value of the Group's intangible assets mostly comprised software and licenses. In the assessment of the Group's management, there were no indications that property, plant, equipment and intangible assets had suffered impairment as of December 31, 2016.

23. OTHER ASSETS

	.	RSD thousand
	31.12.2016	**31.12.2015**
In RSD		
Other receivables:		
– Receivables for accrued commission and compensation	36.233	32.925
– Receivables from sale	30.703	496
– Other receivables from regular business	101.073	139.308
– Receivables for the calculated interest	-	42
– Advances paid	22.139	7.437
– Receivables from employees	1.192	431
– Inventories	59.850	131.409
– Other receivables	15.812	131.749
– Other investments	110.845	29.169
Prepayments and accrued income:	29.169	
– Deffered interest expense	1.453	-
– Other prepayments	534.854	359.681
	943.323	**832.647**
In foreign currency		
Other receivables:		
– Receivables for accrued commission and compensation	18	58
– Receivables from sale	472	-
– Advances paid	85.703	84.365
– Receivables from employees	1.247	1.216
- Other receivables	109.746	86.178
Prepayments and accrued income:		
– Other prepayments	34.576	51.680
	231.762	**223.497**
Gross other assets	**1.175.085**	**1.056.144**
Less: Allowance for impairment	(310.222)	(397.187)
Balance as at	**864.863**	**658.957**

23. OTHER ASSETS (continued)

Changes of the allowances for impairment are presented in the following table:

RSD thousand

	31.12.2016	31.12.2015
Balance at beginning of year	397.187	369.257
New provisions	61.261	83.528
Reversal of impairment losses	(51.595)	(112.701)
Write-offs on the allowance	(67.346)	-
Foreign exchange differences	(29.285)	57.103
Balance at	**310.222**	**397.187**

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

RSD thousand

	31.12.2016	31.12.2015
In RSD		
Liabilities per derivatives held for trading	11.556	25.396
	11.556	**25.396**
In foreign currencies		
Liabilities per derivatives held for trading	43.134	68.839
	43.134	**68.839**
Balance at	**54.690**	**94.235**

25. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

RSD thousand

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Deposits and borrowings						
Transaction deposits	8.883	-	**8.883**	202.377	-	**202.377**
Deposits placed for loan approved	-	247	**247**	1.751	-	**1.751**
Earmarked deposits	1.075	-	**1.075**	969	-	**969**
Other deposits	3.750.530	390.000	**4.140.530**	2.839.864	771.570	**3.611.434**
Total	**3.760.488**	**390.247**	**4.150.735**	**3.044.961**	**771.570**	**3.816.531**
In foreign currencies						
Deposits and borrowings						
Transaction deposits	871.930	-	**871.930**	819.956	-	**819.956**
Deposits placed for loan approved	-	1.171.456	**1.171.456**	-	1.332.195	**1.332.195**
Earmarked deposits	18.214	3.704	**21.918**	60.927	3.648	**64.575**
Other deposits	15.631.839	1.678.180	**17.310.019**	5.856.677	1.762.800	**7.619.477**
Overnight deposits	-	-	**-**	2.736.587	-	**2.736.587**
Borrowings	1.733.826	16.498.194	**18.232.020.**	1.015.368	16.576.923	**17.592.291**
Other financial liabilities	57.622	-	**57.622**	19.465	-	**19.465**
Total	**18.313.431**	**19.351.534**	**37.664.965**	**10.508.980**	**19.675.566**	**30.184.546**
Balance at	**22.073.919**	**19.741.781**	**41.815.700**	**13.553.941**	**20.447.136**	**34.001.077**

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

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

		RSD thousand
	31.12.2016	**31.12.2015**
Central bank	3	1.404
Domestic banks	9.309.202	9.547.638
Insurance companies	2.953.351	3.306.897
Pension funds	170.534	145.905
Finance lessors	1.629.846	654.794
Auxiliary activities within financial services and insurance	1.579.820	1.823.891
Trusts, investment and similar funds	14.672	14.881
Other crediting and financing service providers	8.448	8.786
Foreign banks	26.149.824	18.496.881
Balance at	**41.815.700**	**34.001.077**

Foreign banks' deposits mostly relate to the deposit of Erste Group Bank AG in the amount of RSD 19.116.720 thousand and a deposit of KFW Bank Frankfurt in the amount of RSD 1.111.472 thousand.

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26. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

RSD thousand

	31.12.2016			31.12.2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Liabilities arising from deposits and loans						
Transactional deposits	14.335.266	-	**14.335.266**	11.146.933	-	**11.146.933**
Saving deposits	648.934	483.830	**1.132.764**	633.783	490.220	**1.124.003**
Deposits based on given loans	194.079	96.928	**291.007**	14.881	193.501	**208.382**
Special purpose deposits	2.539.874	18.750	**2.558.624**	183.515	18.847	**202.362**
Other deposits	4.715.869	8.900	**4.724.769**	6.925.163	15.769	**6.940.932**
Total	**22.434.022**	**608.408**	**23.042.430**	**18.904.275**	**718.337**	**19.622.612**
In foreign currency						
Liabilities arising from deposits and loans						
Transactional deposits	23.793.190	-	**23.793.190**	16.209.701	-	**16.209.701**
Saving deposits	8.588.238	13.053.687	**21.641.925**	8.047.168	14.905.351	**22.952.519**
Deposits based on given loans	477.827	2.253.017	**2.730.844**	409.179	2.109.870	**2.519.049**
Special purpose deposits	767.393	344.020	**1.111.413**	1.736.797	363.706	**2.100.503**
Other deposits	533.112	25.895	**559.007**	682.002	966.489	**1.648.491**
Borrowings	-	11.712.960	**11.712.960**	-	2.853.165	**2.853.165**
Other financial liabilities	311.561	-	**311.561**	389.353	-	**389.353**
Total	**34.471.321**	**27.389.579**	**61.860.900**	**27.474.200**	**21.198.581**	**48.672.781**
Balance as at	**56.905.343**	**27.997.987**	**84.903.330**	**46.378.475**	**21.916.918**	**68.295.393**

26. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS (continued)

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

		RSD thousand
	31.12.2016	**31.12.2015**
Holding companies	51.308	17.519
Public companies	965.665	2.272.964
Corporate customers	18.855.062	18.619.287
Public sector	2.152.296	2.988.419
Retail customers	40.394.298	36.207.139
Non-residents	13.464.139	2.635.578
Entrepreneurs	1.814.183	1.254.309
Agricultural producers	471.626	282.785
Other customers	6.734.753	4.017.393
Balance at	**84.903.330**	**68.295.393**

27. SUBORDINATED LIABILITIES

		RSD thousand
	31.12.2016	**31.12.2015**
In foreign currencies		
Subordinated liabilities	1.764.606	1.824.946
Balance at	**1.764.606**	**1.824.946**

The balance of subordinated borrowings as of December 31, 2016 and December 31, 2015 is presented in more detail in the table below, without deferred interest per subordinated liabilities:

						RSD thousand
Creditor	**Currency**	**Loan amount**	**Maturity**	**Interest rate**	**31.12.2016.**	**31.12.2015.**
Erste Group Bank AG, Austria	EUR	15,000,000	27.12.2021.	Euribor+3.65% pa	1.763.890	1.824.392
Total		**15,000,000**			**1.763.890**	**1.824.392**

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

27. SUBORDINATED LIABILITIES (continued)

The Group can include its subordinated liabilities into the supplementary capital (Note 33.10) to the extent of up to 50% of the Bank's core capital after the National Bank of Serbia has determined, based on the documents and loan agreement submitted for inspection, that the conditions are met for the approval of inclusion of subordinated liabilities in the Bank's supplementary capital. The Supervision Department of the National Bank of Serbia issued the aforementioned approval on December 6, at the request of the Bank submitted on October 7, 2011.

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

28. PROVISIONS

		RSD thousand
	31.12.2016	**31.12.2015**
Provisions for losses per off-balance sheet items (a)	277.482	205.727
Provisions for long-term employee benefits (b):		
– retirement benefits	83.874	74.328
– jubilee awards	106.232	120.832
Provisions for litigations (c)	172.445	126.600
Other long-term provisions	50.681	23.918
Balance at	**690.714**	**551.405**

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

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

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

(b) Provision for retirement benefits has been recorded in the financial statements on the basis of an independent actuary's calculation as at the reporting date, and it is stated in the amount of present value of the defined benefit obligation, determined by discounting estimated future outflows. The discounted rate used by the actuary was 4.1%, which is considered to be adequate under IAS 19 "Employee Benefits", in the absence of a developed market for high quality corporate bonds. The actuary also used mortality rate tables of the Republic of Serbia for the period from 2010 to 2012. The growth salary rate was assumed to equal 1.1% and the employee turnover rate to be 6.18% within 5 years before retirement from the Group.

28. PROVISIONS (continued)

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

Movements on provision accounts during the year are provided below:

		RSD thousand
	31.12.2016	**31.12.2015**
Provisions for losses per off-balance sheet exposures		
Balance at the beginning of the year	205.727	200.995
Charge for the year (Note 11 a)	2.893.367	1.481.517
Reversal of unused provisions (Note 11 a)	(2.824.067)	(1.476.674)
Other movements	2.455	(111)
	277.482	**205.727**
Provisions for other long-term employee benefits		
Balance at the beginning of the year	198.586	219.872
Interest expenses and current service costs	22.403	25.472
Released during the year	(31.326)	(17.946)
Actuarial losses/(gains) on jubilee awards	983	(15.315)
Actuarial losses/(gains) on retirement benefits	2.442	(16.923)
Other	5.000	3.427
	198.088	**198.587**
Provisions for litigations		
Balance, beginning of year	126.600	98.581
Charge for the year (Note 11 a)	55.506	52.682
Released during the year	(9.661)	(24.663)
	172.445	**126.600**
Other long-term provisions		
Balance at the beginning of the year	20.491	36.513
Charge for the year	35.084	2.879
Released during the year	(12.875)	(18.901)
	42.700	**20.491**
Balance at	**690.714**	**551.405**

29. OTHER LIABILITIES

RSD thousand

	31.12.2016	31.12.2015
In RSD		
Trade payables	8.562	2.711
Advances received	22.235	25.140
Liabilities for net salaries and benefits	194	-
Liabilities for taxes, contributions and other duties payable	3.769	6.439
Accruals:		
– accrued liabilities for unused annual leaves	13.952	32.795
– other accruals	394.055	292.624
Other liabilities	77.269	56.567
	520.035	**416.276**
In foreign currencies		
Fee and commission payables	25	24
Advances received	14.083	10.671
Accruals:		
– other accruals	5.820	4.959
Other liabilities	82.730	9.014
	102.658	**24.668**
Balance at	**622.694**	**440.944**

30. EQUITY

(a) Structure of the Group's' Equity

The total equity structure of the Group is presented below:

RSD thousand

	31.12.2016	31.12.2015
Share capital - ordinary shares	10.040.000	10.040.000
Share premium	124.475	124.475
Special Reserves for Estimated Losses	5.614.904	4.425.448
Other reserves	37.329	35.740
Revaluation reserves	283.968	220.288
Retained earnings	2.098.441	1.191.045
Owners without rights of control	54.892	43.691
Balance at	**18.254.009**	**16.080.687**

30. EQUITY (continued)

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

Share Capital

As of December 31, 2016 the Bank's subscribed and paid in capital comprised 1,004,000 ordinary shares with the par value of RSD 10,000 per share (December 31, 2015: 1,004,000 ordinary shares with the par value of RSD 10,000 per share). During 2016 and 2015 there were no changes in the share capital.

The major shareholder of the Bank is Erste Group, Vienna, with a shareholding of 74% at December 31, 2017. The shareholder structure of the Bank as of December 31, 2016 is presented below:

Shareholder	**Share Count**	**In %**
EGB CEPS HOLDING GMBH	742.960	74,00
Steiermärkische Bank und Sparkassen AG, Grac	261.040	26,00
Total	**1.004.000**	**100,00**

/ii/ *Share Premium*

Share premium amounting to RSD 124,475 thousand as at December 31, 2016 and 2015 resulted from a positive difference between the selling price of the shares and their nominal value.

30. EQUITY (continued)

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

/iii/ Reserves from Profit and Other Reserves

As of December 31, 2016 reserves from profit formed for estimated loss per risk-weighted balance sheet and off-balance sheer exposures amounted to RSD 5.614.904 thousand. As of December 31, 2015 the required reserve for estimated losses amounted to RSD 4.425.448 thousand. Pursuant to the Shareholder Assembly's Decision dated April 22, 2015, RSD 1.189.455 thousand was allocated to other reserves on December 31, 2016.

/iv/ Revaluation Reserves

Revaluation reserves amounting to RSD 283.703 thousand as of December 31, 2016 (December 31, 2015: RSD 220.102 thousand) were formed as a result of the market value adjustment of the securities available for sale, adjusted for the effects of deferred taxes arising from revaluation of these securities and the adjustment of liabilities based on the actuary calculation in accordance with IAS 19.

(b) Performance Indicators of the Group – Compliance with the Prescribed Ratios

The group is required to maintain the scope and structure of its business operations and risk-weighted assets in compliance with the ratios prescribed by the Law on Banks and relevant decisions enacted by the National Bank of Serbia based on the aforesaid Law. As of December 31, 2016 the Group and the Bank were in full compliance with the prescribed values. The Group achieved the following performance indicators as of December 31, 2016:

Performance indicators	Prescribed	31.12.2016.	31.12.2015.
	Minimum	EUR	EUR
1. Capital	EUR 10 million	119.352.882	110.378.597
2. Capital adequacy ratio	Minimum 12%	15,55%	17,28%
3. The sum of Bank's investments	Maximum 60%	7,44%	7,65%
4. Exposure to the entities related to the Group	Unrestricted	15,22	12,73
5. The sum of all large and most significant exposures relative to own assets	Maximum 400%	111,69%	109,51%
6. Liquidity ratios:			
- Liquidity ratio	liquidity ratio	1,40	1,21
- Narrow liquidity indicator	Minimum 0,6	1,34	1,15
7. Foreign exchange risk ratio	Maximum 20%	3,00%	2,32%
8.Exposure to a group of related entities	Maximum 25%	15,49%	17,03%
9.Exposure to an entity related to the Group	Unrestricted	6,17	4,88
10. Investments in a non-financial sector entity	Maximum 10%	0,18%	0,20%

31. OFF-BALANCE SHEET ITEMS

		RSD thousand
	31.12.2016	**31.12.2015**
Managed funds (a)	696.990	710.319
Guarantees and other irrevocable commitments (b)	22.006.926	18.604.907
Other off-balance sheet items (c)	165.248.404	124.280.720
Balance at	**187.952.320**	**143.595.946**

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

(a) Managed Funds

		RSD thousand
	31.12.2016	**31.12.2015**
Investments on behalf of third parties		
In RSD		
– short-term	13.674	12.635
– long-term	683.316	697.684
Balance at	**696.990**	**710.319**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 3.006 thousand and matured penalty interest of RSD 5.123 thousand. Long-term funds managed on behalf of third parties relate to long-term housing loans insured with National Mortgage Insurance Corporation amounting RSD 662.126 and long-term loans to agricultural producers in the amount of RSD 21.190 thousand.

31. OFF-BALANCE SHEET ITEMS (Continued)

(b) Guarantees and Other Irrevocable Commitments

	31.12.2016	RSD thousand 31.12.2015
In RSD		
Payment guarantees	40.457	1.200
Performance bonds	3.810.201	3.797.991
Acceptances	872	872
Irrevocable commitments for undrawn loan facilities	2.914.003	2.809.822
Other off-balance items	270.741	75.083
	7.036.274	**6.684.968**
In foreign currencies		
Payment guarantees	457.393	527.918
Performance bonds	3.835.280	4.254.053
Acceptances	-	299
Irrevocable commitments for undrawn loan facilities	10.570.648	6.967.122
Letters of credit	53.779	168.552
Other off-balance items	53.552	1.995
	14.970.652	**11.919.939**
Balance at	**22.006.926**	**18.604.907**

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

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

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

As at December 31, 2016, the Group's provisions for guarantees and other irrevocable commitments amounted to RSD 277.472 thousand (December 31, 2015: RSD 205.727 thousand).

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32. RELATED PARTY DISCLOSURES

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

The Bank enters into transactions with its parent entity – majority shareholder –Erste Group, Vienna, its other shareholder and other members of Erste Group. Balances of receivables and payables as of December 31, 2016 and December 31, 2015 as well as income and expenses arising from transactions with entities within Erste Group are provided in tables below:

RSD thousand

	2016		2015	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Receivables				
Financial assets at fair value through	74.982		46.224	-
profit and loss, held for trading	684.919	255.167	493.647	123.600
Loans and receivables due from banks	-	288	-	84
and other financial institutions	-	93.560	-	93.560
Loans and receivables due from customers	18.967	28.013	4.789	28.030
	778.868	**377.028**	**544.660**	**245.274**
Liabilities				
Financial liabilities at fair value through profit and loss, held for trading	49.915	-	68.115	-
Deposits and liabilities due to banks and other financial institutions	19.336.606	794.664	8.839.944	467.935
Deposits and liabilities due to customers	-	111.903	-	619.168
Subordinated liabilities	1.764.605	-	1.824.946	-
Provisions	205	314	90	40
Other liabilities	22.265	121.396	2.620	39.365
	21.173.597	**1.028.278**	**10.735.715**	**1.126.508**
Off-balance sheet items				
Guarantees and other warranties	262.701	544.510	72.000	153.015
Irrevocable commitments	196.904	2.848	187.006	1.736
Other off-balance sheet items	15.399.712	-	11.263.947	-
	15.859.317	**547.358**	**11.522.953**	**154.751**

32. RELATED PARTY DISCLOSURES (continued)

RSD thousand

	2016		2015	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	13.904	1.689	1.961	257
Interest expense	(284.337)	(2.293)	(25.770)	(86.094)
Fees and commission income	75.154	1.961	53.411	28.704
Fees and commission expense	(164.454)	-	(145.749)	-
Net gains on the financial assets held for trading	87.505	-	72.332	-
Net income from exchange rate differences and the effects of foreign currency clause	-	1.461	-	-
Net income from exchange rate differences and the effects of foreign currency clause	(48.236)	-	-	-
Net income from impairment of financial assets and credit-risky off-balance sheet items	1.162	-	-	-
Net expenses from impairment of financial assets and credit-risky off-balance sheet items	-	(1.983)	-	-
Other operating income	10.450	30.485	-	28.629
Other expenses	(147.159)	(517.583)	(88.931)	(487.424)

Fees on cross-border loans amounted to RSD 28.593 thousand (2015: RSD 240.055 thousand).

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

(a) As of December 31, 2016 and December 31, 2015 loans due from related parties were not impaired.

32. RELATED PARTY DISCLOSURES (Continued)

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

RSD thousand

	Balance at December 31, 2016	Income/ (Expenses) 2016	Balance at December 31, 2015	Income/ (Expenses) 2015
Current account overdrafts, credit cards, cash and consumer loans	950	141	741	128
Housing loans	40.711	2.796	41.442	4.203
Accrued fees	-	-	194	-
Other receivables	258	118	385	(4)
Total impairment allowances	(333)	(89)	(246)	2
Deposits	54.045	(318)	76.340	(1.786)
Other liabilities	57	(385)	383	(1.516)
Unused credit limit	324	-	534	-

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

RSD thousands

	2016	2015
Salaries and benefits of the Management Board members	5.957	5.914
Salaries and benefits of the Executive Board members	109.888	92.993
Accrued income of the Executive Board members	42.670	20.492
Total	**158.515**	**119.399**

Transfer prices

In accordance with the new provisions of the Law on Income Tax, in 2013 came into force Rules on transfer pricing and methods apply the principle at "arm's length" when determining the price of transactions between related parties. In accordance with this Act and the Regulations, banks are required by 30 June 2017, together with the income tax return for the year 2016, to submit the study on transfer pricing.

Since the Bank has significant transactions with related parties, at the time of the financial statements for 2016. The Bank is in the process of preparing a study on transfer pricing. Based on preliminary findings, the Bank's management does not expect significant corrections of the final tax balance based on transactions with related parties.

33. RISK MANAGEMENT

33.1. Introduction

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

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

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

The Group has adopted policies and procedures that provide control and application of all internal acts of the Group in relation to risk management, as well as regular reporting to the Group in relation to risk management. Risk management processes are vital to the continuous profitable business operations of the Group and each individual within the Group is, within his/her remit, accountable for risk exposure. Such risk management system allows timely and full reporting to the governing bodies on all risks that occur or may occur and enables adequate and prompt response to such risks.

An independent risk management process does not cover business risks which comprise changes in the environment, technology and industry. The Group monitor these risks through the strategic planning process.

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

The key roles in risk management in the Bank and S-Leasing belong to the following units:

Management Board and Executive Board

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

Assets and Liability Management Committee

Assets and Liability Management Committee (ALMC) has overall responsibility for the development of a comprehensive risk management strategy and implementation of the principles, framework, policies and limits. ALMC is responsible for fundamental findings in respect of risks and for managing and monitoring of relevant decisions related to risk, principally for interest rates, foreign exchange and other market risks.
ALMC has an advisory role and its decisions in the form of proposals are sent for approval to the Executive Board.

33. RISK MANAGEMENT (continued)

33.1. Introduction (continued)

The Committee for the management of non-financial risks

The aim of the Committee for the management of non-financial risks is to consider, propose decisions and validate issues in the area of operational risk management of the Group, with the application of the Decision on the basis of expected profit of exposure to risk and the implementation of corrective measures and actions to mitigate risks to manage non-financial risks (operational risk, reputational risk, compliance risk, legal risk, information security) in a proactive manner.

Asset and Liability Management Unit

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

Internal audit

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

Risk management processes throughout the Group are audited at least annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with such procedures. Internal audit discusses the results of all assessments with the Bank and S-Leasing management and reports its findings and recommendations to the Audit Committee and the Management Board.

Risk Management and Reporting System

In accordance with the Law on Banks in the Group was established internal organisation which defines the organizational unit within its authority and responsibility has the task of risk management. The objective of risk management system is to identify and quantify the risks to which the Group is exposed in the course of its business activities.

The functions of monitoring and risk management are the responsibility of the Risk Management Division as a separate organizational unit within the Group. Risk management policies, risk management strategies as well as strategies for managing capital are linked to the Group 's strategy, and include defining the types of risks, the management of these risks and the level of risk that the Group is willing to accept in order to achieve their business goals. Special attention is paid to full compliance with the relevant regulations of the National Bank of Serbia (NBS).

33. RISK MANAGEMENT (continued)

33.1. Introduction (continued)

Risk Management and Reporting System (continued)

The responsibilities of the Risk Management Division include the following:

- Identification and measurement or assessment of Group's exposure to certain types of risks;
- Risk monitoring, including its monitoring and control, analysis and reports on the amount of individual risks, their causes and consequences;
- Measurement and evaluation as well as management of the Group's risk profile and capital adequacy;
- Tracking of parameters that influence the position of the Group's exposure to risks, primarily including management and optimization of asset quality and the cost of risk;
- Development and application of quantitative risk management models as elements in the process of advanced business decision making and pricing risk;
- Strategies development and limit proposals for the Group's exposure to the individual types of risks and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Group's financial position;
- Risk assessment of new products introduction and outsourcing activities;
- Development of methodologies, procedures and policies for risk management in accordance with relevant legislation, standards of Erste Group, good business practice and the special needs of the Group;
- Development and implementation of various technical platforms and tools.

Bearing in mind the diversity of areas covered, in order to increase the performance of their roles, the risk management function is divided between the departments managing the strategic risks and Credit Risk Management Division, which consists of the following organizational units:

- Department of Corporate risk management;
- Department of Retail risk management;
- Restructuring and workout/Collections Department.

S-Leasing manages the risk through internal organizational units of the Directorate Risk Management and Directorate operational activities, as well as using the services related entity Erste Bank Serbia, namely: strategic risk management services and the Credit Risk Management Division, with the support of all the members of the Executive Committee responsible for the function of risk.

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

The Group and its operations are particularly exposed to: credit risk, concentration risk, market risk, liquidity risk, operational risk. The obtained information is presented and explained to the Board of Directors, Executive Committee, Asset and Liability Committee and the heads of all business units. Reports are sent to the authorities on a daily, weekly, monthly and quarterly basis, and in accordance with their requirements.

Comprehensive report on risks are quarterly presents to the Board of Directors that includes all relevant information needed to estimate the risks the Group is exposed to.

S-Leasing has united its risk management system with the Bank and all processes that are applicable to the leasing portfolio implemented during 2014.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Group, whether fully or partially that will generate the loss for the Group.

The Group's credit risk is caused by the debtor's credit capacity, good credit history, as well as quality of collateral, and is being identified, estimated and monitored in accordance with the internal by-laws for credit risk management, as well as in accordance with decisions that regulate the classification of the balance sheet assets and off-balance sheet items and capital adequacy.

By its business policy, the Group requires and assesses the maximum credit risk protection, as most important risk in banking.

The Group controls and manages credit risk by establishing rigorous process for determining minimal credit capacity of the debtor in the process of credit approval, as well as by regular monitoring during credit contract life, by defining the different level of decision during loan approval (which reflects knowledge and experience) and by establishing limits, by which the level of acceptable risk is determined on the individual client basis, geographical basis and industries, and risk monitoring accordingly.

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

In accordance with the Group's Risk management policy, Credit Policy and Procedures for managing the credit risk, the process of credit risk management for individual placements and risks at the portfolio level, i.e., the procedures of identification, measurement and monitoring (control) of placements, especially those with increased risk levels, has been defined.

The process of monitoring the quality of loan enables the Group to assess the potential losses as a result of which is exposed to risk and to take corrective measures.

Approval of loan products is based on the credit quality of the customer, the type of credit product, collateral, additional system requirements and other factors to minimize credit risk.

Assessment of risk of default by the counterparty of the Group is based on the likelihood of the client entering the status of default (PD). For each credit risk exposure, the credit decision is determined by the Group's internal rating, which is a unique measure of the risk of occurrence of the status of the counterparties. The internal rating of each client is updated on a regular basis, at least once a year. At the quantitative level, the internal ratings affect the cost of the required risk, and not the formation of provisions for credit risks. Internal ratings take into account all the available information needed for risk assessment of the client's entry in the status of default (default-a). For clients from the corporate segment, internal ratings take into account the financial strength of the client (profitability ratios, the adequacy of the maturity structure of certain elements of assets and liabilities, the adequacy of cash flows, indebtedness, credit-exposure to foreign exchange risk, the industry in which the borrower operates, the position of the debtor market, the specific characteristics of the debtor and other relevant indicators). For the retail segment and micro clients, internal ratings are based mainly on behavioural and application scoring, but also used demographic and financial information. It is used to restrict the rating depending on the membership in the group of economically related parties and the main economic activity of the country.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

The Group complies with all standards of Erste Group AG from the perspective of the internal rating model development and maintenance process. All new models and modifications of existing models within the Group (rating models and risk parameters) and methodological standards are reviewed by the Commission's group, the so-called. Holding Model Committee (HMC), which ensures the integrity throughout the Group as well as the consistency of the model and methodology.

Models are also approved by local management. The internal rating system complies with Erste Group AG's system, which distinguishes between "performing" and "non-performing" clients. For the "performing" clients (clients that are not in the status of default) The Bank uses a scale score of 8 (A1/A2/B1/B2/C1/C2/D1/D2[1]) for customers from the retail segments, or a 13 rating scale (1/2/3/4a/4b/4c/5a/5b/5c/6a/6b/7/8) for all other categories. For customers in the status of default The Group uses a scale score of 5 (R1-R5). For reporting purposes, internal ratings are grouped into the following 4 categories of risk:

Low risk – clients with established good and longer cooperation with the Group, as well as many internationally recognized customers. Strong financial position with no anticipated financial difficulties in the future. Clients from the retail segment who have a long history of cooperation with the Group or clients who use a wide range of products. Clients who do not have delays in the payment of dues currently or in the past 12 months. At the same time, new contracts are generally signed with customers from this category.

Management attention - clients with barely satisfactory or unsatisfactory financial situation. Maintenance of credit positions very uncertain in the medium term. Negative qualitative criteria are present. Clients from the retail segment with limited savings or likely problems in paying that trigger reminders for early payment.

Sub-standard - clients sensitive to negative financial and economic impacts.

Non-performing – clients who recorded one or more criteria for the activation of the default status, in accordance with the definition laid down in the precise internal regulations of the Group and Erste Group AG: uncertain payments, late payments with a materially significant exposure for more than 90 days, a restructuring that has caused a loss for the Group, realization of credit loss or the initiation of bankruptcy proceedings. In order to determine the default status, The Group applies a client level approach, including retail clients; if the client is in the default status for one product, then all other products from the client are classified as problematic claims.

Monitoring and control of credit risk

With the aim of timely credit risk management a regular analysis of the risk of the client is performed, which includes regular status ratings, serviceability of obligations towards the Group, reviewing collaterals and compliance with contractual terms.

The Group aims to promptly identify any deterioration in the quality of the loan portfolio, which may result in material losses for the Group, therefore, the Group, through the process of regular re-approval, analyses the overall status of the debtor. The importance of regular re-approval of credit exposure is in the regular client monitoring and portfolio quality, and represents an additional measure to optimize credit risk exposure of the Group.

[1] [1] S-Leasing d.o.o. Beograd uses a scale of 4 ratings (A / B / C / D) for private individuals and customers who use simple bookkeeping.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

The Group conducts evaluation of credit quality based on customer information, also taking into account all the client information and previous credit history between the group and the client.

Early Warning Signals

Systems and processes are used to detect early warning indications of negative developments, in order to provide proactive measures to reduce the risk. The Group applies methods of early detection of increased credit risk in order to increase successful collection even in case of deterioration of the credit portfolio quality, which is revealed by monitoring all relevant information and predicting changes in variables in the future which primarily includes the client's behaviour up to that point in settling obligations and monitoring of market information.

EWS control function within the Group is organized within a separate organizational unit within the Directorate of credit risk management of legal entities (Department of EWS and monitoring).

Default status

Definition of the default status within the Group follows the regulatory requirements of the Group by translating them into five groups of events of default status:

- Default event E1 - Small chance of settling the obligations entirely due to the decrease of credit quality of borrowers
- Default event E2 - A delay longer than 90 days after a materially significant amount of debt
- Default event E3 - Modifications to the originally agreed terms of repayment due to the assessment of the worsening economic situation of the client
- Default event E4 - Credit loss
- Default event E5 - Bankruptcy

The Group has established a systematic process to ensure identification and recognition of status of default on client level. This means that in case a default status of any credit risk exposure of individual investments of a client, the total balance sheet or off-balance sheet exposure that the Group has for the client, including products that are not related to lending, are classified in the default status. The foregoing is applicable to all clients from the retail banking segment, as well as clients from other corporate segments.

In the case of undertaken loan commitments that are part of the Group's off-balance sheet assets, the exposure in the status of default is presented in the nominal amount of the liability, which, in case of the withdrawal of funds, or the activation, leads to risk exposure based on the default status without the realization of collaterals.

In the case of given financial guarantees, exposure in the status of default represents the total nominal amount based on which there is a risk that may arise in the event of the occurrence of default status of partial or total guaranteed exposure.

Default events can be activated either at the level of exposure of individual investments or on the client level, but the general rule that applies to all cases, requires that the client is granted the status of default for all individual exposures, and be given an internal rating of "R", regardless whether the default event triggered at individual exposures level or at the client level.

All clients of the Group are located in the status of default and therefore they are given the appropriate internal rating (R1 - R5) if there has been a realization of at least one of the default events E1 - E5.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Default status (continued)

If, in the judgment of the Group, the criteria that are a precondition for assigning events leading to the status of default are no longer applicable and the client is able to continue to repay the debt in accordance with the defined terms of the contract, the Group will change the rating of the client due to the fact that the client who is no longer in the status of default.

Minimum general requirements that must be met before leaving the status of default and the "R" rating are the following:

- none of the default events E1 - E5 are valid with the client and additional losses in not expected on its individual credit exposures and
- the monitoring period is successfully over.

Each event has a default precisely defined minimum duration and termination of the default status is acceptable only after the successful completion of the monitoring period which automatically follows the expiry / termination of default events E1 - E5 in clients who have any type of credit obligations and which lasts 3 months thereafter. Specifically, in order to successfully complete the monitoring period, during this time, the client is not allowed to start or have any criteria that may initiate by one of the predefined default events E1 - E5.

Write off of receivables

The Group, in accordance with the Regulations on the write-off of receivables and the transfer of receivables from the balance sheet to the off-balance sheet, performs write-offs of bad debts after they have exhausted all the possibilities for recovery. In addition, write-offs can be taken into consideration in a situation where further court proceedings are not economically viable due to higher costs compared to the collection amount, where further action of any kind is not effective. Write-off of receivables is performed only for doubtful loans that are impaired. For claims under litigation or bankruptcy which are fully impaired (for which a correction of 100% has been performed), and for which it is assessed that the litigation or bankruptcy will take too long and therefore will be a burden to the Group's balance sheet records, a decision is made on the transfer of receivables from the balance sheet to the off balance sheet but the debt is not forgiven, more precisely the Group does not waive contractual and legal rights for the claim.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Maximum Exposure to Credit Risk by Balance Sheet and Off-balance Sheet Items

Overview of the maximum exposure to credit risk is shown in both gross and net amounts, without taking into account collaterals and other items that the Group does not consider as exposed to credit risk in accordance with the positions of the balance sheet as at 31 December 2016 is presented in the table under:

	Assets at based on which the Group is exposed to credit risk				RSD thousand
	Gross amount	Accumulated allowance for impairment / provisions	Net amount	The assets based on which the Group is not exposed to credit risk	Value from the balance sheet
Cash and assets with the central bank	8.403.985	-	**8.403.985**	10.842.685	**19.246.670**
Financial assets at fair value through the income statement held for trading	13.048.357	-	**13.048.357**	-	**13.048.357**
Financial assets available for sale	7.303.359	120.657	**7.182.702**	-	**7.182.702**
Financial assets held to maturity	8.635.103	-	**8.635.103**	-	**8.635.103**
Loans and receivables from banks and other financial institutions	1.222.018	12.293	**1.209.725**	-	**1.209.725**
Loans and receivables from customers	103.247.635	6.784.373	**96.463.262**	-	**96.463.262**
Investments in associates and joint ventures	-	-	-	118	**118**
Intangible assets	-	-	-	281.395	**281.395**
Property, plant and equipment	-	-	-	817.267	**817.267**
Investment property	-	-	-	232.417	**232.417**
Current tax assets	-	-	-	6.513	**6.513**
Deferred tax assets	-	-	-	61.745	**61.745**
Fixed assets held for sale and assets from discontinued operations	-	-	-	56.695	**56.695**
Other assets	1.088.979	242.410	**846.569**	18.294	**864.863**
On-Balance exposure	**142.949.436**	**7.159.733**	**135.789.703**	**12.317.129**	**148.106.832**
Guarantees and warranties	8.197.983	109.112	**8.088.871**		**8.088.871**
Assumed future liabilities	13.808.943	168.369	**13.640.574**		**13.640.574**
Other off-balance sheet exposure	-	-	**-**	165.945.394	**165.945.394**
Off-Balance exposure	**22.006.926**	**277.481**	**21.729.445**	**165.945.394**	**187.674.838**
Total exposure	**164.956.362**	**7.437.214**	**157.519.148**	**178.262.523**	**335.781.670**

In accordance with the business policy of the Group, the primary source of credit risk the Group considers portfolio of loans and receivables from customers, banks and other financial institutions, as well as off-balance sheet exposures in the form of financial guarantees and commited future liabilities. A detailed review of these exposures[2] in terms of sectors and categories of claims, status and impairment, maturity and the value of collaterals is provided below.

[2] Other items from the Balance sheet that the Group considers exposed to credit risk primarily arising from activities that support the core business of the Group (the formation of liquidity reserves, and short-term liquidity management, as well as the optimization of interest income by managing assets and liabilities) and are characterized by high credit quality

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Overview of the maximum exposure to credit risk is shown in both gross and net amounts, without taking into account collaterals and other items that the Group does not consider as exposed to credit risk in accordance with the positions of the balance sheet as at 31 December 2015 is presented in the table under:

RSD thousand

	Assets at based on which the Group is exposed to credit risk				
	Gross amount	Accumulated allowance for impairment / provisions	Net amount	The assets based on which the Group is not exposed to credit risk	Value from the balance sheet
Cash and assets with the central bank	11.210.148	-	**11.210.148**	7.313.279	**18.523.428**
Financial assets at fair value through the income statement held for trading	8.363.472	-	**8.363.472**	-	**8.363.472**
Financial assets available for sale	3.565.720	119.448	**3.446.272**	-	**3.446.272**
Financial assets held to maturity	7.008.412	-	**7.008.412**	-	**7.008.412**
Loans and receivables from banks and other financial institutions	2.746.593	13.284	**2.733.309**	-	**2.733.309**
Loans and receivables from customers	86.956.854	7.912.978	**79.043.876**	-	**79.043.876**
Investments in associates and joint ventures	-	-	-	118	**118**
Intangible assets	-	-	-	351.826	**351.826**
Property, plant and equipment	-	-	-	741.139	**741.139**
Investment property	-	-	-	238.508	**238.508**
Current tax assets	-	-	-	17.163	**17.163**
Deferred tax assets	-	-	-	161.764	**161.764**
Fixed assets held for sale and assets from discontinued operations	-	-	-	443	**443**
Other assets	938.855	287.231	**651.624**	7.333	**658.957**
On-Balance exposure	**120.790.054**	**8.332.941**	**112.457.113**	**8.831.574**	**121.288.687**
Guarantees and warranties	8.750.885	90.042	**8.660.843**		**8.660.843**
Assumed future liabilities	9.854.022	115.685	**9.738.337**		**9.738.337**
Other off-balance sheet exposure	-	-	**-**	124.991.040	**124.991.040**
Off-Balance exposure	**18.604.907**	**205.727**	**18.399.180**	**124.991.040**	**143.390.220**
Total exposure	**139.394.961**	**8.538.668**	**130.856.292**	**133.822.614**	**264.678.906**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of receivables and non-problematic value of collaterals by which they are insured as at 31 December 2016:

RSD thousand

	The credit quality of non-problematic receivables [3]				Value of collaterals	
	High	Medium	Low	Problematic receivables [4]	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**27.027.961**	**4.847.136**	**1.166.584**	**2.337.082**	**13.052.496**	**570.421**
Housing loans	14.070.281	917.149	504.475	866.526	12.574.769	561.611
Consumer and Cash Loans	10.498.291	3.379.768	535.574	1.120.044	117.400	2.447
Transactional and Credit Card	654.322	127.814	30.325	54.731	2.235	258
Other receivables	1.805.066	422.406	96.211	295.781	358.093	6.104
Receivables from corporate clients	**52.538.994**	**6.449.718**	**260.461**	**3.136.263**	**21.808.769**	**1.318.471**
Large entities	9.999.932	109.068	0	40.998	2.929.485	36
Small and medium-sized entities	32.053.876	2.636.818	182.941	1.939.649	13.241.641	909.081
Micro enterprises and entities	10.334.479	788.423	41.807	755.070	2.826.810	371.544
Agricultural producers	145.596	77.216	35.713	75.796	132.952	37.809
Public companies	5.111	2.838.193	-	324.750	2.677.880	-
Receivables from other clients	**1.784.330**	**3.490.687**	**397**	**1.430.040**	**785.883**	**718.452**
Total receivables	**81.351.286**	**14.787.542**	**1.427.441**	**6.903.385**	**35.647.147**	**2.607.343**

[3] The credit quality of non-problematic receivables correspond to the classification of low risk (high), a special control (medium) and below-standard (low) as defined in section 34.2 Credit risk.

[4] Problematic receivables of the Group include receivables in the status of default (see "34.2 Credit risk - the status of default) and restructured receivables" Non performing forbearance "(see 34.2 Credit risk - reprogrammed receivables) that are not in the status of default.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Loans and receivables from customers, banks and other financial institutions

(a) Overview by credit quality of receivables and non-problematic value of collaterals by which they are insured as at 31 December 2015:

(gross value in RSD thousand)

	The credit quality of non-problematic receivables				Value of collaterals	
	High	Medium	Low	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail clients	**27.209.166**	**730.977**	**3.068**	**2.667.369**	**9.995.882**	**590.750**
Housing loans	12.967.518	189.422	-	856.918	9.633.899	584.246
Consumer and Cash Loans	10.221.354	377.760	-	1.365.503	99.905	4.453
Transactional and Credit Card	826.919	32.620	-	90.650	1.044	-
Other receivables	3.193.375	131.175	3.068	354.297	261.034	2.051
Receivables from corporate clients	**38.047.864**	**9.094.721**	**344.993**	**4.096.543**	**18.921.072**	**1.738.847**
Large entities	5.469.848	1.097.218	-	27.094	770.836	-
Small and medium-sized entities	23.619.780	3.847.237	284.911	2.686.368	12.240.830	1.211.017
Micro enterprises and entities	7.493.830	724.112	60.082	924.969	2.372.419	482.271
Agricultural producers	242.498	14.716	-	124.445	121.980	45.559
Public companies	1.221.907	3.411.438	-	333.667	3.415.008	-
Receivables from other clients	**2.224.611**	**3.045.006**	**752**	**2.238.377**	**841.808**	**1.496.885**
Total receivables	**67.481.641**	**12.870.705**	**348.813**	**9.002.289**	**29.758.761**	**3.826.482**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(b) Overview of the gross and net credit exposure by sectors and categories of receivables, according to the type of impairment, the maturity and the value of collaterals as at 31 December 2016:

RSD thousand

	Non-impaired receivables [5]		Impaired receivables [6]			Accumulated impairment				Value of collaterals	
	Not due	Due	Individually impaired	collectively impaired	Total gross receivables	Impairment of non-impaired receivables	Individually impaired	collectively impaired	Total net receivables	Non-impaired receivables	Impaired receivables
By sectors											
Receivables from retail	**33.015.887**	**190.447**	**667.710**	**1.504.720**	**35.378.763**	**799.135**	**276.982**	**1.227.088**	**33.075.558**	**13.115.775**	**507.142**
Housing loans	15.547.007	33.588	623.938	153.897	**16.358.431**	197.374	238.041	102.166	**15.820.849**	12.637.321	499.060
Consumer and Cash Loans	14.376.386	107.152	30.275	1.019.865	**15.533.677**	499.014	30.276	831.148	**14.173.239**	118.127	1.720
Transactional and Credit Card	810.953	1.908	175	54.155	**867.191**	28.496	175	47.949	**790.570**	2.235	258
Other receivables	2.281.541	47.799	13.321	276.803	**2.619.464**	74.251	8.490	245.824	**2.290.900**	358.093	6.104
Receivables from corporate clients	**59.038.872**	**215.964**	**2.877.336**	**253.264**	**62.385.436**	**876.025**	**2.176.146**	**243.235**	**59.090.030**	**21.814.154**	**1.313.085**
Large entities	10.100.421	8.580	40.783	215	**10.149.999**	178.807	38.668	275	**9.932.248**	2.929.485	36
Small and medium-sized entities	34.725.505	148.269	1.819.284	120.226	**36.813.283**	496.662	1.403.274	115.488	**34.797.859**	13.241.780	908.942
Micro enterprises and entities	11.124.191	46.042	656.078	93.468	**11.919.780**	186.846	408.275	88.566	**11.236.092**	2.832.057	366.298
Agricultural producers	246.534	11.991	38.876	36.920	**334.321**	5.577	19.349	36.471	**272.924**	132.952	37.809
Public companies	2.842.222	1.082	322.315	2.435	**3.168.054**	8.132	306.580	2.435	**2.850.907**	2.677.880	-
From other clients	**5.162.496**	**111.244**	**991.720**	**438.320**	**6.703.780**	**78.618**	**783.156**	**334.608**	**5.507.398**	**785.883**	**718.452**
Total exposure	**97.217.255**	**517.654**	**4.536.765**	**2.196.304**	**104.467.979**	**1.753.777**	**3.236.284**	**1.804.931**	**97.672.987**	**35.715.812**	**2.538.679**
By category of receivables											
Non-problematic receivables	97.049.676	514.918	-	-	**97.564.594**	1.746.031	-	-	**95.818.563**	35.647.147	-
of which: Restructured	541.551	9.613	-	-	**551.165**	19.739	-	-	**531.426**	398.235	-
Problematic receivables	167.579	2.736	4.536.765	2.196.304	**6.903.385**	7.746	3.236.284	1.804.931	**1.854.425**	68.664	2.538.679
of which: Restructured	162.046	2.574	1.501.657	590.997	**2.257.274**	7.670	1.103.757	402.355	**743.491**	64.997	1.171.368
Total exposure	**97.217.255**	**517.654**	**4.536.765**	**2.196.304**	**104.467.979**	**1.753.777**	**3.236.284**	**1.804.931**	**97.672.987**	**35.715.812**	**2.538.679**

[5] By non-impaired receivables,the Bank considers receivables which are not in the default status and receivables without indicators of impairment

[6] By impaired receivables, the Bank considers receivables which are in default status with impairment indicator

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(a) Overview of the gross and net credit exposure by sectors and categories of receivables, according to the type of impairment, the maturity and the value of collaterals as at 31 December 2015:

RSD thousand

	Non-impaired receivables		Impaired receivables			Accumulated impairment				Value of collaterals	
	Not due	Due	Individually impaired	Collectivelly impaired	Total gross receivables	Impairment of non-impaired receivables	Individually impaired	Collectively impaired	Total net receivables	Non-impaired receivables	Impaired receivables
By sectors											
Receivables from retail	**27.891.603**	**194.909**	**642.956**	**1.881.112**	**30.610.580**	**586.517**	**221.787**	**1.537.904**	**28.264.371**	**10.058.625**	**528.007**
Housing loans	13.200.984	30.882	635.546	146.446	**14.013.858**	77.804	214.377	89.868	**13.631.809**	9.696.643	521.503
Consumer and Cash Loans	10.550.194	100.256	852	1.313.315	**11.964.617**	374.291	852	1.102.173	**10.487.301**	99.905	4.453
Transactional and Credit Card	857.807	2.649	143	89.591	**950.190**	26.689	143	77.798	**845.560**	1.044	-
Other receivables	3.282.619	61.122	6.415	331.760	**3.681.915**	107.734	6.415	268.066	**3.299.700**	261.034	2.051
Receivables from corporate clients	**47.243.149**	**262.915**	**3.688.409**	**389.648**	**51.584.120**	**720.754**	**2.841.350**	**343.265**	**47.678.751**	**18.938.049**	**1.721.869**
Large entities	6.558.001	9.065	27.094	-	**6.594.160**	109.895	27.094	-	**6.457.171**	770.836	-
Small and medium-sized entities	27.586.162	179.331	2.505.392	167.410	**30.438.295**	449.931	1.944.163	138.568	**27.905.634**	12.254.395	1.197.451
Micro enterprises and entities	8.217.017	65.928	759.435	160.613	**9.202.994**	134.988	513.500	148.902	**8.405.603**	2.375.831	478.859
Agricultural producers	248.647	8.567	65.219	59.226	**381.659**	6.401	43.696	53.397	**278.166**	121.980	45.559
Public companies	4.633.322	24	331.269	2.399	**4.967.013**	19.539	312.898	2.399	**4.632.178**	3.415.008	-
From other clients	**5.109.288**	**161.101**	**2.177.556**	**60.821**	**7.508.767**	**49.411**	**1.564.712**	**60.582**	**5.834.063**	**841.808**	**1.496.885**
Total exposure	**80.244.041**	**618.925**	**6.508.921**	**2.331.581**	**89.703.467**	**1.356.682**	**4.627.849**	**1.941.751**	**81.777.185**	**29.838.482**	**3.746.761**
By category of receivables											
Non-problematic receivables	80.085.046	616.132	-	-	**80.701.178**	1.352.059	-	-	**79.349.119**	29.758.761	-
of which: Restructured	239.225	2.847	-	-	**242.072**	5.344	-	-	**236.727**	191.067	-
Problematic receivables	158.994	2.793	6.508.921	2.331.581	**9.002.289**	4.623	4.627.849	1.941.751	**2.428.067**	79.721	3.746.761
of which: Restructured	148.980	2.566	1.806.151	90.357	**2.048.053**	4.399	1.360.974	64.698	**617.982**	76.631	1.059.537
Total exposure	**80.244.041**	**618.925**	**6.508.921**	**2.331.581**	**89.703.467**	**1.356.682**	**4.627.849**	**1.941.751**	**81.777.185**	**29.838.482**	**3.746.761**

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33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

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

RSD thousand

	Non-impaired receivables					Impaired receivables				
	Not in delay	Within 30 days	From 31 to 60 days	From 61 to 90 days	Over 91 days	Not in delay	Within 90 days	From 91 to 180 days	From 180 to 360 days	Over 360
Receivables from retail	**27.615.908**	**5.244.935**	**265.672**	**79.794**	**25**	**258.699**	**242.609**	**243.158**	**237.163**	**1.190.800**
Housing loans	14.748.687	705.120	101.428	25.360	-	161.499	79.253	95.318	63.144	378.621
Consumer and Cash Loans	10.482.711	3.840.623	117.901	42.303	-	82.872	141.213	109.733	138.314	578.008
Transactional and Credit Card	787.771	3.787	17.530	3.773	-	3.481	1.943	6.491	6.708	35.706
Other receivables	1.596.739	695.405	28.813	8.358	25	10.846	20.201	31.616	28.997	198.464
Receivables from corporate clients	**55.217.014**	**3.975.960**	**49.308**	**9.574**	**2.980**	**389.005**	**147.680**	**284.834**	**236.831**	**2.072.250**
Large entities	10.051.187	57.813	-	-	-	215	-	32.781	-	8.001
Small and medium-sized entities	32.037.422	2.813.387	21.205	1.620	139	213.076	100.840	14.851	202.362	1.408.381
Micro enterprises and entities	10.083.756	1.062.617	17.164	3.855	2.840	11.105	46.045	237.153	23.504	431.738
Agricultural producers	208.191	42.142	4.093	4.099	-	3.519	794	48	10.965	60.470
Public companies	2.836.458	-	6.846	-	-	161.090	-	-	-	163.660
From other clients	**5.252.816**	**20.924**	**-**	**-**	**-**	**26.755**	**383.351**	**-**	**51.941**	**967.993**
Total exposure	**88.085.738**	**9.241.819**	**314.980**	**89.368**	**3.005**	**674.458**	**773.640**	**527.992**	**525.936**	**4.231.043**
By category of receivables	-	-	-	-	-	-	-	-	-	-
Non-problematic receivables	87.988.286	9.200.589	296.458	79.262	-	-	-	-	-	-
of which: restructured	426.008	120.760	1.458	2.939	-	-	-	-	-	-
Problematic receivables	97.452	41.230	18.522	10.106	3.005	674.458	773.640	527.992	525.936	4.231.043
of which: restructured	95.433	40.729	18.353	10.106	-	355.339	521.772	163.423	222.643	829.476
Total exposure	**88.085.738**	**9.241.819**	**314.980**	**89.368**	**3.005**	**674.458**	**773.640**	**527.992**	**525.936**	**4.231.043**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

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

RSD thousand

	Non-impaired receivables					Impaired receivables				
	Not in delay	Within 30 days	From 31 to 60 days	From 61 to 90 days	Over 91 days	Not in delay	Within 90 days	From 91 to 180 days	From 180 to 360 days	Over 360
Receivables from retail	**22.818.587**	**4.844.201**	**333.297**	**90.427**	**-**	**261.608**	**360.735**	**246.502**	**317.146**	**1.338.076**
Housing loans	12.475.197	572.977	154.812	28.879	-	117.451	154.397	87.410	141.101	281.634
Consumer and Cash Loans	7.366.343	3.126.830	114.765	42.512	-	103.332	156.799	115.908	125.445	812.683
Transactional and Credit Card	825.826	5.395	23.714	5.521	-	6.817	4.250	10.313	10.011	58.343
Other receivables	2.151.220	1.138.999	40.007	13.514	-	34.009	45.289	32.871	40.590	185.417
Receivables from corporate clients	**42.488.422**	**4.779.050**	**171.274**	**67.317**	**-**	**367.245**	**472.395**	**829.607**	**221.552**	**2.187.257**
Large entities	6.140.669	426.397	-	-	-	-	-	-	5.773	21.320
Small and medium-sized entities	24.953.319	2.684.745	66.579	60.851	-	185.498	241.019	787.190	133.558	1.325.537
Micro enterprises and entities	6.549.330	1.637.169	95.127	1.319	-	19.630	53.153	35.787	78.466	733.012
Agricultural producers	211.758	30.740	9.568	5.148	-	6.383	2.688	6.630	3.755	104.990
Public companies	4.633.346	-	-	-	-	155.733	175.535	-	-	2.399
From other clients	**5.209.172**	**61.217**	**-**	**-**	**-**	**73.313**	**-**	**-**	**19.717**	**2.145.347**
Total exposure	**70.516.181**	**9.684.469**	**504.571**	**157.744**	**-**	**702.167**	**833.130**	**1.076.109**	**558.416**	**5.670.680**
By category of receivables										
Non-problematic receivables	70.434.675	9.628.796	483.530	154.177	-	-	-	-	-	-
of which: restructured	120.568	120.390	899	215	-	-	-	-	-	-
Problematic receivables	81.506	55.673	21.041	3.567	-	702.167	833.130	1.076.109	558.416	5.670.680
of which: restructured	73.427	53.613	21.016	3.490	-	251.448	457.640	536.904	171.738	478.777
Total exposure	**70.516.181**	**9.684.469**	**504.571**	**157.744**	**-**	**702.167**	**833.130**	**1.076.109**	**558.416**	**5.670.680**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(g) Data on problematic receivables at 31 December 2016:

RSD thousand

	The gross value of receivables	Accumulated allowance for impairment of total receivables	The gross value of problematic receivables: Total	The gross value of problematic receivables: of which: restructured receivables	Accumulated allowance for impairment of problematic receivables	% of problematic receivables	The value of collaterals of problematic receivables
Retail receivables	**35.378.763**	**2.303.204**	**2.337.082**	**483.494**	**1.511.606**	**6,61**	**570.421**
Housing loans	16.358.431	537.581	866.526	266.328	344.567	5,30	561.611
Consumer and Cash Loans	15.533.677	1.360.438	1.120.044	196.261	864.327	7,21	2.447
Transactional and Credit Card	867.191	76.620	54.731	-	48.138	6,31	258
Other receivables	2.619.464	328.564	295.781	20.905	254.573	11,29	6.104
Receivables from corporate clients*	**57.910.058**	**2.782.317**	**2.597.445**	**1.098.488**	**1.940.547**	**4,49**	**1.241.118**
Sector A	2.505.384	175.721	185.425	50.542	143.849	7,40	51.482
Sector B, C, E	15.955.584	914.772	933.258	262.981	691.874	5,85	338.735
Sector D	5.875.234	101.494	-	-	-	-	0
Sector F	10.643.058	408.067	324.719	136.784	267.986	3,05	135.110
Sector G	9.829.060	831.531	900.321	618.700	685.195	9,16	562.763
Sector H, I, J	7.954.467	165.751	99.947	22.348	45.647	1,26	68.077
Sector L, M, N	5.147.271	184.982	153.774	7.133	105.996	2,99	84.951
Receivables from other clients	**11.179.159**	**1.709.471**	**1.968.858**	**675.292**	**1.596.869**	**17,61**	**795.804**
Total receivables	**104.467.979**	**6.794.991**	**6.903.385**	**2.257.274**	**5.049.021**	**6,61**	**2.607.343**

* Sector A - Electricity, gas, steam and air conditioning
Sector B, C, E – Construction
Sector D - Agriculture, forestry, fishing
Sector F - Mining, manufacturing, water supply, waste water, process control waste management and remediation activities
Sector G - Wholesale and retail trade, repair of motor vehicles and motorcycles
Sector H, I, J - Transportation and warehousing, accommodation and food services, information and communication
Sector L, M, N - Real estate, professional, scientific and technical activities, administrative and support service activities, arts

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33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(g) Data on problematic receivables at 31 December 2015:

RSD thousand

	The gross value of receivables	Accumulated allowance for impairment of total receivables	The gross value of problematic receivables: Total	The gross value of problematic receivables: of which: restructured receivables	Accumulated allowance for impairment of problematic receivables	% of problematic receivables	The value of collaterals of problematic receivables
Retail receivables	**30.610.580**	**2.346.209**	**2.667.369**	**286.314**	**1.763.889**	**8,71**	**590.750**
Housing loans	14.013.858	382.048	856.918	164.383	305.473	6,11	584.246
Consumer and Cash Loans	11.964.617	1.477.316	1.365.503	87.639	1.105.285	11,41	4.453
Transactional and Credit Card	950.190	104.629	90.650	-	77.968	9,54	-
Other receivables	3.681.915	382.215	354.297	34.292	275.163	9,62	2.051
Receivables from corporate clients*	**45.422.701**	**3.323.971**	**3.487.305**	**1.296.106**	**2.642.020**	**7,68**	**1.643.794**
Sector A	2.111.903	129.867	100.191	52.468	87.692	4,74	49.646
Sector B, C, E	13.481.861	704.068	718.656	182.679	492.481	5,33	261.173
Sector D	4.748.901	121.410	62.800	-	36.604	1,32	48.629
Sector F	7.204.774	378.754	381.806	225.757	280.276	5,30	211.015
Sector G	6.928.483	1.333.261	1.567.354	774.398	1.254.876	22,62	765.987
Sector H, I, J	7.392.822	345.056	353.560	9.597	228.371	4,78	162.796
Sector L, M, N	3.553.957	311.556	302.938	51.207	261.720	8,52	144.548
Receivables from other clients	**13.670.186**	**2.256.082**	**2.847.615**	**465.633**	**2.168.314**	**20,83**	**1.591.938**
Total receivables	**89.703.467**	**7.926.261**	**9.002.289**	**2.048.053**	**6.574.222**	**10,04**	**3.826.482**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

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

RSD thousand

	Gross value at beginning of year	New problematic receivables	Decrease of problematic receivables: Total	of which: charged	of which: transferred to the category of non-problematic receivables	of which: written off	Other changes[7]	Gross value at end of year	Net value at end of year
Retail receivables	2.667.369	905.859	1.386.098	395.399	572.906	417.793	149.952	2.337.082	825.476
Receivables from corporate and other clients	6.334.920	506.728	2.547.480	1.127.170	15.265	1.405.045	272.135	4.566.303	1.028.888
Total receivables	**9.002.289**	**1.412.586**	**3.933.578**	**1.522.568**	**588.171**	**1.822.838**	**422.087**	**6.903.385**	**1.854.364**

Data on changes of problematic receivables in 2015:

RSD thousand

	Gross value at beginning of year	New problematic receivables	Decrease of problematic receivables: Total	of which: charged	of which: transferred to the category of non-problematic receivables	of which: written off	Other changes	Gross value at end of year	Net value at end of year
Retail receivables	2.563.046	1.231.173	1.335.101	441.491	760.635	132.975	208.251	2.667.369	903.480
Receivables from corporate and other clients	7.542.274	912.857	2.355.141	1.507.627	8.559	838.955	234.930	6.334.920	1.524.586
Total receivables	**10.105.319**	**2.144.030**	**3.690.241**	**1.949.118**	**769.193**	**971.930**	**443.181**	**9.002.289**	**2.428.067**

[7] Other changes refere to foreign exchange differences and increased exposure based on existing of problematic claims.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Collaterals and other means of protection against credit risk

During the process of credit approval, the Group expects to collect primarily from future cash flows of borrowers. As a supplement to this form of collection, and to reduce the potential losses due to the occurrence of the status of default of the debtor, the Group takes various security instruments (collaterals) as protection. The Group takes as much collaterals as possible, whereby the preferred collateral that can be quickly and easily realized. The possibility of taking collateral depends on current market situation and business competition. The effectiveness of credit risk mitigation technique is measured and controlled by monitoring the time taken for the realization of collateral and the deviation of realized value of collateral and the expected amount.

In the context of strategic risk management departments, the Department for collateral management, which is responsible for the entire collateral management process - from the preliminary analysis to the completion of its implementation. The process is divided into 3 phases:

Analysis phase of collaterals represents the initial phase of the process of collateral management. It begins with the identification and analysis of potential collateral and collecting necessary information and documentation, and ends with the records of the collateral in the system for recording collateral.

Monitoring phase of collaterals refers to monitoring of restitution and value of collaterals. One of its main function is to record, monitor, update and control data on collaterals in the system for recording collateral.

Realization phase of collaterals represents the last phase of the process, when it comes to the realization of collateral (e.g. its sales in order to close placements) and the closing of collateral in the system for recording collateral. It also includes the phase of data collection for the calculation of the average Collateral Recovery Ratio.

Each phase is regulated by the Procedure of collateral management that defines the assignments and responsibilities of the organizational units involved in the process.

In addition to the process, the Collateral management department is responsible for the process of selection, monitoring and removal of appraisers from the list of acceptable appraisers by the Group, and to define the minimum content of the report on valuation, as well as control the application of appropriate methodology in the valuation of collateral, in order to provide a more accurate value of collaterals. Detailed rules for standards and valuation methodology are included in the Policy of the collateral management.

Reviewing the value of collaterals is done periodically, depending on the method of the verification and the type of collateral. Reviewing the value of collaterals can be separated into valuation by an external appraisers or government body authorized to determine the value (re-evaluation, Tax statement) and the internal monitoring of collaterals' value by the employees in the Department of collateral management (monitoring). The dynamics of the review of the value of collateral is defined depending on the type of collateral, and in accordance with local and internal regulations.

Within the process of calculating the capital requirement for credit risk, the Department for Management of strategic risk, after checking the compliance with applicable legal regulations defined by the Decision on capital adequacy of banks, determines whether a particular instrument is accepted as collateral to mitigate credit risk. Items of collateral which are eligible as instruments for credit risk mitigation are explained in detail in a special internal procedure of the Group which defines applicable instruments to mitigate credit risk as well as conditions for the recognition of credit risk mitigation instruments.

Basic types of credit protection instruments

The Group applies primarily cash and cash equivalents deposited with the Bank as instruments of credit protection. The Group does not currently apply balance sheet and off-balance sheet netting as a credit risk mitigation techniques.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Basic types of providers of credit protection on the basis of guarantees and credit derivatives

Guarantees that are used as unfunded credit protection was provided by:

- The State - as at 31.12.2016. to mitigate the credit risk of weighted assets a guarantee provided by the Republic of Serbia was used. The preferential risk weight of 0% was applied in accordance with the provisions of the Decision on capital adequacy prescribed by the NBS;

- commercial banks of sufficient credit quality - exposures secured a bank guarantee with the remaining maturity longer than three months, the Group assigns credit risk weight of the state where the guarantor bank has its seat or a risk weight of 50%, whichever is greater; exposures secured a bank guarantee with the remaining maturity of less than three months, the Group assigns credit risk weight of the state where the guarantor bank has its seat or risk weight of 20%, whichever is higher.

The Group's portfolio of accepted collateral does not have credit derivatives as instruments of credit protection.

Exposures secured by mortgages on real estate

Residential real estate, i.e. buildings and land where the owner of that property lives or is leased (or intends to dwell in it, or to lease it) are recognized as hedging instruments when they fulfil all the requirements defined by the Decision on capital adequacy of banks. The fulfilment of the requirements is a prerequisite for the classification of given exposure in a class of exposures, exposures secured by mortgages on real estate, which allocates more favourable risk weight, instead of recognizing the effects of credit risk mitigation techniques.

Mortgages over other types of real estate The Group recognizes for internal purposes, although they are not used to mitigate credit risk for regulatory purposes (capital adequacy).

Other types of credit protection instruments

In addition to the above mentioned, the Group applies the following credit protection instruments, but they were not taken into account in the calculation of risk-weighted assets:

- pledge on movable property;
- pledge on receivables;
- pledge on shares and bonds;
- endorsed a life insurance policy;
- other types as defined in the Group Catalogue of collaterals.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

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

RSD thousand

	Type of collateral [8]				
	Deposits	Residential real estate	Other real estate	Other assets	Guarantees issued by the state
Receivables from retail	**56.995**	**13.130.492**	**159.691**	**275.739**	**-**
Housing loans	709	13.047.937	87.735	-	-
Consumer and Cash Loans	53.736	44.635	21.475	-	-
Transactional and Credit Card	2.493	-	-	-	-
Other receivables	57	37.921	50.481	275.739	-
Receivables from corporate clients	**2.300.550**	**663.321**	**13.382.283**	**4.309.850**	**2.471.235**
Large entities	464.658	-	2.055.498	409.365	-
Small and medium-sized entities	1.497.902	378.762	9.216.994	3.057.065	-
Micro enterprises and entities	337.990	255.560	1.968.667	636.138	-
Agricultural producers	-	28.999	141.125	638	-
Public companies	-	-	-	206.645	2.471.235
From other clients	**161.850**	**33.765**	**1.274.234**	**34.486**	-
Total exposure	**2.519.395**	**13.827.578**	**14.816.208**	**4.620.074**	**2.471.235**
According to categories of receivables					-
Non-problematic receivables	2.518.664	12.989.411	13.060.355	4.607.483	2.471.235
of which: restructured	-	145.485	252.750	-	-
Problematic receivables	731	838.168	1.755.854	12.592	-
of which: restructured	-	257.284	979.081	-	-
Total exposure	**2.519.395**	**13.827.578**	**14.816.208**	**4.620.074**	**2.471.235**

[8] Vrednost sredstava obezbeđenja u tabeli prikazana do visine plasmana (prvoklasna i adekvatna sredstva obezbeđenja priznata u skladu sa NBS Odlukom o klasifikaciji bilansne aktive I vanbilansnih stavki banke).

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

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

RSD thousand

	Type of collateral				
	Deposits	Residential real estate	Other real estate	Other assets	Guarantees issued by the state
Receivables from retail	**82.485**	**10.163.150**	**118.626**	**222.372**	**-**
Housing loans	2.015	10.134.017	82.114	-	-
Consumer and Cash Loans	78.745	25.613	-	-	-
Transactional and Credit Card	1.044	-	-	-	-
Other receivables	681	3.520	36.512	222.372	-
Receivables from corporate clients	**1.835.750**	**855.500**	**11.395.387**	**3.162.637**	**3.410.645**
Large entities	-	-	463.917	306.919	-
Small and medium-sized entities	1.678.712	486.099	8.769.434	2.517.602	-
Micro enterprises and entities	156.936	336.878	2.027.961	332.915	-
Agricultural producers	102	32.524	134.076	838	-
Public companies	-	-	-	4.363	3.410.645
From other clients	**181.766**	**12.403**	**2.119.356**	**25.167**	**-**
Total exposure	**2.100.001**	**11.031.053**	**13.633.369**	**3.410.176**	**3.410.645**
According to categories of receivables					
Non-problematic receivables	2.096.116	10.072.215	10.803.647	3.376.139	3.410.645
of which: restructured	-	51.945	139.122	-	-
Problematic receivables	3.886	958.838	2.829.722	34.037	-
of which: restructured	-	271.028	865.140	-	-
Total exposure	**2.100.001**	**11.031.053**	**13.633.369**	**3.410.176**	**3.410.645**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

During 2016, the Group had the following assets acquired through collection of receivables.

RSD thousand

Types of assets acquired through collection of receivables	Residential real estate	Other assets acquired through collection	Total
Gross amount at the beginning of the period *	85.785	406	86.191
Acquired during the period	-	67	67
Sold during the period	71.884	-	71.884
Gross amount at the end of the period	13.901	473	14.374
Accumulated impairment	13.009	109	13.118
of which: allowance for impairment during the period	-	109	109
Net value at period end	**892**	**364**	**1.256**

During 2015, the Group had the following assets acquired through collection of receivables.

RSD thousand

Types of assets acquired through collection of receivables	Residential real estate	Other assets acquired through collection	Total
Gross amount at the beginning of the period *	85.785	406	86.191
Acquired during the period	-	473	473
Sold during the period	71.884	-	71.884
Gross amount at the end of the period	13.901	879	14.780
Accumulated impairment	13.009	109	13.118
of which: allowance for impairment during the period	-	109	109
Net value at period end	**892**	**770**	**1.662**

The basic principles of taking over and managing pledged property are regulated by the Procedure on the takeover of pledged assets in enforced collection procedures. Items taken over mainly compose of real estate and movable property. The basic principles the property takeover (immovable and movable) that must be taken into account include the analysis of potential market value and marketability of the property being considered, which must be covered by the expected sales revenue, which will bring the highest level of collected receivables to the Group. Depending on the basic characteristics of the property, the property type (real estate, movable property) can be divided into primary and secondary, when you take into account the possibility of the takeover, depending on their purpose and other characteristics, such as location, type, technical standards, equipment, year construction, etc., and depending on the market situation in terms of supply and demand of certain types of collateral. All the above-mentioned parameters affect the final decision on the realization of the takeover procedure by the Company.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

The group as a strategy for management of property acquired through collection of receivables applies: sale, lease, development, retention, or some combination of those strategies. The proposed strategy must include a realistic plan in terms of implementation of the strategy. Estimated related costs, revenues and the impact of the Income Statement must be taken into account. In the case of proposing retention strategies, maintenance costs must be clearly shown in the strategy for the property.

LTV ratio

The table below presents the so-called. "LTV" ratio for housing loans, which represent a part of total retail loans.

RSD thousand

Value of the LTV indicator *	**The value of receivables secured by mortgages on real estate on 31.12.2016**	**The value of receivables secured by mortgages on real estate on the day 31.12.2015**
below 50%	2.731.984	2.460.642
from 50% to 70%	3.608.271	2.878.998
from 71% to 100%	5.136.903	4.025.866
from 101% to 150%	621.895	812.153
over 150%	1.229.669	1.273.601
Total exposure	**13.328.722**	**11.451.260**
Average LTV	91,80%	88,10%

Assessment of impairment of financial assets

The Group assesses impairment, or the calculation of impairment recognized in the Balance Sheet and the provision for losses on off-balance sheet items in accordance with International Accounting Standards (hereinafter: IAS) / International Financial Reporting Standards (hereinafter: IFRS).

The calculation of the impairment of the Group includes a Special provision (individually or based on rules) and the General provision (on a group basis).

Special provisions are made to clients' exposures in the status of default, or impaired exposures. Exposure is considered impaired when it is probable that the Group will not be able to collect all contractual amounts or when the client is in the status of default. More specifically, the Group through an analysis of impairment determines whether there is objective evidence of impairment of receivables from clients.

General provision (on a group basis) are applied to receivables where there is no objective evidence of impairment and is formed to cover the Incurred but not detected loss, or in a situation where the right impairment is not yet created. For these receivables, the impairment is calculated even though there is no evidence of impairment, since experience shows that some of them will eventually enter the status of default. Allowance for impairment on a group basis is formed for loans that were subject to individual assessment but were not identified as impairment.

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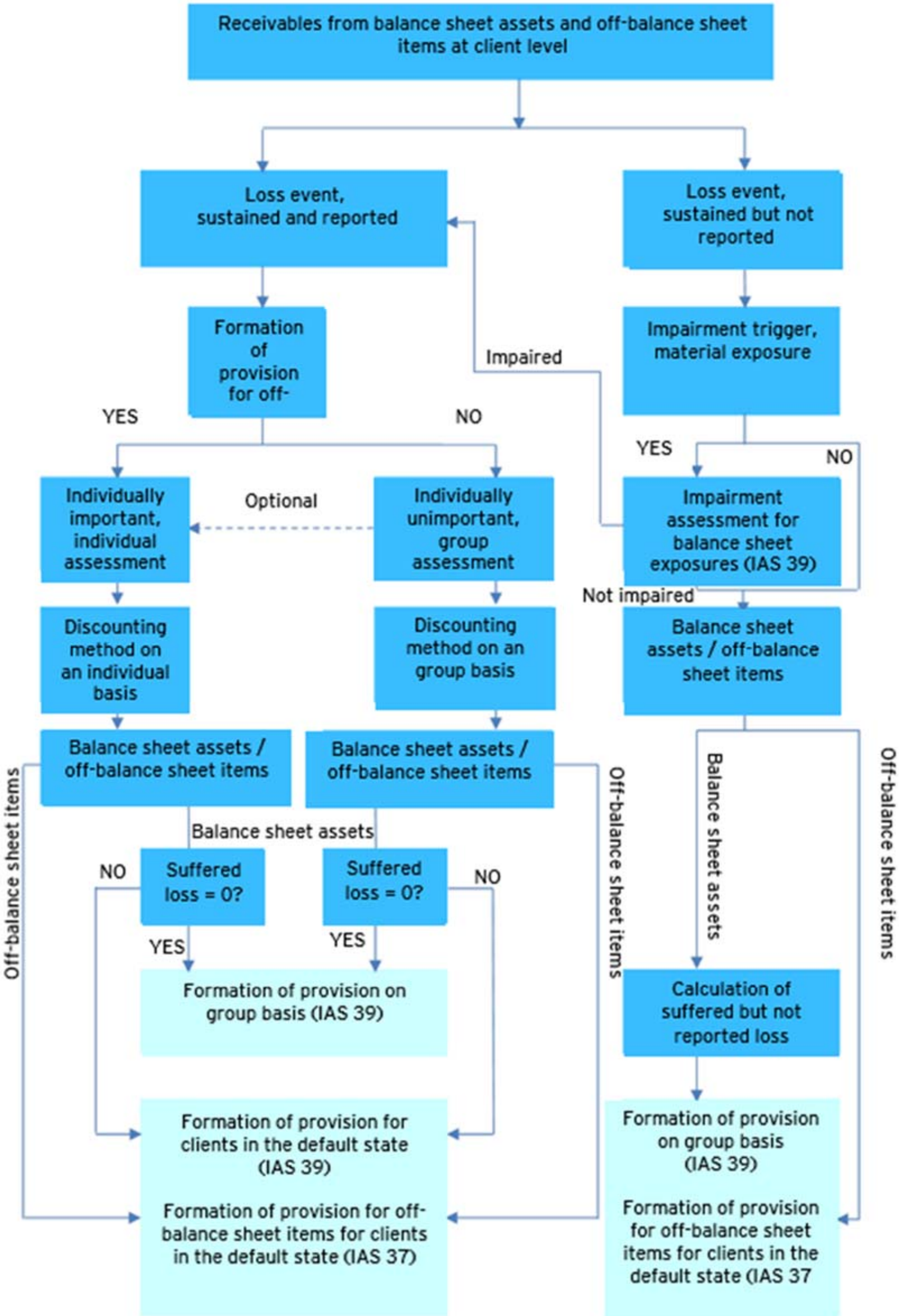
33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

The process of forming impairment applied within the Group is shown here:



33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

If the client (or the client's financial assets) are impaired, then the client is already supposed to be in the status of default or his rating should be lowered to the status of default if the client was previously assigned with a "performing" rating. On the other hand, if the client is in the default status, it may not be impaired, but the impairment process is started.

In addition to clients who are in the default status, when the impairment process starts automatically for "performing" clients to perform the impairment test who have triggered any of defined drivers of impairment for individually significant clients. Impairment test as a comparison of the gross book value and the discounted, estimated cash flows is relevant only for balance sheet exposure.

The calculation of special reserves

For every impaired exposure above the materiality threshold impairment is calculated using the discounted cash flow. By individually significant clients, The Group considers all clients with exposures over RSD 5 million.

Using the method of discounted cash flows, the expected cash flows from operations of the client and by the realization of collaterals is evaluated by the Workout manager from the Directorate for restructuring and collection of loans and the Department for collection of receivables from legal entities. Allowance for impairment is the difference between the carrying value of the impaired loans and the present value of expected cash flows, discounted at the effective interest rate for that placement.

For impaired exposures that are not considered individually significant, the calculation is carried out automatically based on rules. Clients that belong to this sub-portfolio are classified according to the regularity of settlement of obligations.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

The calculation of general provisions

Receivables that do not show objective evidence of impairment are grouped based on similar credit risk characteristics and their corresponding group allowance for impairment are calculated depending on the characteristics of the group and the level of credit risk.

The formation of the general allowance for impairment on a group basis rests on Basel II calculation of expected loss for credit risk which represents the quantification of the expected loss in the period of one year, multiplied by the loss identification period.

The expected loss is the average amount of credit loss for the period of one year, which the Group expects to suffer on an individual level. The expected loss measures the average expected loss at portfolio level for an appropriate period of time and in accordance with the standards of Basel II, it is calculated as the product of the following three parameters of credit risk:

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

PD is the probability that a performing client will enter the status of default over the period of 12 months and the value, the minimum standards for model validation and monitoring processes are in place and described in the Group Policy framework for classification and classification rules (rating).

For the performing portfolio LGD is determined based on the expert opinion of management of the Group (taking into account the collateral coverage) and the parameters of the standard approach under Basel-II.

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

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on changes of impaired receivables in 2016:

RSD thousand

	Gross value at the beginning of the period	Receivables that are impaired during the year		Receivables that have ceased to be impaired during the year		Other changes	Gross value at period end	Net value at period end
			of which: impaired on an individual basis	Total	of which: were impaired on an individual basis			
Receivables from retail	**2.524.068**	**627.012**	**152.331**	**437.992**	**75.909**	**(540.659)**	**2.172.429**	**668.360**
Housing loans	781.992	191.790	117.536	120.117	75.909	(75.829)	777.836	437.628
Consumer and Cash Loans	1.314.167	337.369	29.302	228.404	-	(372.992)	1.050.140	188.716
Transactional and Credit Card	89.734	17.578	-	16.564	-	(36.418)	54.330	6.205
Other receivables	338.175	80.275	5.492	72.907	-	(55.420)	290.124	35.811
Receivables from corporate clients	**3.974.850**	**606.698**	**558.123**	**271.926**	**179.664**	**(1.179.021)**	**3.130.601**	**711.220**
Large entities	7.082	32.997	32.781	-	-	919	40.998	2.055
Small and medium-sized entities	2.637.512	424.866	397.996	179.429	136.541	(943.439)	1.939.510	420.748
Micro enterprises and entities	872.144	142.812	127.346	74.949	40.153	(190.460)	749.546	252.705
Agricultural producers	124.445	6.024	-	17.548	2.969	(37.124)	75.796	19.976
Public companies	333.667	-	-	-	-	(8.916)	324.751	15.735
From other clients	**2.341.583**	**64**	**-**	**493.630**	**476.773**	**(417.977)**	**1.430.040**	**312.276**
Total receivables	**8.840.501**	**1.233.774**	**710.454**	**1.203.548**	**732.345**	**(2.137.657)**	**6.733.070**	**1.691.855**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on changes of impaired receivables in 2015:

RSD thousand

	Gross value at the beginning of the period	Receivables that are impaired during the year		Receivables that have ceased to be impaired during the year		Other changes	Gross value at period end	Net value at period end
			of which: impaired on an individual basis	Total	of which: were impaired on an individual basis			
Receivables from retail	**2.513.390**	**823.873**	**199.996**	**675.058**	**77.802**	**(138.137)**	**2.524.068**	**764.376**
Housing loans	761.884	277.255	199.996	251.888	77.783	(5.260)	781.992	477.747
Consumer and Cash Loans	314.420	369.644	-	85.793	-	715.897	1.314.167	211.142
Transactional and Credit Card	88.066	30.237	-	18.425	-	(10.143)	89.734	11.794
Other receivables	1.349.020	146.737	-	318.951	20	(838.631)	338.175	63.694
Receivables from corporate clients	**5.282.892**	**762.708**	**657.175**	**439.544**	**207.358**	**(1.528.000)**	**4.078.057**	**893.441**
Large entities	473.111	-	-	78.502	78.470	(367.515)	27.094	-
Small and medium-sized entities	3.404.597	437.321	379.798	259.233	76.333	(909.883)	2.672.802	590.072
Micro enterprises and entities	1.183.100	157.803	121.644	90.649	52.554	(330.205)	920.048	257.646
Agricultural producers	219.526	11.851	-	11.159	-	(95.773)	124.445	27.352
Public companies	2.558	155.733	155.733	-	-	175.376	333.667	18.371
From other clients	**2.259.308**	**20**	**-**	**268**	**-**	**(20.683)**	**2.238.377**	**613.084**
Total receivables	**10.055.591**	**1.586.601**	**857.171**	**1.114.870**	**285.160**	**(1.686.820)**	**8.840.501**	**2.270.902**

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33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on changes of impaired receivables in 2016:

RSD thousand

	Accumulated allowance for impairment at the beginning of year	Allowances for impairment recognized during the period	Reversal of impairment during the period	Other changes	Accumulated allowance for impairment at the end of year
Receivables from retail	**2.346.209**	**3.925.440**	**3.710.452**	**(257.993)**	**2.303.204**
Housing loans	382.048	1.433.887	1.278.203	(150)	537.581
Consumer and Cash Loans	1.477.316	1.914.917	1.807.334	(224.461)	1.360.438
Transactional and Credit Card	104.629	185.940	200.345	(13.604)	76.620
Other receivables	382.215	390.697	424.570	(19.778)	328.564
Receivables from corporate clients	**3.802.498**	**4.340.030**	**3.985.255**	**(861.867)**	**3.295.406**
Large entities	117.025	521.421	420.921	226	217.751
Small and medium-sized entities	2.497.411	2.749.058	2.573.136	(657.908)	2.015.424
Micro enterprises and entities	749.734	796.862	691.208	(171.701)	683.687
Agricultural producers	103.493	76.031	69.469	(48.658)	61.397
Public companies	334.835	196.659	230.521	16.174	317.147
From other clients	**1.777.554**	**1.137.707**	**1.207.746**	**(511.134)**	**1.196.382**
Total receivables	**7.926.261**	**9.403.178**	**8.903.454**	**(1.630.993)**	**6.794.991**
By category of receivables					
Non-problematic receivables	1.355.834	5.328.666	5.254.719	316.190	1.745.971
of which: restructured	5.344	47.581	31.567	(1.620)	19.739
Problematic receivables	6.570.427	4.074.511	3.648.735	(1.947.183)	5.049.021
of which: restructured	1.430.071	908.456	625.799	(198.945)	1.513.782
Total receivables	**7.926.261**	**9.403.178**	**8.903.454**	**(1.630.993)**	**6.794.991**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on changes of impaired receivables in 2015:

RSD thousand

	Accumulated allowance for impairment at the beginning of year	Allowances for impairment recognized during the period	Reversal of impairment during the period	Other changes	Accumulated allowance for impairment at the end of year
Receivables from retail	**2.027.419**	**2.644.148**	**2.202.224**	**(123.118)**	**2.346.225**
Housing loans	292.910	865.477	767.689	(8.650)	382.048
Consumer and Cash Loans	294.643	1.380.735	1.087.336	889.276	1.477.316
Transactional and Credit Card	96.972	154.952	143.628	(3.666)	104.629
Other receivables	1.342.895	242.984	203.570	(1.000.077)	382.231
Receivables from corporate clients	**3.879.912**	**4.967.659**	**4.156.428**	**(785.791)**	**3.905.353**
Large entities	422.893	176.261	155.308	(306.870)	136.976
Small and medium-sized entities	2.484.059	3.427.586	2.908.914	(470.097)	2.532.634
Micro enterprises and entities	793.724	816.259	685.108	(127.485)	797.390
Agricultural producers	155.532	220.186	197.964	(74.237)	103.517
Public companies	23.703	327.367	209.133	192.898	334.835
From other clients	**1.676.415**	**1.220.364**	**1.008.702**	**(213.374)**	**1.674.704**
Total receivables	**7.583.746**	**8.832.171**	**7.367.354**	**(1.122.282)**	**7.926.281**
By category of receivables					
Non-problematic receivables	1.109.017	2.871.019	2.647.229	19.252	1.352.059
of which: restructured	-4.384	12.110	17.149	6.000	5.344
Problematic receivables	6.474.729	5.961.152	4.720.125	(1.141.534)	6.574.222
of which: restructured	- 1.408.428	1.474.475	871.794	(581.038)	1.430.071
Total receivables	**7.583.746**	**8.832.171**	**7.367.354**	**(1.122.282)**	**7.926.281**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on the calculated interest income and the interest collected

RSD thousand

	income from Interest	Collected interest	Interest income on impaired receivables	Collected interest on impaired receivables
Receivables from retail	**2.840.610**	**2.531.326**	**347.033**	**151.869**
Housing loans	739.800	675.714	71.204	33.415
Consumer and Cash Loans	1.717.963	1.507.241	229.110	95.393
Transactional and Credit Card	157.710	138.430	21.100	10.031
Other receivables	225.138	209.941	25.618	13.030
Receivables from corporate clients	**2.614.915**	**2.218.746**	**266.671**	**81.273**
Large entities	314.278	309.087	2.723	-
Small and medium-sized entities	1.488.352	1.349.168	154.300	45.784
Micro enterprises and entities	608.133	369.251	90.839	25.546
Agricultural producers	37.163	25.143	12.245	1.420
Public companies	166.990	166.098	6.563	8.523
From other clients	**1.616.288**	**1.377.901**	**77.549**	**33.550**
Total receivables	**7.071.814**	**6.127.974**	**691.252**	**266.691**
By category of receivables				
Non-problematic receivables	6.370.279	5.996.482	3.511	-
of which: restructured	23.241	21.622	-	-
Problematic receivables	701.535	131.492	687.741	266.691
of which: restructured	136.187	23.485	123.476	45.995
Total receivables	**7.071.814**	**6.127.974**	**691.252**	**266.691**

Interest income on loans accounted for in accordance with IAS 39 on effective interest rate, which is the rate that discounts estimated future payments or receipts through the expected life of the loans to the net present value of investments.

In determining the effective interest rate all contractual terms relating to the financial instrument are taken into account, but not future credit losses.

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

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Required reserves for estimated losses

The Group additionally, in accordance with the Decision of the National Bank of Serbia on the Classification of Balance Sheet Assets and Off-balance sheet items calculates reserves for estimated losses that may occur on balance sheet assets and off-balance sheet items and determines the amount of required reserves for potential losses, which is the sum of the positive difference between the reserve for estimated losses calculated and the determined amount of impairment of balance sheet assets and provisions for losses on off-balance sheet items at the level of the debtor.

The required reserve for estimated losses on balance sheet assets and off-balance sheet items, is presented as a deduction on the Group's equity in accordance with the decision on capital adequacy of banks (see Note 2.9.).

Restructured loans

Where possible, the Group seeks to restructure loans rather than realize collaterals. This may involve extending the payment or any other modification of the initial conditions of lending. Reprogramming can be a business restructuring or forbearance by definition of EBA.

Business reprogramming includes changes to the initial contractual terms, which are not conditioned by the worsening financial position of the debtor, or the mitigation of the deteriorating financial position and does not constitute restructuring. It is the result of a changed situation on the market (customers, suppliers, competitors) and the need for the existing dynamics and conditions of the loan to be adjusted to the new situation.

Forbearance presents a restructuring caused by:

- the debtors' inability to meet their contractual obligations due to financial difficulties and
- the Groups need to make certain compromises so the client could service his contractual obligations.

Performing forbearance - is the starting category within the forbearance principle and is granted in case of a defined deterioration in the financial position of the client, or his creditworthiness, registered delay over 30 days in the last 3 months before applying for reprogramming or other non-compliance with contractual terms towards the Group. The minimum validity period of this status is 2 years, during which the client must pay a min % of the total debt yearly and at the end of the period must not have a delay of over 30 days (during this period of delay shall not exceed 90 days).

Performing forbearance under probation - the subcategories within the Performing Forbearance status in which the client moves from Non performing forbearance or Defaulted forbearance status after the expiry of the monitoring period, in which conditions must be met cumulatively: the maximum delay during the monitoring period, no days of delay at the end of the monitoring period and recorded positive financial developments which indicates that the ability of the borrower to regularly meet contractual obligations in the future. Performing Forbearance under probation lasts for a maximum of 2 years, and upon expiry, if all conditions are fulfilled, the client leaves the Forbearance status.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Restructured loans (continued)

Non performing forbearance status is granted in the following cases:

- the client does not carry out the final restructuring after a period of 18 m from giving the status of "temporary measures";
- the occurrence of any events of default which are not related to restructuring during the performing forbearance status;
- delays over 30 days with a client who is Performing Forbearance under probation status;
- If a client under Performing Forbearance under probation status, is granted a new reprogramming in the second year of the status

Monitoring period for clients with NPF status lasts for one year after which, in case of fulfilment of the defined conditions, it moves into the Performing forbearance under probation status.

Distress reprogramming / restructuring (defaulted forbearance) is a form of restructuring in which the client receives the status of default. This way, the entire scope of exposure (or its biggest part) and is always conditioned by a significant deterioration in the creditworthiness of the client. Distress reprogramming is granted every time a client has rating of R at the time of approval of reprogramming, when the client is not employed (only for individuals), and when the client is approved with a second reprogramming, and it's been less than 2 years from the initial authorization of rescheduling.

Temporary measures - temporary measures do not imply the final restructuring but a middle step to the final implementation of the restructuring. It usually occurs in situations when there is a larger number of lenders with a specific client and a longer period of time is required due to internal processes and procedures of each creditor, in order to define the final model of the restructuring (example – in situations resorting in stand-still agreements or moratorium as a transitional solution to the final restructuring). The duration of interim measures is limited to 18 months.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

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

Information on restructured receivables as at 31 December 2016:

RSD thousand

	The gross value of total receivables	Accumulated allowance for impairment of total receivables	The gross value of restructured receivables		Accumulated allowance for impairment restructured receivables	% Of restructured receivables	Value of the collaterals of restructured receivables *
			Total	of which: problematic receivables			
Receivables from retail clients	**35.378.763**	**2.303.204**	**733.777**	**483.494**	**172.826**	**5,60**	**267.190**
Housing loans	16.358.431	537.581	444.292	266.328	79.890	2,72	266.463
Consumer and Cash Loans	15.533.677	1.360.438	262.263	196.261	77.534	1,69	727
Transactional and Credit Card	867.191	76.620	-	-	-	-	-
Other receivables	2.619.464	328.564	27.223	20.905	15.402	1,20	-
Receivables from corporate clients	**57.910.058**	**2.782.327**	**1.389.051**	**1.098.488**	**825.674**	**18,46**	**912.521**
Sector A	2.505.384	175.721	151.453	50.542	38.160	6,56	151.453
Sector B, C, E	15.955.584	914.722	392.963	262.981	182.449	2,61	144.487
Sector D	5.875.234	101.494	-	-	-	-	-
Sector F	10.643.058	408.067	136.784	136.784	127.233	1,33	35.139
Sector G	9.829.060	831.531	678.370	618.700	462.628	7,44	561.744
Sector H, I, J	7.954.467	165.751	22.348	22.348	14.585	0,37	12.565
Sector L, M, N	5.147.271	184.982	7.133	7.133	618	0,15	7.133
Receivables from other clients	**11.180.833**	**1.711.146**	**685.611**	**675.292**	**535.022**	**6,13**	**454.889**
Total receivables	**104.469.653**	**6.796.666**	**2.808.438**	**2.257.274**	**1.533.521**	**30,20**	**1.634.600**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on restructured receivables as at 31 December 2015:

RSD thousand

	The gross value of total receivables	Accumulated allowance for impairment of total receivables	The gross value of restructured receivables		Accumulated allowance for impairment restructured receivables	% Of restructured receivables	Value of the collaterals of restructured receivables *
			Total	of which: problematic receivables			
Receivables from retail clients	**30.610.560**	**2.346.209**	**386.447**	**286.314**	**83.437**	**0,01**	**164.220**
Housing loans	14.013.858	382.048	238.755	164.383	34.731	0,02	164.220
Consumer and Cash Loans	11.964.617	1.477.316	97.721	87.639	30.985	0,01	-
Transactional and Credit Card	950.190	104.629	-	-	-	-	-
Other receivables	3.681.895	382.215	49.971	34.292	17.722	0,01	-
Receivables from corporate clients	**45.422.701**	**3.323.971**	**1.437.500**	**1.296.106**	**937.981**	**0,03**	**1.049.522**
Sector A	2.111903	129.867	52.468	52.468	39.972	0,02	49.646
Sector B, C, E	13.481.861	704.068	322.131	182.679	117.604	0,02	198.267
Sector D	4.748.901	121.410	-	-	-	-	-
Sector F	7.204.774	378.754	225.757	225.757	165.063	0,03	107.636
Sector G	6.928.483	1.333.261	776.340	774.398	560.944	0,11	645.004
Sector H, I, J	7.392.822	345.056	9.597	9.597	9.595	-	-
Sector L, M, N	3.553.957	311.556	51.207	51.207	44.802	0,01	48.969
Receivables from other clients	**13.670.186.**	**2.256.082**	**466.666**	**465.633**	**414.012**	**0,03**	**113.493**
Total receivables	**89.703.447**	**7.926.261**	**2.290.613**	**2.048.053**	**1.435.430**	**0,03**	**1.327.235**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on changes in restructured receivables in 2016:

RSD thousand

	Gross amount at beginning of the period	Receivables restructured during the period	Receivables which ceased to be considered as restructured during the period	Other changes	Gross amount at period end	Net amount at period end
Receivables from retail	**386.447**	**437.490**	**71.123**	**(19.037)**	**733.777**	**560.952**
Housing loans	238.755	239.328	27.801	(5.989)	444.292	364.402
Consumer and Cash Loans	97.721	197.180	21.860	(10.779)	262.263	184.729
Other receivables	49.971	983	21.462	(2.269)	27.223	11.821
Receivables from corporate clients	**1.646.710**	**372.952**	**154.648**	**(272.091)**	**1.592.923**	**585.664**
Small and medium-sized entities	1.065.706	325.508	48.020	(163.052)	1.180.141	461.426
Micro enterprises and entities	389.184	37.099	93.721	(94.717)	237.845	112.231
Agricultural producers	16.285	10.345	12.907	(12)	13.711	12.008
Public companies	175.535	-	-	(14.310)	161.225	-
Receivables from other clients	**257.456**	**434.035**	**174.034**	**(35.719)**	**481.739**	**128.301**
Total receivables	**2.290.613**	**1.244.478**	**399.806**	**(326.847)**	**2.808.438**	**1.274.917**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on the structure of restructured receivables by restructuring measures at 31 December 2016:

RSD thousand

	Capitalization of delay	Grace period	Extension of the repayment period	Change of interest rate	A partial write-off	Other measures	Total
Receivables from retail	**501.338**	**15.267**	**502.853**	**546.207**	**45.996**	**-**	**733.777**
Housing loans	288.487	14.821	218.316	266.248	41.333	-	444.292
Consumer and Cash Loans	211.304	446	257.707	256.581	4.663	-	262.263
Other receivables	1.546	-	26.830	23.378	0	-	27.223
Receivables from corporate clients	**833.942**	**801.740**	**1.300.887**	**1.049.328**	**613.676**	**568.913**	**1.592.923**
Small and medium-sized entities	746.528	740.364	1.001.469	807.407	423.649	307.804	1.180.141
Micro enterprises and entities	73.702	53.581	133.934	75.136	28.801	97.527	237.845
Agricultural producers	13.711	7.796	4.259	5.559	-	2.356	13.711
Public companies	-	-	161.225	161.225	161.225	161.225	161.225
Receivables from other clients	**434.035**	**434.035**	**481.739**	**479.487**	**-**	**-**	**481.739**
Total Receivables	**1.769.315**	**1.251.043**	**2.285.478**	**2.075.022**	**659.672**	**568.913**	**2.808.438**

Overview according to restructuring measures is presented by each applied measure, regardless of whether any other measures is applied.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Loan Concentration Risk

The concentration risk is the risk of incurring losses due to an excessive volume of Group´s placements into a certain group of debtors or individual debtor. The concentration occurs when a significant number of debtors belong to the similar industry or the same geographical area or when they have similar economic characteristics, they are exposed to the same factors that affect the income and expenditures, which may affect their ability to settle their contractual obligations in case of changes in economic, political or some other circumstances that affect them equally. In order to minimize the credit risk, safety measures are established through defining levels of exposures and credit limits and regular monitoring of compliance with the established limits. Also, on a regular annual basis the Group carries out a detailed and comprehensive analysis of concentrations of credit (and other) risks across different dimensions (exposure classes, economic sectors, collateral, products, etc.).

The Group manages the concentration risk of the credit portfolio through the framework set by the Concentration risk management policy, regulatory limits are defined by the Decision on Risk Management of the Banks, internally defined limits and limits defined by the Policy for determining exposure limits - the framework for clients / clients groups. In addition, during 2016, the Group has set up limit monitoring by industry.

Using the Concentration risk management policy the Group has defined monitoring exposures to credit risk by each of the following categories: concentrations by classes of exposure (Basel II exposure classes), concentration by clients rating, concentration by corporate clients, real estate and micro clients, by industry sector, concentration by exposures to individual clients in the overall loan portfolio, the portfolio of corporate clients, banks and states, concentration of collaterals, concentration by currency and by product. For the purposes of determining the concentration of credit risk the Herfindahl-Hirschman Index (HHI) and Moody's matrix are being used.

According to the Decision on the management of risks, the Group analyses exposure to credit risk through the following two indicators:

- Exposure to a single entity or group of related entities that cannot be higher than 25% of the Group's capital,
- The sum of large exposures, which cannot be higher than 400% of the Group capital.

In addition, for monitoring purposes the Group has retained as an internal limit an indicator that was previously defined by regulations, and by which exposure to related entities of the Group cannot be higher than 20% of the Group capital.

By the Policy for determining exposure limits - Framework for clients / client groups, the Group has defined monitoring concentrations of credit risk for corporate customers, financial institutions and states at the following levels: maximum limit of exposure, the maximum exposure limit based on rating and operating maximum limit of exposure.

Using the Policy for monitoring limits by industry the Group has, during 2016, established monitoring of exposures by industry, with the aim to more efficient manage the concentration risk of exposure to individual industries and support the development of portfolio strategy.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on sectoral and the geographical concentration of exposure at 31 December 2016:

RSD thousand

	Belgrade region		Region of Vojvodina		Region: Šumadija and West Serbia		Region: South and East Serbia		Region: Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail customers	**10.919.978**	**679.497**	**14.489.069**	**996.618**	**5.012.906**	**456.358**	**2.345.036**	**202.727**	**266.228**	**1.870**	**8.464**	**12**
Housing loans	6.026.950	232.081	7.014.390	397.691	1.705.729	164.726	722.678	72.027	13.744	0	8.414	-
Consumer and Cash Loans	4.070.506	334.216	5.954.633	462.921	2.776.574	220.610	1.371.208	100.529	240.712	1.768	-	-
Transactional and Credit Card	146.477	13.044	496.411	31.118	115.430	6.279	51.800	4.261	2.342	29	-	-
Other receivables	676.045	100.155	1.023.635	104.888	415.172	64.743	199.351	25.909	9.430	73	50	12
Receivables from corporate clients	**27.051.427**	**949.224**	**18.448.085**	**964.448**	**6.165.812**	**474.653**	**3.647.289**	**209.110**	**0**	**10**	**0**	**0**
Sector A	421.636	1.051	1.855.821	19.684	17.575	112.992	24.926	51.697	-	-	-	-
Sector B, C, E	3.366.291	389.434	5.850.701	332.781	3.029.737	200.904	2.775.597	10.139	-	-	-	-
Sector D	2.833.815	-	984.963	-	1.569.964	-	486.492	-	-	-	-	-
Sector F	6.909.309	183.080	2.962.305	13.390	426.567	3	20.157	128.247	-	-	-	-
Sector G	3.704.921	218.827	4.428.119	516.162	548.453	150.998	247.246	14.325	-	10	-	-
Sector H, I, J	5.676.100	56.353	1.556.385	30.103	553.294	9.756	68.742	3.734	-	-	-	-
Sector L, M, N	4.139.355	100.479	809.791	52.328	20.222	-	24.129	968	-	-	-	-
Receivables from other clients	**4.006.165**	**762.395**	**3.456.970**	**821.029**	**747.686**	**219.038**	**170.919**	**166.396**	**-**	**-**	**828.562**	**-**
Total exposure	**41.977.570**	**2.391.116**	**36.394.123**	**2.782.095**	**11.926.404**	**1.150.048**	**6.163.243**	**578.234**	**266.228**	**1.880**	**837.026**	**12**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Information on sectoral and the geographical concentration of exposure at 31 December 2015:

RSD thousand

	Belgrade region		Region of Vojvodina		Region: Šumadija and West Serbia		Region: South and East Serbia		Region: Kosovo and Metohija		Foreign countries	
	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables	Non-problematic receivables	Problematic receivables
Receivables from retail customers	**8.839.211**	**754.594**	**12.581.481**	**1.193.503**	**4.526.890**	**502.492**	**1.921.611**	**216.731**	**73.978**	**38**	**40**	**11**
Housing loans	4.795.066	249.605	6.142.879	397.665	1.581.326	145.819	628.485	63.829	9.183	-	-	-
Consumer and Cash Loans	2.976.146	369.918	4.462.448	611.204	2.158.836	261.971	943.158	122.411	58.526	-	-	-
Transactional and Credit Card	151.947	20.744	535.797	51.433	118.583	12.318	51.988	6.155	1.225	-	-	-
Other receivables	916.052	114.326	1.440.357	133.202	668.145	82.384	297.981	24.336	5.044	38	40	11
Receivables from corporate clients	**19.888.234**	**1.747.058**	**14.368.082**	**1.020.399**	**5.174.541**	**445.556**	**2.504.170**	**274.282**	**368**	**10**	**-**	**-**
Sector A	389.023	6.885	1.463.200	42.504	123.161	-	36.330	50.802	-	-	-	-
Sector B, C, E	3.546.229	278.758	4.192.602	138.297	3.311.682	254.126	1.712.692	47.475	-	-	-	-
Sector D	2.534.801	62.316	956.528	484	833.591	-	361.181	-	-	-	-	-
Sector F	3.804.758	194.435	2.923.619	34.071	58.110	6.227	36.481	147.073	-	-	-	-
Sector G	1.889.200	669.583	2.832.776	699.297	347.989	175.762	290.796	22.702	368	10	-	-
Sector H, I, J	5.056.552	294.451	1.434.960	46.273	489.957	9.143	57.792	3.693	-	-	-	-
Sector L, M, N	2.667.672	240.630	564.398	59.473	10.051	297	8.898	2.538	-	-	-	-
Receivables from other clients	**3.533.472**	**872.308**	**5.413.899**	**1.057.470**	**139.039**	**738.626**	**212.556**	**179.212**	**-**	**-**	**1.523.605**	**-**
Total exposure	**32.260.917**	**3.373.959**	**32.363.462**	**3.271.371**	**9.840.470**	**1.686.674**	**4.638.337**	**670.225**	**74.347**	**48**	**1.523.645**	**11**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Credit-related Risks

Credit risk includes residual risk, dilution risk, settlement / delivery risk, counterparty risk and foreign exchange credit risk. The group overcomes risks which are related to credit risk using the same control processes and procedures which are used for credit risk.

Counterparty risk

The Group operates with derivative financial instruments which gives way to the exposure to counterparty risk, i.e. the risk of default of the counterparty in the transaction before the final settlement of cash flows arising from the transaction.

Credit risk of derivatives is limited by determining the maximum limit for each derivative financial instrument, based on its type, maturity and credit quality of the client.

33.3. Liquidity Risk and Funding Management

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

This incorporates an assessment of expected cash flows in Dinars and foreign currency and the availability of high grade collateral which could be used to secure additional funding, if required. The Group manages its assets and liabilities in such a way that it can meet its due liabilities at all time, as well as to have customers disposing their funds held with the Group in accordance with agreed terms.

Liquidity risk management in the Group is defined by policies, procedures and regulations approved by the Managing Committee and Executive Committee and which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of the Republic of Serbia. The audit of policies, procedures and regulations are carried out in when needed, but at least once a year. Liquidity risk management process is organized through the Asset and Liability Management Committee, Market Risk Management Department and Asset and Liability Management Department.

The Assets and Liability Committee and the Operating Liquidity Committee (OLC Committee) are responsible for monitoring liquidity risk, managing the liquidity risk and for recommending to the Executive Board the measures and activities to maintain the liquidity, adjustment of the maturity structure, financing plan for reserves and other measures important for the financial stability of the Group. The department for asset and liability management and department for market risk management and liquidity risk management monitors the liquidity ratio (LIK) on daily basis so that the daily liquidity ratio is within the limits prescribed by the Business plan in case of extraordinary circumstances (liquidity crisis) ("PFNS"). Apart from this, PFNS defines other indicators and their limits as well as personnel/department in charge of their monitoring and reporting. The trend of these indicators is presented semi-weekly on OLC meetings, or more often in case of overriding the PFNS limits or change in liquidity status.

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

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Funding Management (continued)

The level of liquidity is expressed using the liquidity ratio which is determined as the proportion of the sum of the liquid assets of the first (cash, gold and other noble metals, assets on accounts with other banks with available credit rating which corresponds to the level of credit quality 3 or better determined in accordance with the decision on capital adequacy (investment grade); deposits with the National Bank of Serbia, receivables in the process of realization, irrevocable lines of credit granted to the Bank, stock and quoted debt securities, 90% of the fair value of securities denominated in dinars, without a currency clause, issued by the Republic of Serbia and with a minimum maturity of three months or 90 days, and classified as securities held for trading or securities available for sale) and second level (other receivables due within a month) and the sum of liabilities on demand without determined maturity date (40% Bank's demand deposits, 20% on demand deposits from other depositors, 10% savings deposits, 5% guarantees and other forms of guarantees and 20% undrawn irrevocable credit lines) and liabilities with fixed maturity up to a month.

In addition to the broader liquidity indicator The Group also monitors the narrow liquidity indicator.

The narrow liquidity indicator represents the ratio of liquid receivables of the Bank of the first order, on the one hand and the sum of on demand liabilities of the bank or without a contracted maturity and liabilities of the Bank with a fixed maturity within the next month following the date of the calculation, on the other hand.

During 2016 and 2015, the Group had an indicator of daily liquidity above the legally prescribed level.

	2016.	**2015.**
Period average	1,40	1,79
Highest	1,91	2,57
Lowest	1,06	1,13
As at December 31	1,40	1,21

The narrow liquidity indicator during 2016 and 2015

	2016.	**2015.**
Period average	1,28	1,60
Highest	1,78	2,34
Lowest	0,95	0,98
As at December 31	1,34	1,15

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33. RISK MANAGEMENT (continued)

33.4 Maturity Analysis of Financial Liabilities

The table below presents the ageing analysis of the Group's financial liabilities as at 31 December 2016 and 31 December 2015 based on of contractual, not discounted payments.

The Group expects that most customers will not withdraw deposits on the due date set in the contract.

RSD thousand

	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2016
Borrowings, deposits and securities	20.361.771	21.545.528	32.563.558	39.900.610	11.011.950	**125.383.417**
Subordinated liabilities	-	105.095	311.314	1.535.165	-	**1.951.573**
Total	**20.361.771**	**21.650.623**	**32.874.872**	**41.435.775**	**11.011.950**	**127.334.991**

RSD thousand

	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2015
Borrowings, deposits and securities	20.754.514	11.927.885	31.950.031	30.268.234	11.224.804	106.125.468
Subordinated liabilities	-	-	86.876	1.390.013	347.503	1.824.392
Total	**20.754.514**	**11.927.885**	**32.036.907**	**31.658.247**	**11.572.307**	**107.949.860**

33. RISK MANAGEMENT (continued)

33.4 Maturity Analysis of Financial Liabilities (continued)

The table below presents the ageing analysis of guarantees, letters of credit and other irrevocable commitments:

RSD thousand

2016	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2016
contingent liabilities	288.049	187.672	1.571.984	3.984.921	2.026.646	138.711	8.197.983
Irrevocable commitments and letters of credit	45.581	84.093	430.349	4.721.418	7.090.084	1.437.418	13.808.943
Total	**333.630**	**271.765**	**2.002.333**	**8.706.339**	**9.116.730**	**1.576.129**	**22.006.926**

RSD thousand

	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2015
contingent liabilities	210.976	542.602	1.322.190	3.783.978	2.842.487	48.653	8.750.886
Irrevocable commitments and letters of credit	17.215	79.674	205.241	3.539.024	4.329.939	1.682.928	9.854.021
Total	**228.191**	**622.276**	**1.527.431**	**7.323.002**	**7.172.426**	**1.731.581**	**18.604.907**

The Group expects that not all contingencies and commitments would be withdrawn prior to their reaching maturity.

33. RISK MANAGEMENT (continued)

33.4 Maturity Analysis of Financial Liabilities (continued)

The Group used funds of the European Investment Bank (EIB) for the purpose of financing small and medium enterprises and small and medium infrastructure projects implemented by municipalities.

For the purpose of financing small and medium enterprises and infrastructure projects of small and medium scale implemented by municipalities, the Group received funds from the European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD) and the German Development Bank (KfW).

The Group has signed three contracts with the EIB, in 2010, 2012 and 2015 totalling EUR 125 million.

The Group used funds of the European Bank for Reconstruction and Development (EBRD) for the purpose of financing the small and medium enterprises. In 2012 the Group used a loan from the EBRD of EUR 10 million.

The Group used funds of the German government-owned development bank (KfW) in the end from 2012 and 2014 for the purpose of financing the micro, small and medium enterprises and energy efficiency / renewable energy projects of EUR 30 million.

For the purpose of financing corporate loans on 3 December 2015, the Group has signed an agreement with Erste Group Bank AG on long-term loan in the amount of EUR 100 million.

Long term loans liabilities of the Leasing mainly relate to funds approved for strengthening business activities of the Company. Active credit lines that are continually refreshed with Bremer, used to boost liquidity, refinancing old credit lines and business operations in the country.

The balance of loans received from foreign credit institutions at 31 December 2016 amounted to RSD 12,970,266 thousand (2015: RSD 13,824,816 thousand).

33. RISK MANAGEMENT (continued)

33.4 Maturity Analysis of Financial Liabilities (continued)

The table below provides an analysis of the maturities of assets and liabilities of the Group based on contractual terms of payment. Contractual maturities of assets and liabilities are determined based on the remaining period at the balance sheet date to the contractual maturity date. Maturity structure of assets and liabilities at 31 December 2016 is presented as follows:

RSD thousand

	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2016
ASSETS							
Cash and assets with the central bank	19.246.670	-	-	-	-	-	19.246.670
Financial assets at fair value through the income statement for trading	1.091.813	97.975	1.378.984	4.273.362	6.027.410	178.813	13.048.357
Financial assets available for sale	51.299	-	-	1.448.397	5.389.275	293.731	7.182.702
Financial assets held to maturity	-	-	399.805	900.034	3.836.699	3.498.565	8.635.103
Loans and receivables form banks and other financial institutions	1.000.819	-	1.080	24.019	183.807	-	1.209.725
Loans and receivables from customers	1.047.119	50.647	1.305.732	12.215.148	36.094.279	45.750.337	96.463.262
Investments in subsidiaries	118	-	-	-	-	-	118
Intangible assets	278.845	-	-	-	2.550	-	281.395
Property, plant and equipment	811.073	-	-	-	6.194	-	817.267
Investment property	232.417	-	-	-	-	-	232.417
Current tax assets	-	-	-	-	6.513	-	6.513
Deferred tax assets	59.523	-	-	-	2.222	-	61.475
Non-current assets held for sale and assets of discontinued operations	56.695	-	-	-	-	-	56.695
Other assets	852.559	828	1.755	3.937	2.378	3.407	864.864
Total assets	**24.728.950**	**149.450**	**3.087.356**	**18.864.897**	**51.551.327**	**49.724.853**	**148.106.833**
EQUITY AND LIABILITIES							
Financial liabilities at fair value through the income statement for trading	54.690	-	-	-	-	-	54.690
Deposits and other liabilities to banks and other financial organisations and central bank	9.416.913	3.234.140	7.183.983	2.682.562	17.299.233	1.998.869	41.815.700
Deposits and other liabilities to other customers	47.397.797	1.780.083	6.753.712	16.256.793	3.031.923	9.683.022	84.903.330
Subordinated liabilities	715	-	-	-	1.763.891	-	1.764.606
Provisions	-	-	670.642	12.419	7.653	-	690.714
Current tax liabilities	-	-	1.090	-	-	-	1.090
Other liabilities	622.185	-	508	-	-	-	622.693
Total liabilities	**57.492.300**	**5.014.223**	**14.609.935**	**18.951.774**	**22.102.700**	**11.681.891**	**129.852.823**
Total equity	**-**	**-**	**-**	**-**	**-**	18.254.009	**18.254.009**
Total equity and liabilities	**57.492.300**	**5.014.223**	**14.609.935**	**18.951.774**	**22.102.700**	**29.935.900**	**148.106.832**
Maturity mismatch at:							
31 December 2016	**(32.763.350)**	**(4.864.773)**	**(11.522.579)**	**(86.877)**	**29.448.627**	**19.788.953**	
31 December 2016	**(18.930.981)**	**(7.555.489)**	**(3.914.241)**	**(4.739.332)**	**25.861.588**	**9.278.455**	

33. RISK MANAGEMENT (continued)

33.5. Market Risk

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

The Group's operations are, among others, exposed to market risks, including currency risk, price risk on debt and equity securities and commodity risk.

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

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

Maturity method is based on the deployment of all net positions in debt securities in the class and zone maturity by remaining period to maturity and coupon (interest) rate, according to a statutory table in the Decision on the capital adequacy.

Capital requirements for market risks arising from items of trading Book Group calculate using the methodology and guidelines set forth by the Decision on the capital adequacy of banks.

Market risk management is defined by policies, procedures and regulations approved by the Board of Directors and in accordance with the risk management strategy at the level of Erste Group, as well as all relevant laws and by-laws of the Republic of Serbia. Audit of policies, procedures and regulations is being done in accordance with needs, and, at least, once a year.

Market risk is managed by the Asset and Liability Management Committee, Asset and Liability Management department and the Market risk and liquidity risk department.

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, the Department for managing market risk and liquidity risk. This department alongside the Asset and Liability Management department monitor changes in open foreign currency position and other relevant indicators of the Group's exposure to market risks on daily basis. The Asset and Liability Management department, as a rule, prepares a report for the Board for asset and liability management. Additionally, the Market risk and liquidity risk department monitors market risk through defined limits, risk from introduction of new products and complex transactions.

35.4.1 *Interest Rate Risk*

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

In determining interest rates the Group considers market interest rates and their movements. Interest rate changes result in increases or decreases in interest margins. Interest risk management has as its goal the optimization of this influence, increasing the net interest revenue on one side and economic value of capital at the other side.

The Asset and Liability Management Committee manages maturity matching of assets and liabilities based on the Erste Group strategy, macroeconomic analysis and forecasts of the Group's liquidity, interest trends analysis for different segments of assets and liabilities.

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33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.1 *Interest Rate Risk* (continued)

The following table shows the Group's exposure to risk from changes of interest rates (Repricing Gap) on 31 December 2016. Assets and liabilities and currency swaps from off-balance sheet items are presented after the date of re-pricing of interest or maturity date, depending on which date is earlier.

RSD thousand

Category	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Over a year	Total non Interest bearing	total
	-	-	-	-	-	4.979.491	**4.979.491**
Cash	6.023.858	-	-	-	-	8.403.986	**14.427.844**
Obligatory reserve	12.909.598	399.805	1.725.156	623.275	13.018.269	-	**28.676.103**
Securities	74.557.644	2.612.561	2.602.830	2.705.018	14.065.307	-	**96.543.360**
Loans to customers	-	-	-	-	-	**3.480.035**	3.480.035
Total balance asset	**93.491.100**	**3.012.366**	**4.327.986**	**3.328.293**	**27.083.576**	**16.863.512**	**148.106.832**
FX Swap	**3.850.187**	**1.851.028**	**-**	**-**	**-**	**-**	**5.701.214**
Total assets	**97.341.287**	**4.863.394**	**4.327.986**	**3.328.293**	**27.083.576**	**16.863.512**	**153.808.047**
Due to FI	9.420.176	15.197.817	11.109.417	7.668.992	5.272.582	-	**48.668.983**
On sight deposits	3.517.084	7.034.169	10.551.253	5.013.116	18.986.860	-	**45.102.482**
Term deposits	6.039.003	7.714.715	4.819.172	9.707.014	5.305.035	-	**33.584.938**
Other liabilities	-	-	-	-	-	**2.496.421**	**2.496.421**
	-	-	-	-	-	18.254.009	**18.254.009**
Equity	**18.976.263**	**29.946.701**	**26.479.841**	**22.389.121**	**29.564.477**	**20.750.430**	**148.106.832**
FX Swap	**3.786.622**	**1.848.962**	**-**	**-**	**-**	**-**	**5.635.585**
Total liabilities and equity	**22.762.885**	**31.795.663**	**26.479.841**	**22.389.121**	**29.564.477**	**20.750.430**	**153.742.417**
Net exposure to interest rate risk as at 31.12.2016.	**74.578.402**	**(26.932.269)**	**(22.151.856)**	**(19.060.829)**	**(2.480.900)**	**(3.886.918)**	**65.630**
Net exposure to interest rate risk as at 31.12.2015.	**51.812.769**	**(8.849.422)**	**(19.154.611)**	**(12.769.368)**	**(2.952.971)**	**(8.087.977)**	**(1.581)**

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.1 *Interest Rate Risk* (continued)

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

The following table presents the Group´s income statement's sensitivity to the reasonably possible changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of predicted changes in interest rates on net interest income in one year on financial assets and liabilities based on interest rates as at 31 December 2016 and 31 December 2015.

RSD thousand

Currency	Change in percentage	Income statement sensitivity 2016	Change in percentage	Income statement sensitivity 2015
Increase of percentage:				
RSD	1%	127.015	1%	105.729
EUR	1%	241.738	1%	238.224
Decrease of percentage:				
RSD	1%	(127.017)	1%	(105.664)
EUR	1%	(201.393)	1%	36.367

33.5.2. *Foreign Exchange Risk*

Foreign currency risk is the risk of change of the value of financial instruments and occurrence of adverse effect to the Group's financial result and equity due to the fluctuations in foreign exchange rates. The banking operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

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

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

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign currency risk, as well as risk by specific currencies. The Risk control unit daily monitors movements in indicators of foreign exchange risk. The positions are monitored on a daily basis to ensure positions are maintained within established limits.

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

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.2. *Foreign Exchange Risk (continued)*

During 2016, the Group continuously paid attention to keep the foreign currency risk indicator within the prescribed limit. The foreign currency indicator, at the end of each working day, was lower than 20% comparing to the Group's capital.

The following table presents the Group's exposure to foreign currency risk as at 31 December 2016 and 31 December 2015 of its non-trading assets and liabilities.

The analysis presented calculates the effect of the reasonable changes in the exchange rate with other variables held constant. Negative values refer to potential decreases in the income statement or equity, while the positive values refer to its increases.

RSD thousand

Currency	Changes in the exchange rate (depreciation in %) 2016.	Effect to the income statement before taxation 2016.	Changes in the exchange rate (depreciation u %) 2015.	Effect to the income statement before taxation 2015.
EUR	2%	(8.003)	2%	(5.375)
CHF	2%	142	2%	87
USD	2%	269	2%	(845)

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

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33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.2. *Foreign Exchange Risk* (continued)

2016							RSD thousand
	EUR	USD	CHF	Other currencies	Total foreign currencies	Total in RSD	Total
ASSETS							
Cash and assets with the central bank	9.234.058	92.763	82.847	119.065	**9.528.732**	9.717.938	**19.246.670**
Financial assets at fair value through the income statement for trading	9.089.612	-	-	-	**9.089.612**	3.958.745	**13.048.357**
Financial assets available for sale	4.879.784	11.519	-	-	**4.891.303**	2.291.399	**7.182.702**
Financial assets held to maturity	-	-	-	-	**-**	8.635.103	**8.635.103**
Loans and receivables form banks and other financial institutions	675.695	207.557	116.452	178.501	**1.178.205**	31.520	**1.209.725**
Loans and receivables from customers	74.900.353	486.115	1.426.776	-	**76.813.244**	19.650.018	**96.463.262**
Investments in subsidiaries	-	-	-	-	**-**	118	**118**
Intangible assets	-	-	-	-	**-**	281.395	**281.395**
Property, plant and equipment	-	-	-	-	**-**	817.267	**817.267**
Investment property	-	-	-	-	**-**	232.417	**232.417**
Current tax assets	-	-	-	-	**-**	6.513	**6.513**
Deferred tax assets	-	-	-	-	**-**	61.745	**61.745**
Non-current assets held for sale and assets of discontinued operations	-	-	-	-	**-**	56.695	**56.695**
Other assets	91.760	(1.246)	(18.354)	-	**72.159**	792.704	**864.863**
Total assets	**98.871.261**	**796.708**	**1.607.721**	**297.566**	**101.573.256**	**46.533.577**	**148.106.832**
EQUITY AND LIABILITIES							
Financial liabilities at fair value through the income statement for trading	43.134	-	-	-	**43.134**	11.556	**54.690**
Deposits and other liabilities to banks and other financial organisations and central bank	36.492.573	282.046	751.999	10.244	**37.536.862**	4.278.838	**41.815.700**
Deposits and other liabilities to other customers	57.512.701	2.779.123	1.158.591	410.485	**61.860.900**	23.042.430	**84.903.330**
Subordinated liabilities	1.764.606	-	-	-	**1.764.606**	-	**1.764.606**
Provisions	178.634	1.303			**179.937**	510.778	**690.714**
Current tax liabilities		-	-	-	**-**	1.090	**1.090**
Other liabilities	147.529	1.009	102	69	**148.709**	473.985	**622.694**
Total liabilities	**96.139.178**	**3.063.481**	**1.910.692**	**420.798**	**101.534.148**	**28.318.675**	**129.852.823**
Total equity	-	-	-	-	-	18.254.009	**18.254.009**
Total equity and liabilities	**96.139.178**	**3.063.481**	**1.910.692**	**420.798**	**101.534.148**	**46.572.684**	**148.106.832**
Net foreign currency position as at:							
- 31 December 2016	**2.732.084**	**(2.266.773)**	**(302.971)**	**(123.232)**	**39.108**		
- 31 December 2015	**1.798.001**	**(1.778.725)**	**(501)**	**29.713**	**48.488**		

33. RISK MANAGEMENT (continued)

33.6. Group's exposure Risk

The Group's exposure risk includes the risk of its exposure to a single party or a group of related parties, as well as its exposure risk to a party related to the Group.

Monitoring the Group's exposure to this risk is a compulsory part of the procedures in the phase of granting loans in the sense that the committee which approves the Group's placements has the information regarding the total amount of the Group's exposure to a single party or a group of related parties in proportion to the Group's regulatory capital.

During 2014, the Group maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities anticipated by the relevant procedures and decisions on loan approval, the Group kept the adequacy of its placements and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 30(b)).

In accordance with the Risk management policies, the Bank's and S-Leasing management approves the exposures and limits, i.e. the loan concentration on certain legal entities or a group of related parties, and persons related to the Group. The procedures of exposure risk management are the subject of internal audit and the compliance control function.

33.7. Investment Risk

The Group's investment risks include equity investments of the Group in the other legal entities' capital and in tangible assets.

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

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

During 2016, the Group maintained investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

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

33.8. Country Risk

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

The Group mostly grants funds to the customers from the Republic of Serbia, while it is exposed to the country risk in the portion of assets it keeps on the accounts with foreign banks.
The Group monitors its exposure on geographic basis by applying the limits determined by the parent bank and based on country ratings. The Group's exposure to the country risk is low, due to insignificant participation of non-residents in the total loan portfolio of the Group.

33. RISK MANAGEMENT (continued)

33.9. Operational Risk

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

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

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

Reporting system for operational risk events is used for early identification of operational risk events, while the approximation process provides completeness, coherence and comprehensiveness of operational risk events that have occurred in the Group. Operational risk events are collected in a single database and further analysed and monitored.

The Group continually carries out training of all employees in the area of operational risk by raising awareness of employees about the risk, improving quantitative and qualitative tools for identifying and measuring risk exposure (such as self-assessment, key indicators of operational risk, scenario analysis, etc.), and it establishes and promotes the adequate preventive and corrective measures in order to reduce the exposure to operational risk to an acceptable level.

The Group has defined and regularly reviewed and updated internal acts which regulate the management area the Group's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

The Group, through the Program of insurance from operational risks insured against classical risk and specific banking risks. Classical risks include damage to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Group's internal and external fraud, technological risks and civil liability.

The Group performs continuous estimation of the risks arising in the process of introducing new products / services, projects and risk assessment resulting from entrusting third parties. Improvement of internal control mechanisms is a necessary element in all activities of operational risk management.

The Group calculates capital requirements under Pillar 1 for operational risk using the basic indicator approach while under Pillar 2 it applies advanced approach by using an internal model.

33. RISK MANAGEMENT (continued)

33.10. Capital Management

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

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

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

In accordance with the Law on Banks and relevant decisions of the National Bank of Serbia, banks are obliged to maintain minimal capital in the amount of EUR 10 million, in RSD counter value exchanged at the official median exchange rate, a capital adequacy ratio of at least 12%, as well as to comply the volume and structure of its operations with ratios prescribed by the Decision on risk management ("Official Gazette of the Republic of Serbia", no. 45/2011, 94/2011, 119/2012 and 123/2012, 23/2013, 43/2013, 92/2013, 33/2015, 61/2015 and 61/2016) and the Decision on capital adequacy ("Official Gazette of the Republic of Serbia", no. 46/2011, 6/2013 and 51/2014).

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

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

33. RISK MANAGEMENT (continued)

33.10. Capital Management (continued)

The Group conducts a process of internal capital adequacy assessment process (ICAAP), determine available internal capital and makes a distribution, and develop a strategy and plan for capital management in accordance with the risk management of the bank.

In accordance with the Banking Law and the Decision on recovery plans for banks and banking groups ("Official Gazette of RS", no. 71/2015), the Group has prepared and submitted to the National Bank of Serbia Recovery Plan, which is the main pillar for strengthening the financial resistance of the Group and achieving stability in situations of serious financial distress.

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

		RSD thousand
	31.12.2016	**31.12.2015**
Share capital		
The nominal value of paid-in shares, other than preferred	10.040.000	10.040.000
Share premium	124.475	124.475
Reserves from profit	5.614.904	4.425.448
Retained earnings from previous years	-	-
Current year loss	-	-
Intangibles	(281.395)	(351.824)
Unrealized losses on securities available for sale	(2.313)	(1.837)
Reserves from profit for estimated losses on balance sheet assets and off-balance sheet items	(1.805.269)	(2.125.998)
Minority interests in subsidiaries	43.630	43.100
Other positive consolidated reserves	37.328	35.740
	13.771.360	**12.189.103**
Supplementary capital		
Part of the revaluation reserve bank	259.859	193.306
Subordinated liabilities	705.556	1.042.509
	965.415	**1.235.815**
Total (1):	**14.736.775**	**13.424.918**
Risk-weighted balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and settlement / delivery on the basis of free delivery	10.030.169	8.237.366
Capital requirement for price risk	254.265	103.527
Capital requirement for foreign exchange risk	52.966	37.453
Capital requirement for operational risk	1.036.500	964.560
Capital adequacy ratio (1/2 x 100)	**15,55**	**17,24**

33. RISK MANAGEMENT (continued)

33.11. Fair value of the financial assets and liabilities

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

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

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

Financial Instruments whose Fair Value approximates their Carrying Value

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

Fixed-rate Financial Instruments

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

Financial Instruments Measured at Fair Value

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

33. RISK MANAGEMENT (continued)

33.11. Fair value of the financial assets and liabilities (continued)

The following table shows fair value of financial instruments designated at fair value in financial statements:

RSD thousand

	2016.				2015.			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS	**269.115**	**19.823.185**	**138.759**	**20.231.059**	**1.189.653**	**10.518.164**	**101.927**	**11.809.744**
Financial assets held for trading	**257.596**	**12.652.002**	**138.759**	**13.048.357**	**1.178.285**	**7.083.260**	**101.927**	**8.363.472**
Treasury bills of the Republic of Serbia	-	2.158.122	-	**2.158.122**	1.178.285	988.077	-	**2.166.362**
Treasury bills of the Republic of Montenegro	257.596	-	-	**257.596**	-	-	-	**0**
Quoted bonds	-	10.493.880	-	**10.493.880**	-	6.095.183	-	**6.095.183**
Other investments	-	-	138.759	**138.759**	-	-	101.927	**101.927**
Financial assets available for sale	**11.519**	**7.171.183**	**-**	**7.182.702**	**11.368**	**3.434.904**	**-**	**3.446.272**
Treasury bills of the Republic of Serbia	-	7.072.110	-	**7.072.110**	-	3.395.776	-	**3.395.776**
EBRD bonds	-	59.291	-	**59.291**	-	-	-	**-**
Quoted bonds	11.519	654	-	**12.173**	11.368			**11.368**
Unquoted shares	-	39.128	-	**39.128**		39.128		**39.128**
FINANCIAL LIABILITIES	**-**	**54.690**	**-**	**54.690**	**-**	**94.235**	**-**	**94.235**
Financial liabilities recorded at fair value through profit or loss	-	54.690	-	**54.690**	-	94.235	-	**94.235**

33. RISK MANAGEMENT (continued)

33.11. Fair value of the financial assets and liabilities (continued)

The table below shows a comparison, by class, the carrying value and fair value of financial instruments not recognized at fair value in the financial statements. The table does not include the fair value of nonfinancial assets and nonfinancial liabilities.

	2016		2015	
FINANCIAL ASSETS	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Securities held to maturity	8.635.103	8.635.103	7.008.412	7.008.412
Loans and receivables to banks	1.209.725	1.204.993	2.733.309	2.921.751
Loans and receivables to customers	96.463.262	102.577.257	79.043.876	84.227.104
FINANCIAL LIABILITIES				
Deposits from banks	41.815.700	42.310.592	34.001.077	33.855.193
Deposits from customers	84.903.330	83.845.758	68.295.393	67.966.381

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

In 2016 there were no reclassification within categories of financial assets.

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Group has entered into commercial leases on computer equipment and vehicles.

The future minimum lease payments under operating non-cancellable leases are as follows:

		RSD thousand
	2016	**2015**
Up to 1 year	35.975	78.701
From 1 to 5 years	38.981	38.024
	74.956	**116.725**

(b) Litigation

On 31 December 2016, the Group had 85 ongoing court cases in the amount of RSD 472,961 thousand in as the Defendant. Default interest arising from litigations against the Group amount of RSD 252,71.

Based on the assessment of the Group's legal counsel in the mentioned disputes, the Group has made provisions in the amount of RSD 172,445 thousand as at 31 December 2016 (31 December 2015: RSD 126,600 thousand), for disputes that are on this date are expected to will be borne by the Group.

34. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Tax Risks

The tax system in the Republic of Serbia is undergoing continuous amendments. The tax period in the Republic of Serbia is opened during the period of 5 years. In different circumstances, tax authorities could have a different approach to some problems, and could detect additional tax liabilities together with related penalty interest and fines. The Group's management believes that tax liabilities recognized in the accompanying consolidated financial statements are fairly presented.

35. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES

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

The Bank sent its customers outstanding item statements (OIS) as of October 31, 2016. After the exchange of OIS forms with the clients, the following receivables and liabilities remained unreconciled:

The main reasons of unresolved confirmations are incorrect addresses - the client moved and did not report a change to the Bank or does not exist at the address registered in the APR or the Bank (RSD 10.047 thousand), disputed OIS (amounting to RSD 315.401 thousand), and non-responded OIS forms - neither confirmed nor contested (RSD 10.969.961 thousand).

The aggregate amount of reconciled OIS forms (verified) amounted to RSD 91.694.406 thousand.

36. SEGMENT REPORTING

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

a) Structure of Operating Segments

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

36. SEGMENT REPORTING (continued)

b) *Definition of Operating Segments*

Retail Segment

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

Small and Medium Enterprises (SME)

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

Large Corporate Clients (LC)

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

Large Corporate Clients (LC)

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

Financial Markets Segment (GM)

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

Other

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

36. SEGMENT REPORTING (continued)

	Retail		SME		Commercial financing		Large corporate clients		Financial markets		Other		Group	
RSD thousand	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Income statement														
Net interest income	3.407.951	2916.504	1.223.728	1.178.249	491.792	148.608	544.905	488.581	281.907	285.679	(131.690)	256.097	5.818.592	5.273.718
Dividend income	-	-	-	-	-	-	-	-	-	-	401	44	401	44
Net investment result per share method	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from the issuance investidone assets and other operating rent	-	-	2.054	-	-	-	28.169	-	-	-	9.365	36.936	39.588	36.936
Net income from fees and commissions	1.042.097	994952	277.148	255.191	23.297	12195	130.678	389.897	22.338	32.761	(119.093)	(166.960)	1.376.466	1.518.035
Net trading result and fair value adjustment	101.821	57.380	30.449	30-400	10.528	7.865	10.271	9.328	192539	208.533	59.264	66.608	404.873	380.113
General administrative expenses	(3.782.307)	(3.626.053)	(593.439)	(554020)	(77.059)	(67.464)	(225.125)	(204.471)	(104.716)	(142.234)	(71.753)	(9.566)	(4.854.398)	(4.603.809)
Net impairment loss on financial assets not measured at fair value through profit or loss	(204.024)	(400.831)	(398.910)	(585.680)	2757	(122598)	65.204	(218.976)	(287)		(4418)	26.327	(539.678)	(1.301.758)
Realized gains / losses from financial institutions that are not measured at fair vrednotosti through profit or loss	-	-	-	-	-	-	-	-	-	-	-	3.478	-	3.478
Gains / losses on financial assets and financial liabilities that are not measured at fair value through profit or loss, net	1.487	-	-	-	-	-	-	-	-	-	15.874	15.938	17.361	15.938
Net impairment loss on investment and non-financial institutions that are not measured at fair value through profit or loss	(1.533)	-	(1)	-	-	-	(0)	-	-	-	47.854	(28.974)	46.320	(28.974)
Other operating result	(13.260)	(8.815)	5.200	(20.136)	(892)	7.999	(33.164)	2043	(355)	-	(109.743)	(58.410)	(152.213)	(77.317)
Profit before tax from regular operations	552.234	(66.864)	546.229	304.004	450.423	(13.395)	520.939	466.402	391.425	384.739	(303.939)	141.518	2.157.311	1.216.403
Income tax	(45.163)	1.481	2.018	(6.734)	(27.386)	297	(19.527)	(10.249)	(14.537)	(8.606)	12.204	(3.136)	(92.391)	(26.947)
Profit / loss for the current year	507.071	(65.382)	548.246	297.270	433.038	(13.099)	501412	456.152	376.888	376.133	(291.734)	138.382	2.064.920	1.189.456
The net result belonging to minority interests (non-controling)	-	-	-	-	-	-	-	-	-	-	(0)	-	(0)	-
The net result available to the owner of the parent company	507.071	(65.382)	548.246	297.270	423.038	(13.099)	501.412	456.152	376.888	376.133	(291.734)	138.382	2.064.920	1.189.456
Operating income	4.551.869	3.968.835	1.533.379	1.463.839	525.617	168.667	714.024	887.806	496.784	526.973	(181.752)	192.725	7.639.920	7.208.846
Operating expense	(3.782.307)	(3.626.053)	(593.439)	(554.020)	(77.059)	(67.464)	(225.125)	(204.471)	(104.716)	(142.234)	(71.753)	(9.566)	(4854398)	(4.603.809)
Operating result	769.563	342.782	942.224	909.819	448.558	101.203	488.899	683.335	392067	384.739	(240.788)	183.159	2.800.523	2.605.037
A. Balance sheet			0											
Total assets (period end)	37.771.574	32.645.721	27.693.422	21.393.945	11.697.209	8.193.815	16.521.135	15.096.151	13.287.144	8.529.394	35.945.996	31.628.738	142916.481	117.487.765
Total liabilities excluding capital (period end)	34.702.506	43.820.939	24.942.177	13.285.951	10.659.938	2.396.726	14910.314	11.152.025	11.732818	2.828.082	27.840.241	28.004.560	124787.994	101.488.284
Equity	3.069.067	2.217.690	2.751.246	1.593.950	1.037.271	252.204	1.610.822	1.308.801	1.554326	1.141.165	8.105.755	9.485.672	18.128.486	15.999.481
C. Key indicators / parameters														
Cost to income ratio	83%	91%	39%	38%	15%	40%	32%	23%	21%	27%	39%	5%	64%	64%
The ratio of loans to deposits (net)	0%	70%	0%	165%	0%	343%	0%	136%	0%	105%	0%	8%	0%	102%
Return on average allocated capital	9%	-3%	10%	20%	7%	-7%	4%	36%	7%	39%	-5%	1%	37%	8%

37. ADDITIONAL CASH FLOW INFORMATION

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

The mandatory reserves with the National Bank of Serbia are not available for day-to-day operations and therefore are not part of cash and cash equivalents (Note 16).

38. EXCHANGE RATES

The official exchange rates for major currencies, determined on the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies as at 31 December 2016 and 31 December 2015 into Serbian Dinars (RSD) were as follows:

RSD

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

39. SUBSEQUENT EVENTs

In February 2017, the Group sold the investment property TC Point in Kaluđerica for EUR 1,700,000 (EUR 1,765,000 carrying value).

Apart from the event mentioned, there were no other events after the balance sheet date which would require adjustments or disclosure in the consolidated financial statements of the Group for the year ended 31 December 2016.

Novi Sad, 15 March 2017

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

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

ANNUAL BUSINESS REPORT

CONSOLIDATED -

YEAR ENDED DECEMBER 31, 2016

Table of Contents:

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK

- **Introduction**

The consolidated annual business report includes information on Erste Bank a. d. Novi Sad (the "Bank") and its subsidiary S-Leasing doo Beograd. The consolidated annual business report of the Bank and the subsidiary (collectively: the "Group") has been prepared in accordance with Article 29 of the Law on Accounting (Official Gazette of RS, no. 62/2013).

The report is based on the audited financial information. A more detailed presentation of the business operation of the Group on the consolidated level is provided in the Notes to the consolidated financial statements as of December 31, 2016.

- **About the Bank**

Erste Bank a.d. Novi Sad (the "Bank") is the oldest financial institution in the country. It was founded in 1864 as the first savings bank (Novosadska štedionica). At the beginning of August 2005, subsequent to the successful finalization of privatization process, Novosadska banka a.d. Novi Sad became a member of Erste Bank Group, established in 1819 as the first savings bank in Austria. Since 1997 Erste Group. Erste Group has been growing into one of the largest companies for financial services in the Central and Eastern Europe with about 46,600 employees, serving some 15.8 million clients through 2,500 branches in 7 countries (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia).

The Bank's shareholders are Erste Group Banka AG, Vienna and Steiermärkische Bank und Sparkassen AG, Graz, with respective 74% and 26% interests in the Bank's share capital.

The Bank's headquarter is in Novi Sad, at number 5 Bulevar Oslobođenja Street. The Bank operates through 7 business centres, 47 branches, 9 sub-branches and 5 counters.

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

As of December 31, 2016 the Bank had 1,021 employees (December 31, 2015: 1.027 employees).

As of December 31, 2016 members of the Bank's Management Board were:

1. Gernot Mittendorfer, Chairperson, Erste Group Bang AG, Vienna
2. Hannes Frotzbacher, member, Erste Group Bank AG, Vienna
3. Sava Dalbokov, member, Steiermärkische Bank und Sparkassen AG, Graz
4. Dragana Plavšić, independent member, Beograd,
5. Aleksandar Vlahović, independent member, Beograd.

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK (continued)

As of December 31, 2016 members of the Bank's Executive Board were:

1. Slavko Carić, Chairperson, CEO,
2. Jasna Terzić, member ,
3. Frank Michael Beitz, member.

As of December 31, 2016 members of the Bank's Audit Committee were:

Mario Catasta, Chairperson, Erste Group Bank AG, Vienna,
Sava Dalbokov, member, Steiermärkische Bank und Sparkassen AG, Graz,
Aleksandar Vlahović, independent member, Beograd

S – Leasing doo Beograd (the "Company") was established in June 2003 as a limited liability company. The Company was registered with the Commercial Court of Belgrade on June 18, 2003 and re-registered with the Serbian Business Registers Agency under Decision number BD 33349/2005 dated June 7, 2005.

Prior to the Law on Financial Leasing effective date, the Company was issued an operating license for performance of finance leasing activities under Decision of the National Bank of Serbia number 622 dated January 25, 2006.

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK (continued)

In 2014 the equity ownership structure of S-Leasing underwent a change with Erste Bank a.d., Novi Sad, Serbia becoming the majority owner of the Company holding a 75.0% equity interest therein, while Steiermaerkische Bank und Sparkassen AG, Graz, Austria decreased its equity interest in the Company to 25.0%. As of December 31, 2013 the Company's permanent investments comprised capital contribution investments of the founders Steiermaerkische Bank und Sparkassen AG, Graz, Austria (50.0%) and Immorent International Holding GmbH, Vienna, Austria (50.0%).
The Company's principal business activity involves services of finance lease over movable assets to individuals and legal entities in the territory of the Republic of Serbia.

The Company’s headquarter is in Beograd, at number 11a/4 Milutina Milankovića Street.

As of December 31, 2016 the Company had 41 employees (December 31, 2015: 42 employees).

The Company's corporate ID number is 17488104, and its tax ID number (fiscal code) is 102941384.

Members of the Company's Management Board are:

1. Jasna Terzić, Chairperson, Erste Bank a.d., Novi Sad,
2. Vladan Mihajličin, member, Erste Bank a.d., Novi Sad,
3. Nikola Maslovarić, member, Erste Bank a.d., Novi Sad,
4. Marko Markić, member, Steiermaerkische Bank und Sparkassen AG, Graz.
5. Sava Dalbokov, member, Steiermaerkische Bank und Sparkassen AG, Graz.

Members of the Company's Executive Board are:

1. Bojan Vračević, Chairperson and
2 Vuk Vučević, member.

In 2014, under the Agreement on Purchase and Transfer of Equity Interest executed by and between Steiermaerkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH Serbia d.o.o.,
Beograd, Erste Bank a.d. Novi Sad, Serbia acquired a 75% equity interest in the company S-Leasing d.o.o., Beograd.

The consolidated annual business report included the separate financial information of Erste Bank a.d. Novi Sad and financial information of S-Leasing d.o.o. Beograd. As the parent entity of the subsidiary S-Leasing d.o.o., Beograd, Erste Bank a.d. Novi Sad, prepares the consolidated annual business report.

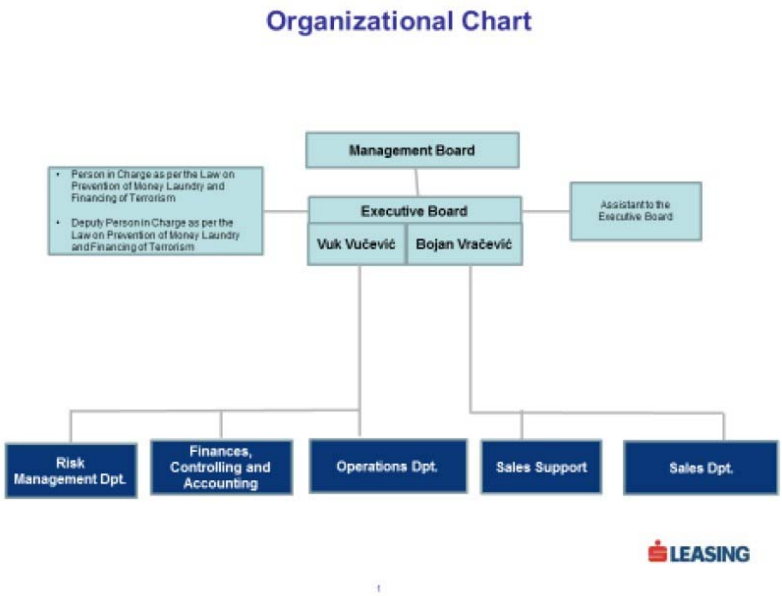
Figures in the accompanying report are stated in thousands of dinars, unless otherwise specified.

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK (continued)

Organizational chart of the Bank is provided below:

1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK (continued)

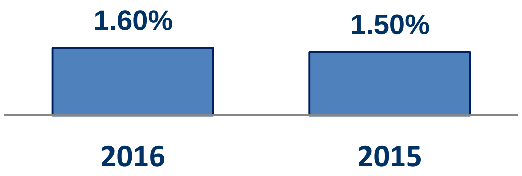
Organizational chart of the Company is provided below:



2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS

Macroeconomic conditions during 2016

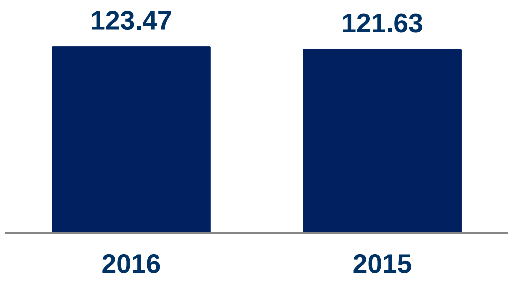
Inflation



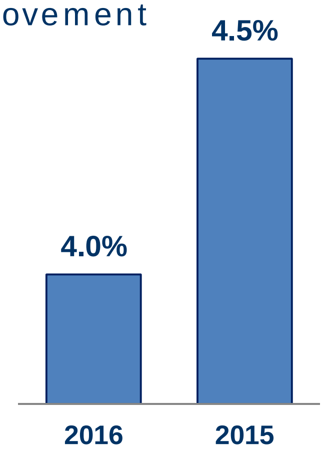
The rate of inflation during 2016 fluctuated from 2.4% to 1.6% to the end of 2016 it was 1.6%. At the end of 2016 the rate was below the targeted rate of 4% (+ -1.5%). The inflation will remain low and stable, and form the beginning of 2017 will be in the limits of tolerance of the new target (3 + - 1.5%).

RSD exchange rate

In the course of 2016 RSD further depreciated against EUR and the RSD to EUR exchange rate rose from RSD 121.63 to RSD 123.47 for EUR 1.

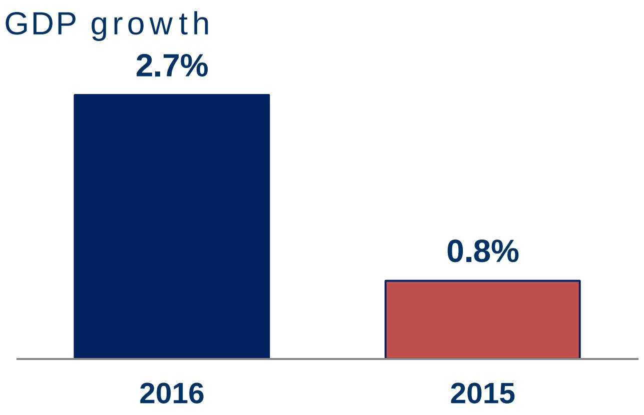


Key policy rate movement



The key policy rate of the National Bank of Serbia decreased from 4.5% to 4.0%.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)



GDP growth rate was positive in 2016 (2.70%)

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

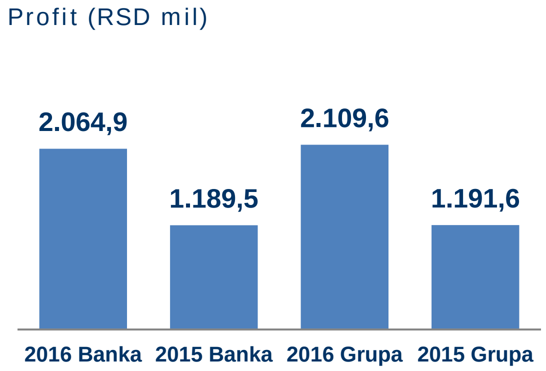
The Bank operation indicators – comparative data 2015 – 2015
Profit and Loss Statement

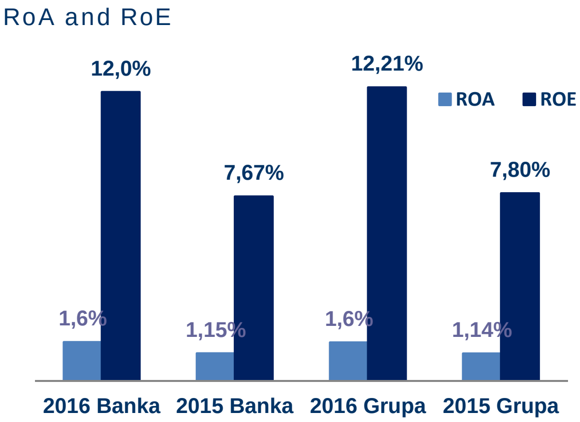
The profit and loss balance structure for the year ended as of 31 December 2016 and 2015, including the growth percentages in relation to the previous year, is as follows:

RSD thousand

	Consolidated			Bank		
	01.01.-31.12.2016.	**01.01.-31.12.2015.**	**% growth /(drop)**	**01.01.-31.12.2016.**	**01.01.-31.12.2015.**	**% growth /(drop)**
INCOME AND EXPENSES						
REGULAR BUSINESS OPERATIONS						
Interest income	7.239.279	6.937.331	4,35	7.049.967	6.772.486	4,10
Interest expenses	(1.317.933)	(1.584.729)	(16,84)	(1.227.200)	(1.503.663)	(18,39)
Net interest income	**5.921.346**	**5.352.602**	**10,63**	**5.822.767**	**5.268.823**	**10,51**
Fee and commission income	2.187.934	2.297.202	(4,76)	2.143.153	2.254.600	(4,94)
Fee and commission expenses	(703.912)	(626.231)	12,40	(685.132)	(605.042)	13,24
Net fee and commission income	**1.484.022**	**1.670.971**	**(11,19)**	**1.458.021**	**1.649.558**	**(11,61)**
Net income from financial assets held for trading	198.957	190.700	4,33	198.957	190.700	4,33
Net income from risk protection	1.238	1.836	(32,57)	1.238	1.836	(32,57)
Net gain from financial assets available for sale	-	144	(100,00)	-	144	(100,00)
Net income from foreign currency exchange difference and effects of contractual foreign currency clause	204.495	131.251	55,80	203.037	127.476	59,27
Other operating income	272.254	275.291	(1,10)	258.681	255.596	1,21
Net expenses from financial assets impairment and credit risky off-balance items	(605.711)	(1.401.460)	(56,78)	(630.331)	(1.397.374)	(54,89)
TOTAL NET OPERATING INCOME	**7.476.601**	**6.221.335**	**20,18**	**7.312.370**	**6.096.759**	**19,94**
Costs of salaries, contributions and other personnel expenses	(1.870.076)	(1.716.300)	8,96	(1.802.560)	(1.646.854)	9,45
Depreciation costs	(266.926)	(262.201)	1,80	(263.278)	(257.267)	2,34
Other expenses	(3.129.899)	(3.022.514)	3,55	(3.089.221)	(2.976.235)	3,80
PROFIT BEFORE TAX	**2.209.700**	**1.220.320**	**81,08**	**2.157.311**	**1.216.403**	**77,35**
Income tax	(11.739)	(3.699)	217,36	(2.205)	(1.557)	41,62
Profit from deferred tax	1.840	343	436,44	-	-	-
Loss from deferred tax	(90.186)	(25.390)	255,20	(90.186)	(25.390)	255,20
PROFIT FOR THE YEAR	**2.109.615**	**1.191.574**	**77,04**	**2.064.920**	**1.189.456**	**73,60**

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

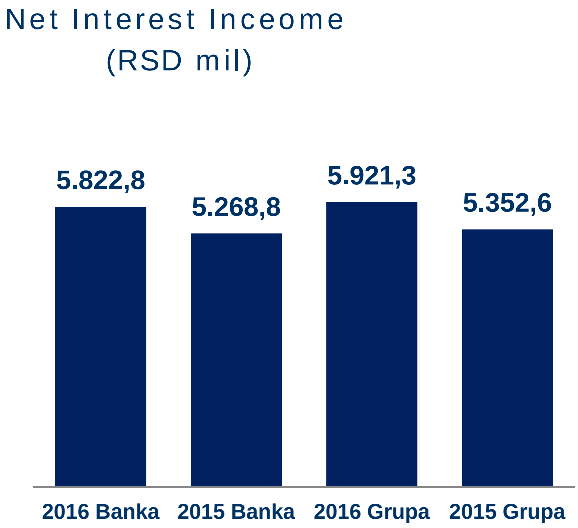




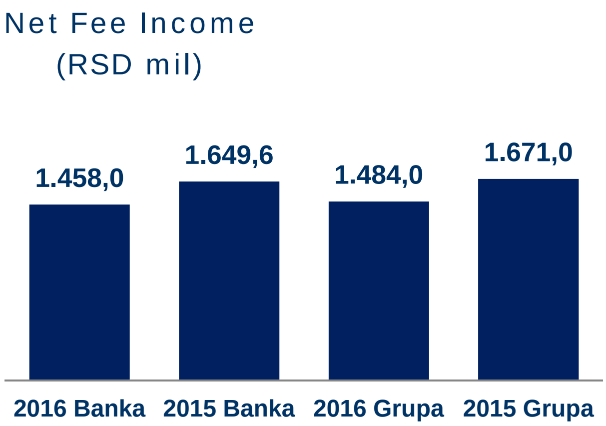
In the period from 1 January to 31 December 2016, the Bank generated net profit of RSD 2.064.920 thousand (2015: RSD 1.189.456 thousand), which is a 73.60% increase in compared to the previous year. In the period from 1 January to 31 December 2016, the Group generated net profit of RSD 2.109.615 thousand (2015: RSD 1.191.574 thousand), which is a 77.04% increase in compared to the previous year

Interest income in 2016, at the Group level, amount to RSD 7.239.279 thousand (2015: RSD 6.937.331 thousand) which is an increase of 4.35% compared to the previous year. Interest income of the Bank in 2016 amount to RSD 7.049.967 thousand (2015: RSD 6.772.486 thousand), and have increased by 4.10% compared to the previous year.

Interest expenses in 2016 at Group level amount to RSD 1.317.933 thousand (2015: RSD 1.584.729 thousand), is a decrease of 16.84% compared to the previous year. Interest expenses of the Bank in 2016 amount to RSD 1.227.200 thousand (2015: RSD 1.503.663 thousand), and have decreased by 18.39% compared to the previous year.



2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)



Fee and commission income generated in 2016, at the Group level, amount to RSD 2.187.934 thousand (2015: RSD 2.297.202 thousand), a decrease of 4.76% compared to the previous year. Fee and commission income of the Bank generated in 2016, amount to RSD 2.143.153 thousand (2015: RSD 2.254.600 thousand), and have decreased by 4.94% compared to the previous year.

Fee and commission expenses in 2016, at the Group level, amount to RSD 703.912 thousand (2015: RSD 626.231 thousand), a decrease of 12.40% compared to the previous year. Fee and commission expenses of the Bank in 2016. amount to 685.132 thousand (2015: RSD 605.042 thousand), and have decreased by 13.24% compared to the previous year.

Within the structure of the total income and the total expenses, in addition to the interest and fee, the foreign exchange rate differences and expenses from the impairment of financial assets and credit risk off-balance items have got the highest share. **Foreign exchange rate difference positive net effect** in 2016, at the Group level, amounts to RSD 204.495 thousand, thereof RSD 203.037 thousand is at the Bank level, and RSD 1.458 thousand at S-Leasing level. **Negative net effect from the impairment of financial assets and off-balance items credit risk** at the Group level amounts to RSD 605.711 thousand, thereof, at the Bank level, net expenses are RSD 630.331 thousand, whereas, at S-Leasing level, net income is RSD 24.620 thousand.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

Balance Sheet

RSD thousand

	Consolidated					Bank				
	2016.	in %	2015.	in %	%growth/drop	2016.	U %	2015.	U %	% growth/drop
ASSETS										
Cash and assets with the central bank	19.246.670	13,00	18.523.428	15,27	3,90	19.246.670	13,47	18.523.428	15,77	3,90
Financial assets at fair value through profit and loss held for trade	13.048.357	8,81	8.363.472	6,90	56,02	13.048.357	9,13	8.363.472	7,12	56,02
Financial assets available for sale	7.182.702	4,85	3.446.272	2,84	108,42	7.182.702	5,03	3.446.272	2,93	108,42
Financial assets held to maturity	8.635.103	5,83	7.008.412	5,78	23,21	8.635.103	6,04	7.008.412	5,97	23,21
Loans and receivables from banks and other financial institutions	1.209.725	0,82	2.733.309	2,25	(55,74)	1.211.439	0,85	2.733.351	2,33	(55,68)
Loans and receivables from customers	96.463.262	65,13	79.043.876	65,17	22,04	91.213.913	63,82	75.182.667	63,99	21,32
Investments in affiliates and joint ventures	118	-	118	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	93.560	0,07	93560	0,08	-
Intangible investments	281.395	0,19	351.826	0,29	(20,02)	278.845	0,20	350.854	0,30	(20,52)
Property, plant and equipment	817.267	0,55	741.139	0,61	10,27	811.073	0,57	733.119	0,62	10,63
Investment property	232.417	0,16	238.508	0,20	(2,55)	232.417	0,16	238.508	0,20	(2,55)
Current tax assets	6.513	-	17.163	0,01	(62,05)	-	-	1.116	-	(100,00)
Deferred tax assets	61.745	0,04	161.764	0,13	(61,83)	59.523	0,04	161.382	0,14	(63,12)
Non-current assets held for sale and disposal group	56.695	0,04	443	-	12.697,97	56.294	0,04-	-	-	-
Other assets	864.863	0,58	658.957	0,54	31,25	846.585	0,59	651.624	0,55	29,92
TOTAL ASSETS	**148.106.832**	**100**	**121.288.687**	**100**	**22,11**	**142.916.481**	**100**	**117.487.765**	**100**	**21,64**

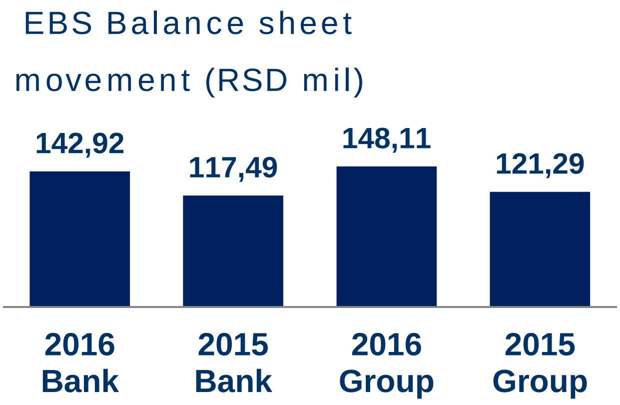
2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

Balance Sheet

RSD thousand

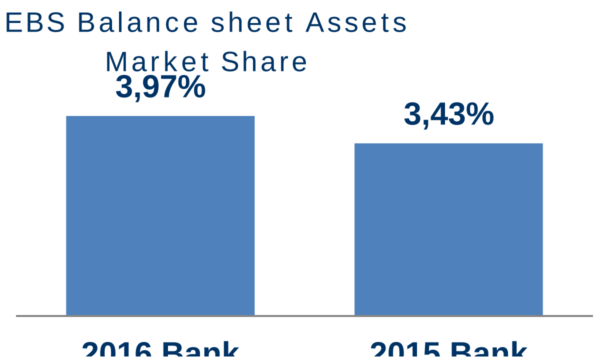
	Consolidated					Bank				
	2016.	in%	2015.	in%	%growth/drop	2016.	in%	2015.	in%	%growth /drop
LIABILITIES										
Financial liabilities at fair value through profit and loss held for trade	54.690	0,04	94.235	0,08	(41,96)	54.690	0,04	94.235	0,08	(41,96)
Deposits and other liabilities to banks and other financial institutions and central bank	41.815.700	28,23	34.001.077	28,03	22,98	36.709.919	25,69	30.282.165	25,77	21,23
Deposits and other liabilities to other customers	84.903.330	57,33	68.295.393	56,31	24,32	84.903.330	59,41	68.295.393	58,13	24,32
Debt issued and other borrowed funds	1.764.606	1,19	1.824.946	1,50	(3,31)	1.764.606	1,23	1.824.946	1,55	(3,31)
Subordinated liabilities	690.714	0,47	551.405	0,45	25,26	670.642	0,47	534.486	0,45	25,47
Provisions	1.090	-	-	-	100,00	1.090	0,00	-	0,00	100,00
Other liabilities	**622.694**	**0,42**	**440.944**	**0,36**	**41,22**	**684.202**	**0,48**	**457.059**	**0,39**	**49,70**
TOTAL LIABILITIES	**129.851.823**	**87,68**	**105.208.000**	**86,74**	**23,42**	**124.788.479**	**87,32**	**101.488.284**	**86,38**	**22,96**
CAPITAL										
Share capital	10.164.475	6,86	10.164.475	8,38	0,00	10.164.475	7,11	10.164.475	8,65	0,00
Gain	2.135.770	1,44	1.226.785	1,01	74,09	2.064.920	1,44	1.189.456	1,01	73,60
Reserves	5.898.873	3,98	4.645.736	3,83	26,97	5.898.607	4,13	4.645.550	3,95	26,97
Participations excluding the control right	54.892	0,04	43.692	0,04	25,63	-	-	-	-	-
TOTAL CAPITAL	**18.254.009**	**12,32**	**16.080.687**	**13,26**	**13,52**	**18.128.002**	**12,68**	**15.999.481**	**13,62**	**13,30**
TOTAL LIABILITIES AND CAPITAL	**148.106.832**	**100**	**121.288.687**	**100**	**22,11**	**142.916.481**	**100**	**117.487.765**	**100**	**21,64**

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)



The total **balance sheet** sum of the Bank as of 31 December 2016 amounts to RSD 142.916.481 thousand and it grew in 2016 by 21,64% in compared to 31 December 2015. The total balance sheet sum on the consolidated level as of 31 December 2016 amounts to RSD 148.106.832 thousand and it grew in 2016 by 22,11% in compared to 31 December 2015.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)



The market share of the Group assets in compared to total assets of the Serbian banking sector in 2016 is 3,97%, whereas the Bank's market share in relation to total assets of the Serbian banking sector is 3,43%, in 2015.

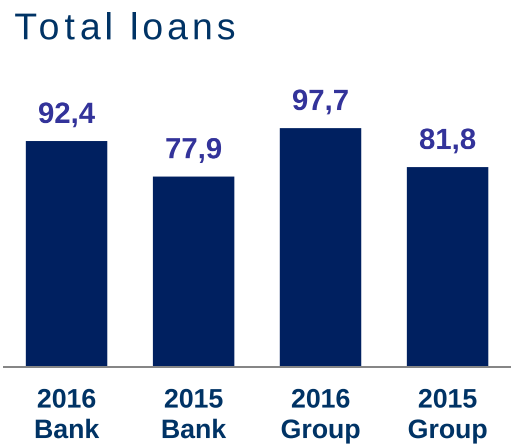
Cash and assets with the central bank in 2016, at the Group level, amount to RSD 19.246.670 thousand, and the total amounts relates to the Bank. Cash and assets with the central bank increased by 3.90% in 2016 in relation to 2015.

Financial assets at fair value through the profit and loss held for trade in 2016, at the Group level, amount to RSD 13.048.357 thousand, and the total amount relates to the Bank. Financial assets at fair value through the profit and loss intended for trade, as of 31 December 2016, increased by 56.02% in relation to the same date in 2015.

Financial assets available for sale in 2016, at the Group level, amount to RSD 7.182.702 thousand, and the total amount relates to the Bank. Financial assets available for sale, as of 31 December 2016, increased by 108.42% in relation to the same date in 2015.

Financial assets held to maturity in 2016, at the Group level, amount to RSD 8.635.103 thousand, and the total amount relates to the Bank. Financial assets held to maturity as of 31 December 2016 increased by 23.21% in relation to the same date in 2015.

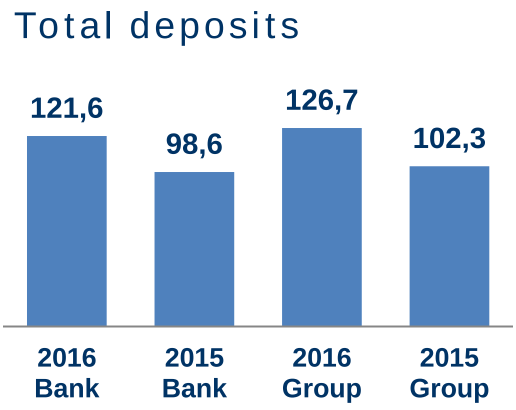
2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)



Loans and receivables from banks and other financial organisations in 2016, at the Group level, amount to RSD 1.209.725 thousand, and the total amounts relates to the Bank. Loans and receivables from banks and other financial organisations as of 31 December 2016 decreased by 55.74% in relation to the same date in 2015.

Loans and receivables from customers on the consolidated level amount to RSD 96.463.262 thousand, thereof, at the Bank level, they amount to RSD 91.213.913 thousand, and at S-Leasing level, they amount to RSD 5.249.349 thousand. Loans and receivables from customers on the consolidated level on 31 December 2016 have reported an increase of 22.04% compared to the same date in 2015. Loans and receivables from customers of the Bank on 31 December 2016 have reported an increase of 21.32% compared to the same date in 2015.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)



Deposits and other liabilities to banks and other financial organisations on the consolidated basis, as of 31 December 2016, amount to RSD 41.815.700 thousand, of which RSD 36.709.919 thousand relate to the Bank and RSD 5.105.781 thousand relate to S-Leasing. Deposits and other liabilities to other customers on the consolidated level, as of 31 December 2016, have increased by 22,98% in relation to the same date in 2015. Deposits and other liabilities to other customers of the Bank in RSD account for 11,67% of the deposit balance as of 31 December 2016 (and they grew by 10,88% in relation to 2015), whereas in foreign currencies they account for 88,33% of the deposit balance (and fell by 22,74% in relation to 2015).

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

Deposits and other liabilities due to customers amounted to RSD 84.903.330 thousand on the consolidated level as of 31 December 2016, with the entire balance relating to the Bank. Deposits and other liabilities due to customers increased by 24.32% compared to 31 December 2015. The Bank's RSD deposits and other liabilities due to customers comprised 27.14% of the total balance of these deposits as of 31 December 2016 (recording a growth of 17.43% compared to 2015), while foreign currency deposits comprised 72.86% of the total balance of these deposits (recording a growth of 27.10% compared to 2015).

The maturity structure of the consolidated statement of financial position (balance sheet) as of December 31, 2016 is favourable. The Group has permanent and long-term sources of funding fixed and non-current assets.

The Group's total equity amounted to RSD 18,254,009 thousand as of December 31, 2016, recording an increase of 13.52% compared to 31 December 2015. The Bank's total equity amounted to RSD 18,128,002 thousand as of 31 December 2016. In 2016 the Bank's total equity recorded a growth of 13.30% compared to the previous year.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

RSD and FX Group sub-balances as of 31 December 2016 and 2015 are presented as follows:

RSD thousand

	Consolidated					Bank				
	2016.	**in %**	**2015.**	**in %**	**% growth/ drop**	**2016.**	**in %**	**2015.**	**in %**	**% growth/ drop**
ASSETS										
Assets in RSD	46.533.577	31,42	40.296.932	33,22	15,48	46.648.641	32,64	40.392.692	34,38	15,49
Assets in foreign currency	101.573.256	68,58	80.991.755	66,78	25,41	96.267.840	67,36	77.095.073	65,62	24,87
Total assets	**148.106.832**	**100**	**121.288.687**	**100**	**22,11**	**142.916.481**	**100**	**117.487.765**	**100**	**21,64**
LIABILITIES										
Liabilities in RSD	46.572.684	31,45	40.345.420	33,26	15,43	46.413.520	32,48	40.249.570	34,26	15,31
Liabilities in foreign currency	101.534.148	68,55	80.943.267	66,74	25,44	96.502.961	67,52	77.238.195	65,74	24,94
Total liabilities	**148.106.832**	**100**	**121.288.687**	**100**	22,11	**142.916.481**	**100**	**117.487.765**	**100**	21,64

3. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

The Group's RSD asset sub-balance comprises 31.42% of the total assets, recording a growth of 15.48% in 2016, whereas the RSD liability and equity sub-balance at the Group level comprised 31.45% of the total liabilities and equity, recording a growth of 15.43% in 2016. However, the Group's foreign currency asset subtotal is still more significant as it comprised 68.58% of the total assets and increased by 25.41% compared to the previous year. The Group's foreign currency liability and equity sub-balance was equally more significant, comprising 68.55% of the total liabilities and equity as of December 31, 2016 and recording an increase of 25.44% compared to the previous year.

The Bank's RSD assets sub-balance comprises 32.64% of its total assets, having risen by 15.49% in 2016, while its RSD liabilities and equity sub-balance comprises comprised 32.48% of the Bank's total liabilities and equity, having risen by 15.31% in 2016. However, the Bank's foreign currency asset sub-balance is still more significant as it comprises 67.36% of the total assets with a 24.87% increase compared to the previous year. The Bank's foreign currency liability and equity sub-balance is equally more significant, comprising 67.52% of the total liabilities and equity as of 31 December 2016 and recording an increase of 24.94% compared to the previous year.

Equity

The Group capital as of 31 December 2016 amounts to RSD 18,254,009 thousand (31 December 2015: 16.080.687 thousand). The Bank capital as of 31 December 2016 amounts to RSD 18,128,002 thousand (31 December 2015: RSD 15,999,481 thousand).

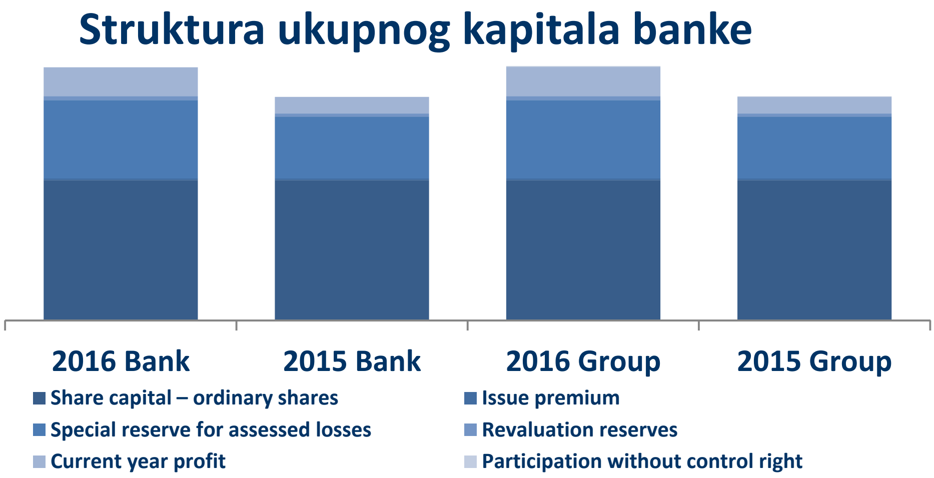
The Bank total capital structure is presented as follows:

RSD thousand

	Consolidated		Bank	
	2016.	2015.	2016.	2015.
Share capital – ordinary shares	10.040.000	10.040.000	10.040.000	10.040.000
Issue premium	124.475	124.475	124.475	124.475
Special reserve for assessed losses	5.614.904	4.425.448	5.614.904	4.425.448
Other reserves	37.329	35.740	-	-
Revaluation reserves	283.968	220.288	283.703	220.102
Current year profit	2.098.441	1.191.045	2.064.920	1.189.456
Participation without control right	54.892	43.691	-	-
Balance as of 31 December	**18.254.009**	**16.080.687**	**18.128.002**	**15.999.481**

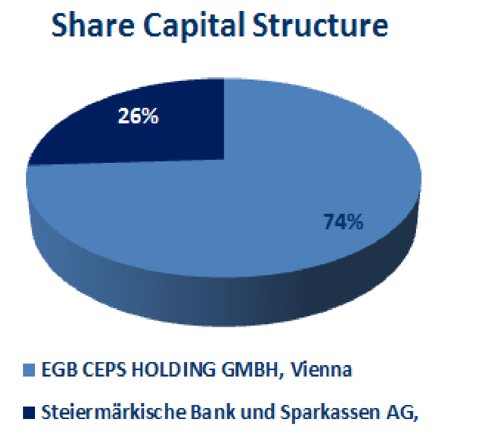
2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

Equity (continued)



As of 31 December 2016, the Bank subscribed and paid-in capital includes 1,004,000 ordinary shares of individual nominal value of RSD 10,000 (31 December 2015: 1,004,000 ordinary shares of individual nominal value of RSD 10,000). During 2016 and 2015, there were no changes in the share capital.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)



The Bank's major shareholder is EGB CEPS HOLDING GMBH, Vienna, with the participation of 74% in the share capital as of 31 December 2016.

The Bank shareholder structure as of 31 December 2016 and 2015 is as follows:

Name of shareholder	Number of shares	Share in %
Erste Group Banka AG, Beč	742.960	74,00
Steiermärkische Bank und Sparkassen AG, Grac	261.040	26,00
Total	**1.004.000**	**100,00**

S-Leasing capital is 75% in the ownership of Erste bank ad Novi Sad and 25% of Steiermaerkische Bank und Sparkassen AG, Graz, Austria.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

- **Corporate Social Responsibility**

The corporate social responsibility is presented for the Bank as the Group holder.

Erste Bank a.d. Novi Sad is the member of Erste Group, the financial institution with 195-year long tradition, for which, from the very beginning, the corporate social responsibility has been an integral part of its philosophy and long-term business strategy. We were established in 1819 as the first savings bank in Austria, with twofold objective – to enable "ordinary" people access to financial services and to support social activities in the community we operate in. We operate in such spirit even today.

For Erste Bank corporate social responsibility is a strategic framework for the management of the company, based on the investment in long-term and stable relations with all key stakeholders, and the commitment to actively contribute to the development and welfare of the society of which we are an inseparable part of. Corporate social responsibility is an approach that allows us to, by acting in partnership with other sectors, successfully face challenges set before us by the modern market. This is a concept that encourages us to be innovative, promote sustainable development, responsibly manage risks and reduce costs, achieving better business results for our customers and the company, but also for the communities in which we work.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

- **Corporate Social Responsibility (continued)**

The current Social Corporate Responsibility Strategy of Erste Bank a.d. Novi Sad is adopted for the period 2015-2019, and it is set up on the following principles: relation with operation, balance, holistic approach and integrated approach. The strategy is implemented through five basic fields with clearly defined objectives, followed by a key topic in the focus, as well as some additional topics providing clear guidelines for actual programmes, projects, and initiatives:

FIELD	OBJECTIVE	PRIORITY TOPICS
Corporate management	Further improvement of the existing practice of good corporate governance	Transparent management practices Prevention of conflicts of interest Development of CSR through joint initiatives
Responsibility to clients	Even more strongly integration of social responsibility into the core business	Responsible financing financial inclusion Responsible communication with clients
Responsibility in work environment	Further development of a stimulating work environment, based on the rights and needs of employees	The development and training of employees Safety and Health at Work Social support to employees
Responsibility in the supply chain	To minimize the negative and maximize the positive impact that the Bank achieves on the society and the environment through the supply chain	The application of criteria in assessing the social environment of suppliers Application of environmental criteria in the evaluation of suppliers
Responsibility to local communities	Further development of local communities in all relevant aspects	Investing in the development of the potential members of the communities in which the Bank operates Promotion of corporate and individual philanthropy
Responsibility to the environment	Contribution to the preservation of the environment by minimizing the negative and maximize the positive impact that the Bank achieves	Responsible resource management Responsible financing Raising the awareness of employees about environmental protection

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

- **Corporate Social Responsibility (continued)**

Values that are deeply rooted in our business and values we stand for are: support, responsibility, trust, innovativeness and creation.

A specificity of our engagement represents efforts we are putting in promotion of the concept of corporate social responsibility in Serbia, both on our own example and through intensive collaboration with our partners form the public and non-profit sectors. In accordance with such policy, our Bank is one of the founders and an active member of the initiatives advocating the corporate social responsibility in Serbia, such as the United Nations Global Compact COP for Serbia, the Corporate Social Responsibility Forum, Corporate Social Responsibility Task Force with the Association of Banks of Serbia, etc.

In addition to our wish to be a reliable partner to both the corporate and retail customers, given our long-term commitment to the Serbian market, we see our role as that of an active and continuous contribution to the development of the society and culture. Erste Bank pays special attention to the programs of investments in the community. During the course of 2016, Erste Bank supported various different cultural and artistic programs, science popularization, scientific programs, promotion of entrepreneurship (social and micro entrepreneurship), as well as or through voluntary actions allocated funds in the amount of about 34 million.

One of the most important programs of the Bank in 2016 was the launch of "Step by Step" program for educational, financial and mentoring support to start-ups, social enterprises and civil society. This is the first step in the implementation of social banking "Step by Step" in Serbia, which the Erste Group launched in Central and Eastern Europe (CEE) and Austria, to support customers who are traditionally under-covered by banking services: new businesses, including start-ups, social enterprises, civil society organizations, and persons at risk of poverty.

The "Step by Step" in its first stage in Serbia supports the companies with a history of operations of less than 24 months in strengthening their business, then social enterprises regardless of the length of operations, as well as new business ideas that characterizes the viability and market potential, offering them access to basic financial products, adequate financial advice and ongoing mentoring.

Through the grant program Superste.net financially and by mentoring supported 22 projects with a total fund for projects in the amount of RSD 7,200,000. Traditionally, the program is designed for groups and individuals who want to pursue a socially responsible ideas and programs, projects inspired by the problems in society, with the aim of improving the entire community, and is divided into two stages - Centrifuge intended for formal and informal groups and Club Superste, intended for individuals with socially responsible ideas.

The media and the public recognized the importance of topics which the Erste Bank was dedicated to in 2016, which is confirmed by the number of publications in the media. The Bank has recorded a total of 2,144 media announcements for the period January - December 2016, while with 357 recorded releases in the field of socially responsible program it was ranked first.

2. AUTHENTIC PRESENTATION OF THE BANK'S DEVELOPMENT AND PERFORMANCE, PARTICULARLY THE FINANCIAL SITUATION OF THE BANK AND DATA RELEVANT FOR THE ASSESSMENT OF THE BANK'S ASSETS (continued)

- **Corporate Social Responsibility (continued)**

As top socially responsible business topics of the Bank in 2016 the media recognized the following:

1. Superste.net - donation platform of Erste Bank;
2. CSR forum - Erste Bank is ranked high on the list of CSR index in Serbia;
3. Green ideas, young entrepreneurs program realized in cooperation with Trag foundation.

* Note: all figures on the media presence of the Bank provided in this section are based on the clipping reports and analyses prepared by Executive Group and Ninamedia.

Reporting on the corporate social responsibility is to us an integral part of a broader process we are committed to in the long term. It is our aim to present to our numerous stakeholders in a clear and transparent way all activities and initiative realized within a year, and to announce the future plans and programs. Since 2008 we have been regularly posting annual corporate social responsibility reports and since 2011, as the first among banks and one of the first companies in Serbia in general, we have based our reports on globally recognized framework - GRI (Global Reporting Initiative). As from 2013 the Bank has expanded and enhanced the corporate social responsibility report by introducing indicators defined by GRI exclusively for the financial sector. Due to our reliance on the GRI Financial Services Sector Supplement (FSSS), the Bank's report on the corporate social responsibility has become a relevant source of data for international financial institutions the Bank cooperates with. In 2015 the Bank implemented the latest GRI G.4 reporting principles.

All reports on the Erste Bank's corporate social responsibility may be found at the following link: **http://www.erstebank.rs/rs/O_nama/Drustveno_odgovorno_poslovanje.** The report on corporate social responsibility of Erste Bank for 2016 will be released and posted on the Bank's website until the end of July 2017.

3. ENVIRONMENTAL RESPONSIBILITY

Environmental responsibility is presented for the Bank only, as the parent entity and leader of the Group.

Despite the fact that the Bank is not a major polluter in terms of direct impact of its business on the environment, Erste Bank has been monitoring and measuring its impact in accordance with the global trends for years now, with the aim of early identifications and minimization year in year out. The Bank's strategic commitment to this issue is manifested in the fact that one of the pillars of its Socially Responsible Business Operation Strategy is none other than the environmental responsibility.

The Bank's consistency in this area of its business is demonstrated by the adoption and successful implementation of the Natural and Social Environment Protection Policy and the Responsible Funding Policy. With regard to its core banking business, the Bank made progress in monitoring and reducing the primary harmful effects related to the responsible use of resources — in addition to the updated version of the currently effective Procedure on Waste Management, in 2016 the Bank also adopted the Policy on Waste Management.

The strategy adopted in the field of environmental protection, energy efficiency and climate change, and in the same context, the adopted The environmental policy and social environment, energy management policy, as well as the Policy of responsible finance, the Bank confirms that it is consistent in this area of its activities and operations. During 2016, act in the field of waste management were updated.

3. ENVIRONMENTAL RESPONSIBILITY (continued)

In 2016, the Bank has also continued to, through the implemented application "Project Credit360", processes impact on the environment in accordance with international standards.

Publications, in-house Pulse Magazine and the Report on the Socially Responsible Activities of the Bank are printed out on FSC paper (paper from the controlled forest cultivation), and from 2013. the Bank has been using 100% recycled paper for office purposes. For years now, the Bank has been recycling office paper, PET bottles and packaging and electronic waste. In order to promote and further develop the concept of green branches, as stimulated with the DOP Strategy of the Bank, in 2016 we continued to furnish and refurbish our branch offices according to this principle. The total of 14 branches have been refurbished at this principle, and the construction of a new building of the Bank of Belgrade is in progress, which is characterized by the highest environmental standards and high energy efficiency.

In 2016 we have recorded the following impact:

- The recorded total C02 emission: 3,115 t/a CO2eq
- (this information relates to the aggregate emission of the greenhouse gases in tons – CO2 equivalent)
- Total energy consumption (kWh/a):* 4,392,095
- Electricity: 2,548,150
- Heating and air conditioning: 1,843,945.56
- Total water consumption (m3):** 8,888
- Total C02 emission (t/a CO2eq):“*** 3,115
- Total quantity of waste (kg): 38,516
- Recycled 11,882
- Total environmental protection costs: RSD 39,886,378.77

* Relates to indirect energy, obtained and consumed form non-renewable energy sources (electricity and heating and cooling/air conditioning).

** Relates to the water consumed from the Water Supply Company.

*** Relates to indirect emission since the Bank is in no possession or control of direct sources.

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016

4.1. THE BANK'S REGULATORY CAPITAL

The Bank was in full compliance with the requirements of the National Bank of Serbia's Decision on the Capital Adequacy of Banks (Official Gazette of RS, nos. 46/2011, 6/2013 and 51/2014) upon regulatory capital calculation.

The Bank's total regulatory capital is the sum of the core (Tier 1) capital and supplementary (Tier 2) capital net of deductible items:

- The core capital is comprised of the share capital, share premium, reserves from profit and prior years' retained earnings and decreased by intangible assets and regulatory value adjustments departing from IFRS/IAS (unrealized losses on securities available for sale and required reserve from profit for estimated losses per balance sheet assets and off-balance sheet items).

- The supplementary capital is comprised of subordinated liabilities and a portion of positive revaluation reserves arisen from the effects of the fair value adjustment of assets, securities and other assets stated within these reserves under IFRS/IAS.

- Equity deductible items are comprised of equity investments in other finance sector entities in excess of 10% of their equity.

The Bank manages its capital structure and makes the necessary adjustments in accordance with the changes in the economic conditions and risk inherent in the Bank's activities.

The Bank manages its capital in order to:

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

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.1. THE BANK'S REGULATORY CAPITAL

The Bank also takes care that the amount of its capital in the course of its operations is above EUR 10,000,000 in the RSD equivalent at the official middle exchange rate of NBS in accordance with the Law on Banks.

The Bank's shareholders are Erste Group Bank AG, Vienna, with a 74% equity interest, and Steiermarkische Bank und Sparkassen AG, Graz, with a 26% equity interest in the Bank's share capital.

In accordance with NBS Decision on the Disclosure of Data and Information by Banks, more detailed information on the Bank's capital are provided in the following appendices:

- form PI-KAP (APPENDIX 1) - a detailed structure of the Bank's regulatory capital as of 31 December 2016 (with references to the statement of financial position line items presented in Schedule 3 hereunder);
- form PI-FIKAP (APPENDIX 2) - basic characteristic of the regulatory capital components;
- form PI-UPK (APPENDIX 3) - the Bank's balance sheet prepared in accordance with IFRS/IAS and broken down line items presented so that they can be associated with the equity line items form the statement on equity prepared in accordance with NBS Decision on Capital Adequacy (APPENDIX 1).
- form PI-AKB (**Error! Reference source not found.**) - an overview of calculated capital requirements as of 31 December 2016.

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.1. THE BANK'S REGULATORY CAPITAL (continued)

Appedix 1 – Form PI- KAP

Data on the Bank's capital position **(RSD thousand)**

No.	ITEM	Amount	Reference to appendix 3
I	TOTAL CORE CAPITAL	13.692.953	
1.	CORE CAPITAL BEFORE DEDUCTABLES	15.779.379	
1.1.	Nominal value of paid-in shares, other than preferential	10.040.000	A
1.2.	Share premium	124.475	B
1.3.	Reserves from profit	5.614.904	V
1.4.	Prior year's retained earnings		G
1.5.	Current year's profit		D
1.6.	Non-controlling interest in subordinate entities		Đ
1.7.	Other positive consolidated reserves		E
2.	CORE CAPITAL DEDUCTIBLES	2.086.426	
2.1.	Prior year's losses		Ž
2.2.	Current year's loss		Z
2.3.	Intangible assets	278.845	I
2.4.	Acquired ow cumulative preferential shares		J
2.5.	Amount of shares received in pledge other than cumulative preferential shares		K
2.6.	Regulatory value adjustment:	1.807.581	
2.6.1.	Unrealized losses on securities available for sale	2.313	L
2.6.2.	Other net negative revaluation reserves		Lj
2.6.3.	Gains on bank liabilities measured at fair value resulting from the change in the bank's credit assessment		M
2.6.4.	Required reserve from profit for estimated losses on balance-sheet assets and off-balance sheet items of the bank	1.805.269	
2.7.	Other negative consolidated reserves		N
II	TOTAL SUPPLEMENTARY CAPITAL	965.415	
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIBLES	965.415	
1.1.	Nominal value of paid-in cumulative preferential shares		Nj
1.2.	Share premium on the issue of cumulative preferential shares		O
1.3.	Part of revaluation reserves of the bank	259.859	P
1.4.	Hybrid capital instruments		R
1.5.	Subordinated liabilities	705.556	S
1.6.	Over allocation of impairment allowances, provisions and necessary reserves relative to expected losses		
2.	SUPPLEMENTARY CAPITAL DEDUCTIBLE ITEMS	0	
2.1.	Acquired own cumulative preferential shares		t
2.2.	Receivables in respect of balance-sheet assets and off-balance sheet items secured by a hybrid Instrument or a subordinated IlabIlIty		
2.3.	Amount of cumulative preferential shares received in pledge		ć
2.4.	Amount of capital exceeding the limitation for supplementary capital		

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.1. THE BANK'S REGULATORY CAPITAL (continued)

III	**TOTAL CAPITAL**	**14.564.807**	
1.	**TOTAL CAPITAL BEFORE DEDUCTIBLES**	**14.658.367**	
2.	**DEDUCTIBLES FROM THE CAPITAL**	**93.560**	
	of which: deductions from core capital	46.780	
	of which: deductions from supplementary capital	46.780	
2.1.	**Direct or indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entitles**	**93.560**	(U+F+H)
2.2.	**Investments in hybrid instruments and subordinated liabilities of other banks and financial sector entities in which the bank has direct or indirect investment that exceed 10% of the capital of such entities**		
2.3.	**Total amount of direct and indirect investment in banks and other financial sector entities in the amount of up to 10% of their capital, as well as investment in their hybrid Instruments and subordinated liabilities that exceed 10% of the sum of core and supplementary capital of the bank for which the calculation of capital is made**		
2.4.	**Amount exceeding qualified stake in non-financial sector entities**		
2.5.	**Under allocation of impairment allowances, provisions and necessary reserves relative to expected losses**		
2.6.	**Amount of exposure on free deliveries when the counterparty failed to fulfil its obligation within 4 working day**		
2.7.	**Receivables and potential liabilities toward related parties or employees in the bank which the bank has negotiated under the terms that are more favourable than the terms negotiated with other parties**		
IV	**NOTES**		
	Positive/negative difference between total impairment allowances of balance sheet assets, provisions for losses on off-balance sheet items and required reserves from profit, on the one hand, and the amount of total expected losses according to the IRB Approach, on the other		
	Amount of impairment allowances, provisions and required reserves from the bank's profit		
	of which: on a group basis		
	of which: on an individual basis		
	Expected loss amount according to IRB Approach		
	Gross amount of subordinated liabilities	**1.764.606**	

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.1. THE BANK'S REGULATORY CAPITAL (continued)

Appendix 2 – Form PI-FIKAP

Data on the basic characteristics of the financial instruments included in the calculation of the Bank's capital

No	Instrument characteristics	Bank's share capital	Subordinated loan approved by Erste Group Bank AG, Vienna
1.	**Issuer**	**Erste Bank a.d. Novi Sad**	**Erste Bank a.d. Novi Sad**
2.	**Regulatory treatment**		
2.1.	Treatment under the Decision on Capital Adequacy	Core capital instrument	Supplementary capital instrument
2.2.	individual/group/individual and group level 0 inclusion of the instrument in the capital at the group level	Individual and group	Individual and group
2.3.	Instrument type	Ordinary shares	Subordinated debt issues as a financial instrument
3.	**Amount recognized for the purpose of calculating capital (in RSD '000 as of the last reporting date)**	For regulatory capital calculation RSD 10,164,475 thousand is recognized nominal amount of share paid increased by the share premium of RSD 124,475 Thousand).	RSD 705.556 thousand included in the supplementary capital; the amount obtained using appropriate weights to reduce liabilities in the past five years before maturity (cumulative by 20% annually) under the Decision on Capital Adequacy.
4.	**instrument's nominal value**	RSD 10,040,000 thousand	EUR 15.000.000
5.	**Accounting classification**	Share capital	Liability - amortized cost
6.	**Initial date of instrument issuance**	August 2005 (date of acquisition of Novosadska banka a.d. by members of Erste Group)	December 27, 2011
7.	**Instrument with or without maturity date**	Without maturity date	With maturity date
7.1.	**Original maturity date**	No maturity date	December 27, 2021
8.	**Call option of the issuer**	NO	NO

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.1. THE BANK'S REGULATORY CAPITAL (continued)

No	Instrument characteristics	Bank's share capital	Subordinated loan approved by Erste Group Bank AG, Vienna
9.	***Coupons/Dividends***		Interest on subordinated loan
9.1.	Fixed or variable	Variable	Variable
9.2.	Full, partial or no discretion regarding the time of payment of dividends/coupons	Full discretion	No discretion
9.3.	Full, partial or no discretion regarding the amount of dividends/coupons Full	Full discretion	No discretion
9.4.	Step-up option	NO	NO
9.5.	Non-cumulative or cumulative dividends/coupons	Non-convertible	Non-convertible
10	**Convertible or non-convertible instrument**	Non-convertible	Non-convertible
11	**Write-off option**	NO	NO
12	**Type of instrument which will be paid off directly before the said instrument during bankruptcy and/or liquidation**	Subordinated debt issues as afinancial instrument	Other

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.1. THE BANK'S REGULATORY CAPITAL (continued)

Appendix 3 - Form PI-UPK

Breakdown of the Bank's balance sheet components with references to the items of regulatory capital (Appendix 1)

(RSD thousand)

Item designation	ITEM	Balance Sheet	Reference
A	ASSETS		
A.I	Cash and assets with the central bank	19.246.670	
A.II	Pledged financial assets		
A.III	Financial assets recognized at fair value through income statement and held for trading	13.048.357	
A.IV	Financial assets initially recognized at fair value through income statement		
A.V	Financial assets available for sale	7.182.702	
A.VI	Financial assets held to maturity	8.635.103	
A.VII	Loans and receivables from banks and other financial organizations	1.211.439	
A.VIII	Loans and receivables from clients	91.213.913	
A.IX	Changes in fair value of hedged items		
A.X	Receivables arising from financial derivatives intended for hedging		
A.XI	Investments in associates and joint ventures		
	Of which direct or indirect investments in banks and other FIS entities	-	U
A.XII	Investments in subsidiaries	93.560	
	Of which direct or indirect investments in banks and other FIS entities	93.560	F
A.XIII	Intangible assets	278.845	I
A.XIV	Property, plant and equipment	811.073	
A.XV	Investment property	232.417	
A.XVI	Current tax assets	--	
A.XVII	Deferred tax assets	59.523	
A.XVIII	Non-current assets held for sale and discontinued operations	56.294	
A.XIX	Other assets	846.585	
	Of which direct or indirect investments in banks and other FIS entities in excess of 10% of their equity		H
A.XX	TOTAL ASSETS (ADP items from 0001 to 0019 in the balance sheet)	142.916.481	
P	LIABILITIES		
PO	LIABILITIES		
PO.I	Financial liabilities recognized at fair value through income statement and held for trading	54.690	
PO.II	Financial liabilities initially recognized at fair value through income statement		
PO.III	Liabilities arising from financial derivatives intended for hedging		
PO.IV	Deposits and other liabilities to banks, other financial organizations and central bank	36.709.919	
PO.V	Deposits and other liabilities to other clients	84.903.330	
PO.VI	Changes in fair value of hedged items		
PO.VII	Own securities issued and other borrowings	0	
	Of which liabilities per hybrid instruments	0	R
PO.VIII	Subordinated liabilities	1.764.606	
	Of which subordinated liabilities included in the supplementary capital of the Bank	705.556	S
PO.IX	Provisions	670.642	
PO.X	Liabilities under assets held for sale and discontinued operations		
PO.XI	Current tax liabilities	1.090	
PO.XII	Deferred tax liabilities		
PO.XIII	Other liabilities	684.202	
PO.XIV	TOTAL LIABILITIES (ADP items from 0401 to 0413 in the balance sheet)	124.788.479	
	CAPITAL		
PO.XV	Share capital	10.164.475	
	Of which nominal value of shares paid in, except for preferential cumulative shares	10.040.000	A
	Of which share premium per share capital, except for preferential cumulative shares	124.475	B
	Of which nominal value of preferential cumulative shares		Nj
	Of which share premium per preferential cumulative shares		O
PO.XVI	Own shares		
	Of which acquired own shares, except for preferential cumulative shares		J
	Of which acquired own preferential cumulative shares		T
PO.XVII	Profit	2.064.920	
	Of which prior years' retained earnings		G
	Of which current year's profit	2.064.920	
	Of which current year's profit decided by the Assembly to be allocated to the core capital		D
PO.XVIII	Loss		
	Of which prior years' accumulated losses		Ž
	Of which current year's loss		Z

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.1. THE BANK'S REGULATORY CAPITAL (continued)

Item designation	ITEM	Balance Sheet	Reference
PO.XIX	Reserves	**5.898.607**	
	Of which reserves from profit as element of the core capital	5.614.904	**V**
	Of which other positive consolidated reserves		**E**
	Of which other negative consolidated reserves		**N**
	Of which other negative revaluation reserves, net		**Lj**
	Of which profit per liabilities measured at fair value realized due to changes in the Bank's credit rating		**M**
	Of which positive revaluation reserves arisen from the effects of fair value adjustment of fixed assets, securities and other assets credited to these reserves under IFRS/IAS	259.859	**P**
	Of which unrealized losses on securities available for sale	2.313	**I**
	Of which actuarial gains	25.810	
	Of which tax liabilities	347	
PO.XX	Unrealized losses		
PO.XXI	Non-controlling interests		
	Of which non-controlling interests in subordinate entities		**Đ**
PO.XXII	**TOTAL CAPITAL (result of adding up and/or subtracting the following ADP items from the balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0**	18.128.002	
PO.XXIII	**TOTAL CAPITAL SHORTFALL (result of adding up and/or subtracting the following ADP items from the balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0**		
PO.XXIV	**TOTAL LIABILITIES AND EQUITY (result of adding up and/or subtracting the following ADP items from the balance sheet: 0414 + 0422 - 0423)**	**142.916.481**	
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	187.952.320	
	Of which shares of banks received as pledges, except for preferential cumulative shares	-	**K**
	Of which preferential cumulative shares received as pledges	-	**Ć**
В.П.П.	Off-balance sheet liabilities	187.952.320	

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.2. CAPITAL ADEQUACY

In accordance with NBS Decision on Capital Adequacy, the total amount of capital requirements is computed relative to the regulatory capital. The amount of regulatory capital must be available in the minimum amount equal to the sum of the minimum capital requirements.

The minimum capital requirement in accordance with NBS Decision on Capital Adequacy, i.e. capital adequacy ratio was 12% and was complied with by the Bank over the entire reporting period. As of December 31, 2016 the Bank's capital adequacy ratio equalled 16.27%.

Based on the Bank's operating activities capital requirements for credit risk, market risks (equity price risk per debt securities and foreign exchange risk) and operational risk.

The credit risk capital requirement is calculated by multiplying the total risk-weighted assets by 12%. The Bank calculates risk-weighted assets using the standardized approach for all exposures.

As of 31 December 2016 the Bank has calculated regulatory capital requirements for absorption of market risks – equity price risk and foreign exchange risk.

The capital requirement for price risk per debt securities is a sum of the capital requirements for specific and general equity price risks per such securities multiplied by 1.5. The capital requirement for general price risk is computed using the standardized approach – maturity method. The capital requirement for specific price risk depends on the issuer of the debt security, issuer’s external or internal credit rating and the outstanding maturity. As of December 31, 2016, the bank was not exposed to the specific price risk per debt securities.

Foreign exchange capital requirement is computed by multiplying the sumo of total open foreign currency position and absolute value of the net open position in gold by 12%.

The Bank applies the basic indicator approach (BIA) in calculation of the regulatory capital requirement for operational risk.

Form PI-AKB (Schedule 4) – breakdown of the computed capital requirement as of December 31, 2015 is provided hereafter.

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.2. CAPITAL ADEQUACY (continued)

Schedule 4 - Form PI-AKB

Data on total capital requirements and capital adequacy ratio at the Bank level

(RSD thousand)

No.	ITEM	Amount 1	Coverage by core capital 2	Coverage by supplementary capital 3
I	CAPITAL	*14.564.807*	-	-
1.	TOTAL CORE CAPITAL	13.646.172	-	-
2.	TOTAL SUPPLEMENTARY CAPITAL	918.634	-	-
II	CAPITAL REQUIREMENTS	10.744.865	-	-
1.	CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK IN CASE OF FREE DELIVERIES	9.446.199	9.446.199	-
1.1.	Standardized approach (SA)	78.718.325	-	-
1.1.1.	***Exposures to central governments and central banks***	-	-	--
1.1.2.	***Exposures to territorial autonomies and local self-government units***	*1.215.028*	--	-
1.1.3.	***Exposures to public administrative bodies***	*12.141*	-	-
1.1.4.	***Exposures to multilateral development banks***	-	-	-
1.1.5.	***Exposures to international organizations***	-	-	-
1.1.6.	***Exposures to banks***	*947.004*	-	-
1.1.7.	***Exposures to corporates***	*51.806.801*	-	-
1.1.8.	***Retail exposures***	*16.309.562*	-	-
1.1.9.	***Exposures secured by real estate collateral***	*6.575.716*	-	-
1.1.10.	***Past due items***	*308.912*	-	-
1.1.11.	***High-risk exposures***	-	-	-
1.1.12.	***Exposures in the form of covered bonds***	-	-	-
1.1.13.	***Exposures in the form of open-end investment funds***	-	-	-
1.1.14.	***Other exposures***	*1.543.161*	-	-
1.2.	Internal Ratings Based Approach (IRB)	-	-	-
1.2.1.	***Exposures to central governments and central banks***	-	-	-
1.2.2.	***Exposures to banks***	-	-	-
1.2.3.	***Exposures to corporates***		-	-
1.2.4.	***Retail exposures***	-	-	-
1.2.4.1.	*Retail exposures secured by real estate collateral*	-	-	-
1.2.4.2.	*Qualifying revolving retail exposures*	-	-	-
1.2.4.3.	*Other retail exposures*	-	-	-
1.2.5.	***Equity exposures***	-	-	-
1.2.5.1.	***Approach applied:***	-	-	-
1.2.5.1.1.	*Simple Risk Weight Approach*	-	-	-
1.2.5.1.2.	*PD/L GD Approach*	-	-	-
1.2.5.1.3.	*Internal Mode/s Approach*	-	-	-
1.2.5.2.	***Types of equity exposures***	-	-	-
1.2.5.2.1.	*Exchange traded equity exposures*	-	-	-
1.2.5.2.2.	*Non-exchange traded equity exposures in sufficiently Diversified portfolios*	-	-	-
1.2.5.2.3.	*Other equity exposures*	-	-	-
1.2.5.2.4.	*Equity exposures to which a bank applied Standardized Approach to credit risk*	-	-	-
1.2.6.	***Exposures to other assets***	-	--	

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.2. CAPITAL ADEQUACY (continued)

2	CAPITAL REQUIREMENTS FOR SETTLEMENT/DELIVERY RISK ARISING FROM UNSETTLED TRANSACTIONS	-	-	-
3	CAPITAL REQUIREMENTS FOR MARKET RISKS	275.254	275.254	-
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardized approaches	275.254	275.254	
3.1.1.	*Capital requirements for price risk arising from debt securities*	*254.265*	*254.265*	
3.1.2.	*Capital requirements for price risk arising from equity securities*	*0*	*0*	
3.1.3.	*Capital requirements for foreign exchange risk*	*20.989*	*20.989*	
3.1.4.	*Capital requirements for commodity risk*			
3.2.	Capital requirements for price, foreign exchange and commodity risks calculated under the Internal Models Approach			
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	1.023.412	1.023.412	
4.1.	Capital requirements for operational risk calculated under the Basic Indicator Approach	1.023.412	1.023.412	
4.2.	Capital requirements for operational risk calculated under the Standardized Approach			
4.3.	Capital requirements for operational risk calculated under the Advanced Approach			
5	COVERAGE OF CAPITAL REQUIREMENTS	*10.744.865*	10.744.865	
III	CAPITAL ADEQUACY RATIO (%)	*16,27*		

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.3. BANKING GROUP

The banking group, consisting of Erste Bank and the subsidiary S-Leasing, prepares consolidated financial statements in accordance with International Financial Reporting Standards. The banking group also prepares consolidated reports for the purpose of control of a banking group on a consolidated basis in accordance with the NBS decision with the same name (Official Gazette of the Republic of Serbia No. 45/2011).

The subsidiary S-Leasing is consolidated using the full consolidation method.

What follows are breakdowns of the financial figures of the Banking Group:

- form PI-KAP (APPENDIX cons 1) - a detailed structure of the Bank's regulatory capital as of 31 December 2016 (with references to the statement of financial position line items presented in Schedule 3a hereunder);
- form PI-FIKAP (APPENDIX cons 2) - basic characteristic of the regulatory capital components;
- form PI-UPK (APPENDIX cons 3) - consists of 2 tables:

o Table k1 - comparative overview of the consolidated balance sheet drawn up for the purpose of control of the banking group on a consolidated basis and the balance sheet of the consolidated financial statements composed in accordance with International Accounting Standards and International Financial Reporting Standards.

o Table k2 - Balance Sheet of the banking group from the consolidated Financial Statements composed under IFRS and the positions disaggregated by reference to the possible link to capital positions of the report on capital drawn up on a consolidated basis in accordance with the decision governing the reporting of capital adequacy (APPENDIX cons 1).

- form PI-AKB (**Error! Reference source not found.**) - an overview of calculated consolidated capital requirements

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.3. BANKING GROUP (continued)

Appendix cons 1 – Form PI- KAP consolidated

Data on the consolidated capital position

(RSD thousand)

No.	ITEM	Amount	Reference to appendix 3
I	TOTAL CORE CAPITAL	13.771.360	
1.	CORE CAPITAL BEFORE DEDUCTABLES	15.860.336	
1.1.	Nominal value of paid-in shares, other than preferential	10.040.000	a
1.2.	Share premium	124.475	B
1.3.	Reserves from profit	5.614.904	V
1.4.	Prior year's retained earnings	-	G
1.5.	Current year's profit	-	D
1.6.	Non-controlling interest in subordinate entities	43.630	Đ
1.7.	Other positive consolidated reserves	37.328	E
2.	CORE CAPITAL DEDUCTIBLES	2.088.976	
2.1.	Prior year's losses	-	Ž
2.2.	Current year's loss	-	Z
2.3.	Intangible assets	281.395	I
2.4.	Acquired ow cumulative preferential shares	-	J
2.5.	Amount of shares received in pledge other than cumulative preferential shares	-	K
2.6.	Regulatory value adjustment:	1.807.581	
2.6.1	Unrealized losses on securities available for sale	2.313	L
2.6.2	Other net negative revaluation reserves	-	Lj
2.6.3	Gains on bank liabilities measured at fair value resulting from the change in the bank's credit assessment	-	M
2.6.4	Required reserve from profit for estimated losses on balance-sheet assets and off-balance sheet items of the bank	1.805.269	-
2.7.	Other negative consolidated reserves	-	N
II	TOTAL SUPPLEMENTARY CAPITAL	965.415	
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIBLES	965.415	
1.1.	Nominal value of paid-in cumulative preferential shares	-	Nj
1.2.	Share premium on the issue of cumulative preferential shares	-	O
1.3.	Part of revaluation reserves of the bank	259.859	P
1.4.	Hybrid capital instruments	-	R
1.5.	Subordinated liabilities	705.556	S
1.6.	Over allocation of impairment allowances, provisions and necessary reserves relative to expected losses	-	-
2.	SUPPLEMENTARY CAPITAL DEDUCTIBLE ITEMS	-	-
2.1.	Acquired own cumulative preferential shares		T
2.2.	Receivables in respect of balance-sheet assets and off-balance sheet items secured by a hybrid Instrument or a subordinated liability	-	-
2.3.	Amount of cumulative preferential shares received in pledge	-	Ć
2.4.	Amount of capital exceeding the limitation for supplementary capital	-	-
III	TOTAL CAPITAL	14.736.775	-
1.	TOTAL CAPITAL BEFORE DEDUCTIBLES	14.736.775	-
2.	DEDUCTIBLES FROM THE CAPITAL	-	-
	of which: deductions from core capital	-	-
	of which: deductions from supplementary capital	-	-
2.1.	Direct or indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entitles	-	(U+F+H)
2.2.	Investments in hybrid instruments and subordinated liabilities of other banks and financial sector entities in which the bank has direct or indirect investment that exceed 10% of the capital of such entities	-	-
2.3.	Total amount of direct and indirect investment in banks and other financial sector entities in the amount of up to 10% of their capital, as well as investment in their hybrid Instruments and subordinated liabilities that exceed 10% of the sum of core and supplementary capital of the bank for which the calculation of capital is made	-	-
2.4.	Amount exceeding qualified stake in non-financial sector entities	-	-
2.5.	Under allocation of impairment allowances, provisions and necessary reserves relative to expected losses	-	-
2.6.	Amount of exposure on free deliveries when the counterparty failed to fulfil its obligation within 4 working day	-	-
2.7.	Receivables and potential liabilities toward related parties or employees in the bank which the bank has negotiated under the terms that are more favourable than the terms negotiated with other parties	-	-
IV	NOTES	-	-
	Positive/negative difference between total impairment allowances of balance sheet assets, provisions for losses on off-balance sheet items and required reserves from profit, on the one hand, and the amount of total expected losses according to the IRB Approach, on the other	-	-
	Amount of impairment allowances, provisions and required reserves from the bank's profit	-	-
	of which: on a group basis	-	-
	of which: on an individual basis	-	-
	Expected loss amount according to IRB Approach	-	-
	Gross amount of subordinated liabilities	1.764.606	-

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.3. BANKING GROUP (continued)

Appendix cons 2 – Form PI-FIKAP consolidated

Data on the basic characteristics of the financial instruments included in the calculation of the Bank's consolidated capital

No	Instrument characteristics	Bank's share capital	Subordinated loan approved by Erste Group Bank AG, Vienna	Minority share in subsidiary S-leasing
1.	Issuer	Erste Bank a.d. Novi Sad	Erste Bank a.d. Novi Sad	S-Leasing d.o.o. Beograd
2.	**Regulatory treatment**			
2.1.	Treatment under the Decision on Capital Adequacy individual/group/individual and group level	Core capital instrument	Supplementary capital instrument	Core capital instrument
2.2.	0 inclusion of the instrument in the capital at the group level	Individual and group	Individual and group	Group
2.3.	Instrument type	Ordinary shares	Subordinated debt issues as a financial instrument	Non-controlling interest
3.	**Amount recognized for the purpose of calculating capital (in RSD '000 as of the last reporting date)**	For regulatory capital calculation RSD 10,164,475 thousand is recognized (nominal amount of shares paid increased by the share premium of RSD 124,475 Thousand).	RSD 705.556 thousand included in the supplementary capital; the amount obtained using appropriate weights to reduce liabilities in the past five years before maturity (cumulative by 20% annually) under the Decision on Capital Adequacy.	Recognized non-controlling interest – minority equity interest (25%) in the amount of RSD 43,630 thousand (including a portion of the core capital, prior years' retained earnings and decrease per current year's losses).
4.	**instrument's nominal value**	RSD 10,040,000 thousand	EUR 15.000.000	Total capital paid in amounts to RSD 67,500 thousand, of which 25% refers to the non-controlling interest.
5.	**Accounting classification**	Share capital	Liability - amortized cost	Non-controlling interest
6.	**Initial date of instrument issuance**	August 2005 (date of acquisition of Novosadska banka a.d. by members of Erste Group)	December 27, 2011	January 15, 2014. (date of acquisition of the majority interest by Erste Banka a.d Novi Sad in S-Leasing)
7.	**Instrument with or without maturity date**	Without maturity date	With maturity date	Without maturity date
7.1.	**Original maturity date**	No maturity date	December 27, 2021	No maturity date
8.	**Call option of the issuer**	NO	NO	NO
8.1.	The first date of activation of early redemption rights	-	-	-
8.2.	Subsequent dates activation of early redemption rights (if applicable)	-	-	-
9.	***Coupons/Dividends***		Interest on subordinated loan	
9.1.	Fixed or variable	Variable	Variable	Variable
9.2.	Full, partial or no discretion regarding the time of payment of dividends/coupons	Full discretion	No discretion	Full discretion
9.3.	Full, partial or no discretion regarding the amount of dividends/coupons Full	Full discretion	No discretion	Full discretion
9.4.	Step-up option	NO	NO	NE
9.5.	Non-cumulative or cumulative dividends/coupons	Non-convertible	Non-convertible	Non-convertible
10.	**Convertible or non-convertible instrument**	Non-convertible	Non-convertible	Non-convertible
10.1	If it is convertible, the conditions under which it may be converted	-	-	-
10.2	If it is convertible, partially or fully convertible	-	-	-
10.3	If it is convertible, conversion rate	-	-	-
10.4	If it is convertible, compulsory or voluntary conversions	-	-	-
10.5	If it is convertible, instrument to which is converted	-	-	-
10.6	If it is convertible, the issuer of the instrument that converts			
11.	**Write-off option**	NO	NO	NO
11.1	If there is possibility of a write-off, the conditions under which may be written-off	-	-	-
11.2	If there is possibility of a write-off, partially or fully convertible	-	-	-
11.3	If there is possibility of a write-off, temporary or permanent write-off	-	-	-
11.4	If there is possibility of a write-off, conditions of re-recognition	-	-	-
12.	**Type of instrument which will be paid off directly before the said instrument during bankruptcy and/or liquidation**	Non-controlling interest	Other	Subordinated debt issues as a financial instrument

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.3. BANKING GROUP (continued)

Appendix 3 - Form PI-UPK consolidated

TABELA K1. comparative overview of the consolidated balance sheet drawn up for the purpose of control of the banking group on a consolidated basis and the balance sheet of the consolidated financial statements composed in accordance with IAS/IFRS

(RSD thousand)

Item designation	ITEM	Balance Sheet of as in the published financial statements	Balance sheet by regulatory method and scope of consolidation
A	**ASSETS**		
A.I	Cash and assets with the central bank	19.246.670	19.246.670
A.II	Pledged financial assets		
A.III	Financial assets recognized at fair value through income statement and held for trading	13.048.357	13.048.357
A.IV	Financial assets initially recognized at fair value through income statement		
A.V	Financial assets available for sale	7.182.702	7.182.702
A.VI	Financial assets held to maturity	8.635.103	8.635.103
A.VII	Loans and receivables from banks and other financial organizations	1.209.725	1.209.725
A.VIII	Loans and receivables from clients	96.463.262	96.463.262
A.IX	Changes in fair value of hedged items		
A.X	Receivables arising from financial derivatives intended for hedging		
A.XI	Investments in associates and joint ventures	118	118
A.XII	Investments in subsidiaries		
A.XIII	Intangible assets	281.395	281.395
A.XIV	Property, plant and equipment	817.267	817.267
A.XV	Investment property	232.417	232.417
A.XVI	Current tax assets	6.513	6.513
A.XVII	Deferred tax assets	61.745	61.745
A.XVIII	Non-current assets held for sale and discontinued operations	56.695	56.695
A.XIX	Other assets	864.863	864.863
A.XX	**TOTAL ASSETS (ADP items from 0001 to 0019 in the balance sheet)**	148.106.832	148.106.832
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Financial liabilities recognized at fair value through income statement and held for trading	54.690	54.690
PO.II	Financial liabilities initially recognized at fair value through income statement		
PO.III	Liabilities arising from financial derivatives intended for hedging		
PO.IV	Deposits and other liabilities to banks, other financial organizations and central bank	41.815.700	41.815.700
PO.V	Deposits and other liabilities to other clients	84.903.330	84.903.330
PO.VI	Changes in fair value of hedged items		
PO.VII	Own securities issued and other borrowings		
PO.VIII	Subordinated liabilities	1.764.606	1.764.606
PO.IX	Provisions	690.714	690.714
PO.X	Liabilities under assets held for sale and discontinued operations		
PO.XI	Current tax liabilities	1.090	1.090
PO.XII	Deferred tax liabilities		
PO.XIII	Other liabilities	622.694	622.694
PO.XIV	**TOTAL LIABILITIES (ADP items from 0401 to 0413 in the balance sheet)**	129.852.823	129.852.823
	CAPITAL		
PO.XV	Share capital	10.164.475	10.164.475
PO.XVI	Own shares		
PO.XVII	Profit	2.135.770	2.135.770
PO.XVIII	Loss		
PO.XIX	Reserves	5.898.872	5.898.872
PO.XX	Unrealized losses	54.892	54.892
PO.XXI	Non-controlling interests		
PO.XXII	TOTAL CAPITAL (result of adding up and/or subtracting the following ADP items from the balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	18.254.009	18.254.009
PO.XXIII	TOTAL CAPITAL SHORTFALL(result of adding up and/or subtracting the following ADP items from the balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0		
PO.XXIV	TOTAL LIABILITIES AND EQUITY (result of adding up and/or subtracting the following ADP items from the balance sheet: 0414 + 0422 - 0423)	148.106.832	148.106.832
В.П.	**OFF-BALANCE SHEET ITEMS**		
В.П.А.	Off-balance sheet assets	187.952.320	187.952.320
В.П.П.	Off-balance sheet liabilities	187.952.320	187.952.320

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.3. BANKING GROUP (continued)

Appendix 3 - Form PI-UPK consolidated continued)

TABLE K2. Breakdown of elements in the balance sheet on a consolidated basis with reference to the position of regulatory capital Banking Group **(RSD thousand)**

Item designation	ITEM	Balance Sheet	Reference
A	AKTIVA		
A.I	Cash and assets with the central bank	19.246.670	
A.II	Pledged financial assets	-	
A.III	Financial assets recognized at fair value through income statement and held for trading	13.048.357	
A.IV	Financial assets initially recognized at fair value through income statement		
A.V	Financial assets available for sale	7.182.702	
A.VI	Financial assets held to maturity	8.635.103	
A.VII	Loans and receivables from banks and other financial organizations	1.209.725	
A.VIII	Loans and receivables from clients	96.463.262	
A.IX	Changes in fair value of hedged items	-	
A.X	Receivables arising from financial derivatives intended for hedging	-	
A.XI	Investments in associates and joint ventures	118	
	Of which direct or indirect investments in banks and other FIS entities	-	U
A.XII	Investments in subsidiaries	-	
	Of which direct or indirect investments in banks and other FIS entities	-	F
A.XIII	Intangible assets	281.395	I
A.XIV	Property, plant and equipment	817.267	
A.XV	Investment property	232.417	
A.XVI	Current tax assets	6.513	
A.XVII	Deferred tax assets	61.745	
A.XVIII	Non-current assets held for sale and discontinued operations	56.695	
A.XIX	Other assets	864.863	
	Of which direct or indirect investments in banks and other FIS entities in excess of 10% of their equity	-	H
A.XX	**TOTAL ASSETS (ADP items from 0001 to 0019 in the balance sheet)**	148.106.832	
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Financial liabilities recognized at fair value through income statement and held for trading	54.690	
PO.II	Financial liabilities initially recognized at fair value through income statement	-	
PO.III	Liabilities arising from financial derivatives intended for hedging	-	
PO.IV	Deposits and other liabilities to banks, other financial organizations and central bank	41.815.700	
PO.V	Deposits and other liabilities to other clients	84.903.330	
PO.VI	Changes in fair value of hedged items	-	
PO.VII	Own securities issued and other borrowings	-	
	Of which liabilities per hybrid instruments	-	R
PO.VIII	Subordinated liabilities	1.764.606	
	Of which subordinated liabilities included in the supplementary capital of the Bank	705.556	S
PO.IX	Provisions	690.714	
PO.X	Liabilities under assets held for sale and discontinued operations	-	
PO.XI	Current tax liabilities	1.090	
PO.XII	Deferred tax liabilities	-	
PO.XIII	Other liabilities	622.694	
PO.XIV	**TOTAL LIABILITIES (ADP items from 0401 to 0413 in the balance sheet)**	129.852.823	
	CAPITAL		

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.3. BANKING GROUP (continued)

Item designation	ITEM	Balance Sheet	Reference
PO.XV	Share capital	**10.164.475**	
	Of which nominal value of shares paid in, except for preferential cumulative shares	10.040.000	A
	Of which share premium per share capital, except for preferential cumulative shares	124.475	B
	Of which nominal value of preferential cumulative shares	-	Nj
	Of which share premium per preferential cumulative shares	-	O
PO.XVI	Own shares	-	
	Of which acquired own shares, except for preferential cumulative shares	-	J
	Of which acquired own preferential cumulative shares	-	T
PO.XVII	Profit	**2.098.441**	
	Of which prior years' retained earnings	-	G
	Of which current year's profit	2.098.441	
	Of which current year's profit decided by the Assembly to be allocated to the core capital	-	D
PO.XVIII	Loss	-	
	Of which prior years' accumulated losses	-	Ž
	Of which current year's loss	-	Z
PO.XIX	Reserves	**5.936.201**	
	Of which reserves from profit as element of the core capital	5.614.904	V
	Of which other positive consolidated reserves	37.328	E
	Of which other negative consolidated reserves	-	Lj
	Of which other negative revaluation reserves, net	-	M
	Of which profit per liabilities measured at fair value realized due to changes in the Bank's credit rating	259.859	P
	Of which unrealized losses on securities available for sale	2.313	L
	Of which actuarial gains	26.076	
	Of which tax liabilities	347	
PO.XX	Unrealized losses	-	
PO.XXI	Non-controlling interests	54.892	
	Of which non-controlling interests in subordinate entities	43.630	Đ
	Of which non-controlling interests relating to the profit for the year	11.262	
PO.XXII	**TOTAL CAPITAL (result of adding up and/or subtracting the following ADP items from the balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0**	18.254.009	
PO.XXIII	**TOTAL CAPITAL SHORTFALL(result of adding up and/or subtracting the following ADP items from the balance sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0**	-	
PO.XXIV	**TOTAL LIABILITIES AND EQUITY (result of adding up and/or subtracting the following ADP items from the balance sheet: 0414 + 0422 - 0423)**	**148.106.832**	
В.П.	**OFF-BALANCE SHEET ITEMS**	**-**	
В.П.А.	Off-balance sheet assets	187.952.320	
	Of which shares of banks received as pledges, except for preferential cumulative shares	-	K
	Of which preferential cumulative shares received as pledges	-	Ć
В.П.П.	Off-balance sheet liabilities	187.952.320	

4. DISCLOSURE OF DATA AND INFORMATION ON EQUITY ACCORDING TO BASEL II PILLAR 3 FOR THEYEAR ENDED DECEMBER 31, 2016 (continued)

4.3. BANKING GROUP (continued)

Appendix cons 4 - Form PI-AKB consolidated

Data on overall capital requirements and capital adequacy ratio on a consolidated basis

(RSD thousand)

No.	ITEM	Amount 1	Coverage by core capital 2	Coverage by supplementary capital 3
I	CAPITAL	,		
1.	TOTAL CORE CAPITAL	13.771.360		
2.	TOTAL SUPPLEMENTARY CAPITAL	965.415		
II	CAPITAL REQUIREMENTS	11.373.900		
1.	CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK IN CASE OF FREE DELIVERIES	10.030.169	10.030.169	
1.1.	Standardized approach (SA)	83.584.744		
1.1.1.	***Exposures to central governments and central banks***			
1.1.2.	***Exposures to territorial autonomies and local self-government units***	*1.216.196*		
1.1.3.	***Exposures to public administrative bodies***	*41.181*		
1.1.4.	***Exposures to multilateral development banks***			
1.1.5.	***Exposures to international organizations***			
1.1.6.	***Exposures to banks***	*947.004*		
1.1.7.	***Exposures to corporates***	*55.301.129*		
1.1.8.	***Retail exposures***	*17.579.985*		
1.1.9.	***Exposures secured by real estate collateral***	*6.575.716*		
1.1.10.	***Past due items***	*311.671*		
1.1.11.	***High-risk exposures***			
1.1.12.	***Exposures in the form of covered bonds***			
1.1.13.	***Exposures in the form of open-end investment funds***			
1.1.14.	***Other exposures***	*1.611.861*		
1.2.	Internal Ratings Based Approach (IRB)			
1.2.1.	***Exposures to central governments and central banks***			
1.2.2.	***Exposures to banks***			
1.2.3.	***Exposures to corporates***			
1.2.4.	***Retail exposures***			
1.2.4.1.	*Retail exposures secured by real estate collateral*			
1.2.4.2.	*Qualifying revolving retail exposures*			
1.2.4.3.	*Other retail exposures*			
1.2.5.	***Equity exposures***			
1.2.5.1.	***Approach applied:***			
1.2.5.1.1.	*Simple Risk Weight Approach*			
1.2.5.1.2.	*PD/L GD Approach*			
1.2.5.1.3.	*Internal Mode/s Approach*			
1.2.5.2.	***Types of equity exposures***			
1.2.5.2.1.	*Exchange traded equity exposures*			
1.2.5.2.2.	*Non-exchange traded equity exposures in sufficiently Diversified portfolios*			
1.2.5.2.3.	*Other equity exposures*			
1.2.5.2.4.	*Equity exposures to which a bank appliedStandardized Approach to credit risk*			
1.2.6.	***Exposures to other assets***			
2	CAPITAL REQUIREMENTS FOR SETTLEMENT/DELIVERY RISK ARISING FROM UNSETTLED TRANSACTIONS			
3	CAPITAL REQUIREMENTS FOR MARKET RISKS	307.231	307.231	
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardized approaches	307.231	307.231	
3.1.1.	***Capital requirements for price risk arising from debt securities***	*254.265*	*254.265*	
3.1.2.	***Capital requirements for price risk arising from equity securities***			
3.1.3.	***Capital requirements for foreign exchange risk***	*52.966*	*52.966*	
3.1.4.	***Capital requirements for commodity risk***			
3.2.	Capital requirements for price, foreign exchange and commodity risks calculated under the Internal Models Approach			
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	1.036.500	1.036.500	
4.1.	Capital requirements for operational risk calculated under the Basic Indicator Approach	1.036.500	1.036.500	
4.2.	Capital requirements for operational risk calculated under the Standardized Approach			
4.3.	Capital requirements for operational risk calculated under the Advanced Approach			
5	COVERAGE OF CAPITAL REQUIREMENTS	*11.373.900*	11.373.900	
III	CAPITAL ADEQUACY RATIO (%)	*15,55*		

5. ALL SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The Bank has in February 2017 sold the investment property TC Point in Kaluđerica for EUR 1,700,000 (EUR 1,765,000 carrying value).

In addition, there were no other events after the balance sheet date which would require adjustments or disclosure in the financial statements for the year ended 31 December 2016.

6. ANTICIPATED DEVELOPMENTS IN THE FORTHCOMING PERIOD

Erste Group is committed to becoming a leading banking group providing services to individuals and legal entities in the Central and Eastern Europe. This goal is being achieved through the following three priorities set by the management of Erste Group Holding: vital orientation to the customers, data quality and clear Group management.

In the Retail segment, The Bank has been developing a long-term collaboration with the customers by means of an ongoing improvements to the products and services, powerful presence in the domestic market through its network of branches and alternative distribution channels, with a focus on fulfilling the needs and achieving greater customer satisfaction along with realization of profit and intention to remain among 5 top banks within the retail operations segment in order to become the first-choice bank.

In terms of operations with corporate clients, the Bank intends to continue to be a reliable and long-lasting partner with its clients, which can be achieved with high quality and diversification of financial services and professional attitude towards customers in this segment, which will lead to achieving the highest possible profitability with lower risk.

The Bank continuously, through the Risk Management Strategy, but also other business strategies, defines the target the risk exposure profile and portfolio structure with the primary purpose of the sustainability of operations in the long run, compliance with local regulatory requirements and compliance with the standards of Erste Group.

The success of the Bank largely depends on the trust that our customers, shareholders, our employees and the public have in the capacity and integrity of the work of the Bank and the Erste Group. This confidence is based on compliance of operations with all applicable legal, regulatory and internal regulations, as well as the standards of Erste Group but also on respect for marketing standards and rules of conduct in all business activities of the Bank.

The bank takes care of the professional training and development of their employees, especially those who perform tasks of identifying, measuring and monitoring risk, taking into account the extent, type and risk exposure operations performed by the Bank, and the Bank's risk profile.

The Erste Bank ad Novi Sad will continue to provide comprehensive support to the population and the economy of Serbia in the realization of their financial needs and goals. Business Principles which include a focus on continuous improvement of client service and constant improvement of internal organization and efficiency, and in the future will form the basis of the Bank.

Irrespective of the customer segment, mission, vision and values of the Bank are completely uniform in its work is managed by:

6. ANTICIPATED DEVELOPMENTS IN THE FORTHCOMING PERIOD (continued)

The Banks mission:

Building long-term partnerships, we are "the Bank of first choice 'for our customers and employees.

We create sustainable value for our customers, employees and shareholders by providing universal financial services. Together, we actively contribute to the development of local communities and society as a whole which makes our business sustainable.

The Bank's Vision:

Leading bank of the European Serbia

Our values:

RESPONSIBILITY
– We assume responsibility for the development of the Bank and ourselves.

SUPPORT
– We listen, we understand, we help.

TRUST
– We keep our promises and build good quality relationships.

INNOVATIVENESS
– We encourage novelty and constantly upgrade and improve the existing.

CREATION E
– We create value for our clients, shareholders and ourselves.

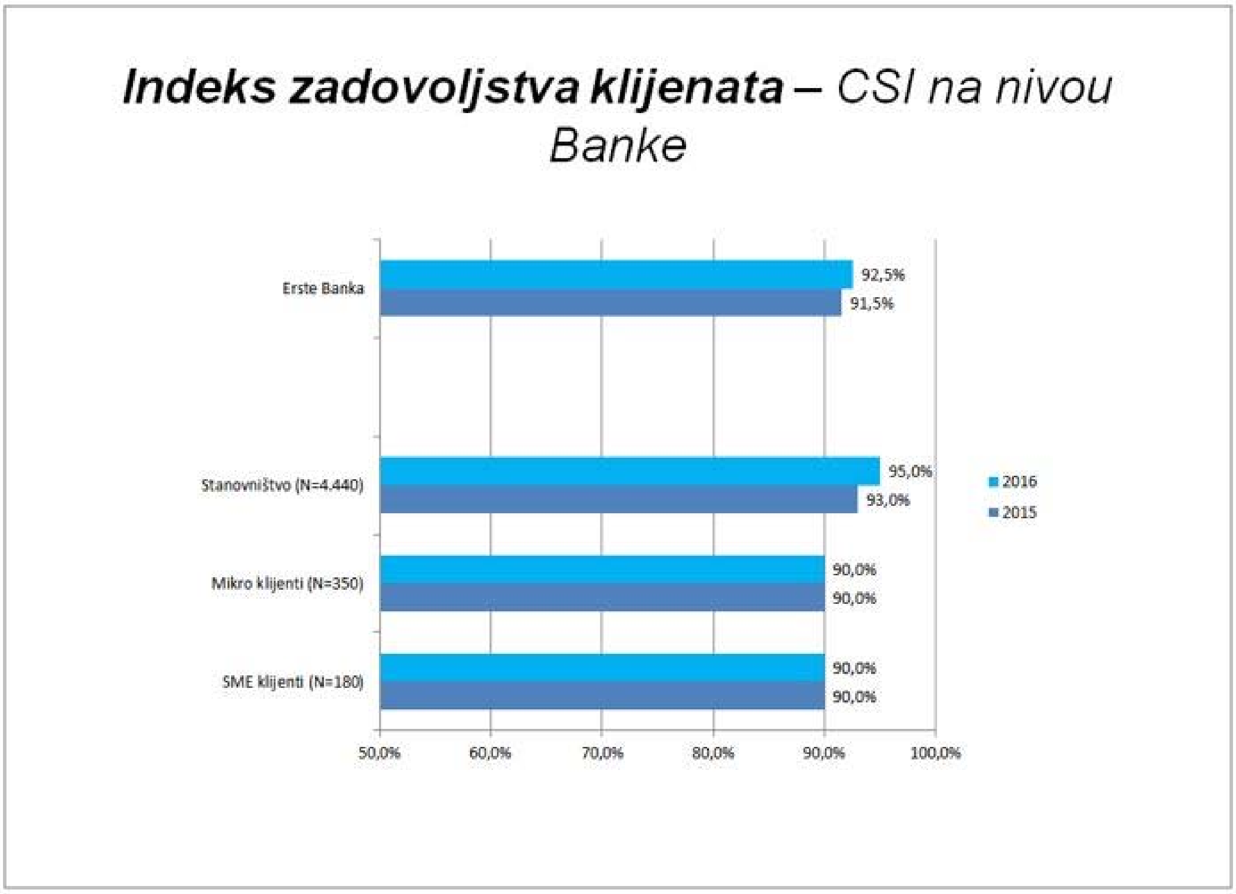
The Strategy is thoroughly and precisely implemented by means of the Action Plan, annual budgets, crediting policies, rulebooks on tariffs and pricelists and other Bank's documents.

7. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2016

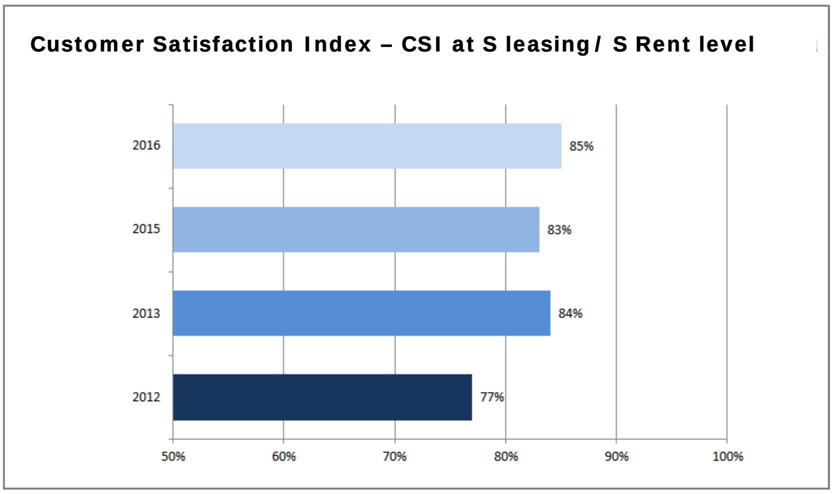
Research and development activities are presented in this report at the level of the Bank as the parent entity and leader of the Group.

During 2016 the Bank regularly conducted qualitative and quantitative research on the quality of services rendered by the Bank and the separate business units of the Bank and analysed the results obtained. The Bank hired an independent market research agency to perform measurement and assessment of the customer satisfaction level and loyalty as well as of the quality of the processes within the Bank. According to the "**Customer Satisfaction Survey" (CSS),** the Bank's clients showed exceptionally high loyalty and satisfaction levels in respect of cooperation with the Bank. The customer satisfaction index (**CSI**) equalled **92.5%** for the Bank in 2016. This result includes assessments of customers from all operating segments of the Bank per more than 40 features (professional competence, professionalism and courtesy of the staff, location and tidiness of branch offices, working hours, products, prices, transparency, speed and efficiency in performing transactions, contact centre, availability, etc.).

7. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2016 (continued)



7. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2016 (continued)



The Bank responsibly provides systemic support to its customers through an advanced system of complaint management and resolution at the Bank level, for which top priorities are the speed and quality of complaint/grievance resolution. In 2015 as well the Bank stood out against its competitors for the speed of handling customer complaints and grievances and for the strict compliance with the National Bank of Serbia's Law on the Protection of Financial Service Consumers. Based on the analysis and measurements conducted during 2016, 94.40% of the customer's complaints were resolved within 7 days. The Bank's goal is to continuously improve the quality of customer relation services by which the Bank has been recognized as the leader in the banking market of Serbia.

7. RESEARCH AND DEVELOPMENT ACTIVITIES IN 2016 (continued)

SPEED OF RESOLVING CUSTOMER GREIVANCES AND COMPLAINTS TO THE SERVCES RENDERED AT THE BANK LEVEL IN THE PERIOD FROM 01.01. TO 31.12.2016.				
Within 24h	Within 7 dana	Within 30 dana	Over 30 dana	Total
82,35%	12,05%	5,03%	0,57%	100%

Note: S-Leasing / S-Rent did not register any written complaint in 2016.

With the continuous study of needs and expectations of customers, within its organization, the Bank systematically measures and improve customer satisfaction and uses it as a permanent tool for improving the quality of internal processes and service.

8. RISK EXPOSURE

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

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

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

The Bank/Group adequately identifies risks it is exposed to and, in accordance with the identification, manages those risks in an attempt to avoid the risks or reduce them to acceptable levels.

In 2016 the Bank/Group successfully performed risk management activities, which was primarily reflected in the reduced impairment allowance charge, in the compliance of the operations with the defined risk management policies and procedures and their ongoing improvement, in the constant focus of the Management and Executive Board on high-quality risk management, the use of cutting edge technology in the Bank's/Group's operations and its regular upgrade and the culture of risk management adopted by all the employees of the Bank/Group.

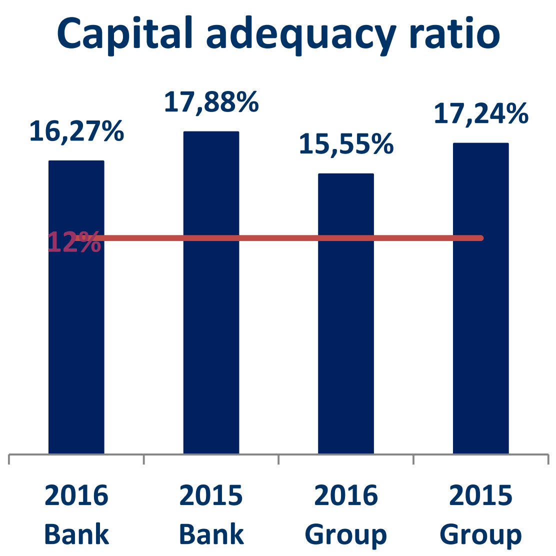
8. RISK EXPOSURE (continued)

Estimates of the material significance of the risks the Bank may be exposed to in 2016 and 2017 identified the following risks as material:

- Credit risk;
- Banking book market risk;
- Trading book market risk;
- Banking book foreign exchange risk;
- Credit—foreign exchange risk;
- Operational risk;
- Liquidity risk;
- Concentration risk;
- Residual risk;
- Reputation risk;
- Macroeconomic risk; and
- Strategic/business risk.

Bank / Group conducts a quarterly assessment of internal capital adequacy in accordance with the relevant methodologies and standards in the calculation of capital requirements for materially significant risks and internal capital of the Bank / Group, is available to absorb these risks.

8. RISK EXPOSURE (continued)



In addition, based on NBS Decision on Capital Adequacy the Bank/Group calculates capital requirements and capital when computing the capital adequacy ratio. Regarding the aforesaid, the capital requirements for credit risk, counterparty risk and settlement/delivery risk is calculated using the standard approach, while the capital requirements for price risk and operational risk are determined using the current maturity exposure and basic indicator approaches, respectively.

Capital adequacy ratio was calculated by the Group as the net capital (less the shortfall special reserve for estimated losses) relative to the net risk-weighted assets as of December 31, 2016. The Bank/Group is obligated to maintain the minimum capital adequacy ratio of 12% as prescribed by the National Bank of Serbia. As of December 31, 2015 the Bank's capital adequacy ratio equalled 16.27%. On the consolidated level the capital adequacy ratio equalled 15.55% as of December 31, 2016.

Liquidity of the Bank / Group is monitored and controlled by providing continuing capacity of the Bank / Group to provide liquid funds for payment of deposits to clients, financing the growth of assets and operating business as well as for the settlement of other contractual obligations. The Bank has, during 2016, had an indicator of daily liquidity above the statutory level.

Bank / Group manages its assets and liabilities in a way that ensures that at all times it fulfil all its obligations, as well as its customers access of their assets in the Bank / the Group in accordance with the agreed deadlines.

8. RISK EXPOSURE (continued)

Management of the risk of changes in interest rates, the Bank / Group aims to optimization of these impacts in terms of the impact on net interest income on the one hand, and economic value of equity, on the other hand. The Asset and Liability Management manages maturities matching of assets and liabilities based on: a guideline The Erste Group-e AG, macroeconomic analysis and forecasting, forecasting conditions for achieving liquidity, analysis and forecasting of trends in market interest rates for different segments of assets and liabilities.

Foreign exchange position of the Bank / Group as a risk that there will be a change in the value of financial instruments and adverse effects on the financial result and equity of the Bank / Group due to changes in exchange rates, was for the course of 2016 below the maximum prescribed level of open foreign currency positions. The foreign currency risk as at 31 December 2016 amounted to 1.2% of Bank capital, which is significantly below the prescribed maximum of 20% of the capital. Foreign exchange risk on a consolidated basis as at 31 December 2016 amounted to 3.00% of Group capital.

The Bank's/Group's performance and adequacy indicators - compliance with the legally prescribed ratios

The Bank is required to maintain the scope and structure of its business operations and risk-weighted assets in compliance with the ratios prescribed by the Law on Banks and relevant decisions enacted by the National Bank of Serbia based on the aforesaid Law. During 2016 the Bank and the Group were in full compliance with the prescribed values.

Performance/adequacy indicators	Prescribed	Achieved by the Group	Achieved by the Bank
1. Capital in EUR	Minimum EUR 10 million	119.352.882	117.960.116
2. Capital adequacy ratio	Minimum 12%	15,55%	16,27%
3. The sum of Group's/Bank's investments	Maximum 60%	7,44%	7,49%
4. Exposure to the entities related to the Group/Bank	No limit	15,22	14,47
5. The sum of all large and most significant exposures relative to own assets	Maximum 400%	111,69%	110,54%
6. Liquidity:			
- liquidity ratio	Minimum 0,8	1,4	1,4
- narrow liquidity ratio	Minimum 0,6	1,34	1,34
7. Foreign exchange risk ratio	Maximum 20%	3,00%	1,2%
8. Exposures of the Group / Bank to groups of related entities	Maximum 25%	15,49%	15,41%
9. Exposures Group / to an entity related to the group / bank	No limit	6,17	6,17
10. Investment of the Group / Bank in non-financial sector	Maximum 10%	0,18%	0,19%

8. EXPOSURE TO RISKS (continued)

The Bank's/Group's performance indicators - compliance with the legally prescribed ratios

The Bank is required to maintain the scope and structure of its business operations and risk-weighted assets in compliance with the ratios prescribed by the Law on Banks and relevant decisions enacted by the National Bank of Serbia based on aforesaid Law. During 2016, Bank and Group were in full compliance with the prescribed ratios.

Performance indicators	Prescribed	Achieved by the Group	Achieved by the Bank
1. Capital in EUR	Minimum EUR 10 milion	119,352,882	117,960,116
2. Capital adequacy ratio	Minimum 12%	15.55%	16.27%
3. Sum of Bank's investments	Maximum 60%	7.44%	7.49%
4. Exposure to entities related to the Group/Bank	No limit	15.22	14.47
5. Big and the biggest possible loans in relation capital	Maximum 400%	111.69%	110.54%
6. Liquidity:			
- Liquidity indicator	Minimum 0.8	1.4	1.4
- Narrow liquidity indicator	Minimum 0.6	1.34	1.34
7. Foreign exchange risk indicator	Maximum 20%	3.00%	1.2%
8. Exposures of Group/Bank to a group of related entities	Maximum 25%	15.49%	15.41%
9. Exposure of Group/Bank to an entity related to Group/Bank	No limit	6.17	6.17
10. Investments of Group/Bank in non financial sector	Maximum 10%	0.18%	0.19%

9. ALL SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

In its regular course of business the Group performs transactions with its shareholders and other related parties. The Bank/Group enters into transactions with its parent entity - the majority shareholder, Erste Group Bank AG, other shareholder and other members of Erste Group. As of December 31, 2016, the sum of Bank's net exposure to related entities amounts to 15.22% of Bank's capital. Sum of Group's net exposure amounts to 14.47%.

The Bank/Group did not grant terms to its related parties that are any more favorable than those granted to parties that are not related to Bank/Group, in accordance with Article 37, Law on Banks.

Novi Sad, March 15, 2017

Approved by Management of Erste Bank a.d Novi Sad

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