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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS OF

BANCA INTESA A.D. BEOGRAD

Report on separate financial statements

We have audited the accompanying separate financial statements of Banca Intesa a.d. Beograd ("the Bank"), which comprise the separate balance sheet as at 31 December 2016, the separate income statement, separate statement of other comprehensive income, separate statement of changes in equity and separate cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia, the Decision on External Audit of Banks and applicable audit standards 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 financial statements are free from material misstatement.

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

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

KPMG d.o.o. Beograd, a Serbian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Matični broj:17148656
PIB: 100058593
Račun: 265-1100310000190-61

Opinion

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

Report on Other Legal and Regulatory Requirements

In accordance with the Law on Accounting of the Republic of Serbia, the Bank is responsible for the preparation of the accompanying separate annual business report. Our responsibility is to express an opinion on consistency of the separate annual business report with the separate financial statements for the year ended 31 December 2016. In this regard, we performed procedures in accordance with the applicable audit standard - *The Auditor's responsibilities relating to other information in documents containing audited financial statements*, which are limited to the assessment of consistency of the annual business report with the financial statements.

In our opinion, the separate annual business report is consistent with the separate financial statements.

Belgrade, 14 February 2017 KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

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Belgrade, 14 February 2017 KPMG d.o.o. Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD

(L.S.)

Dušan Tomić
Certified Auditor

SEPARATE BALANCE SHEET as of 31 December 2016

in thousand RSD	Note	31 December 2016	31 December 2015
Assets			
Cash and balances with Central Bank	16, 2.10	102,370,900	98,939,321
Financial assets at fair value through profit and loss held for trading	17, 2.7	1,984,720	1,431,783
Financial assets initially carried at fair value through profit and loss	17, 2.7	46,068	70,974
Financial assets available for sale	17, 2.7	120,358,790	78,048,825
Loans and receivables from banks and other financial organizations	18, 2.7	37,591,812	36,168,380
Loans and receivables from customers	18, 2.7	271,749,929	257,848,609
Investments in subsidiaries	17, 2.11	962,496	962,496
Intangible assets	19, 2.12	1,347,422	818,694
Property, plants and equipment	20, 2.13	7,398,719	8,718,461
Investment property	20, 2.13	174,147	224,358
Current tax assets	14, 2.20	-	79,396
Deferred tax assets	14, 2.20	237,493	220,561
Non-current assets held for sale and discontinued operations	20, 2.13	1,697,057	256,254
Other assets	21	5,496,219	4,011,057
TOTAL ASSETS		**551,415,772**	**487,799,169**
LIABILITIES			
Financial liabilities at fair value through profit and loss held for trading	22, 2.7	2,594	74,358
Deposits and other liabilities due to banks, other financial organizations and central bank	23, 2.7	34,055,459	31,095,062
Deposits and other liabilities due to customers	23, 2.7	383,452,558	331,331,668
Provisions	24, 2.17	1,753,517	1,729,001
Current tax liabilities	14, 2.20	55,668	679,444
Other liabilities	25	7,955,164	8,291,692
TOTAL LIABILITIES		**427,274,960**	**373,201,225**
EQUITY			
Share capital	26, 2.18	41,759,627	41,759,627
Profit	26, 2.18	34,484,276	24,559,933
Reserves	26, 2.18	47,896,909	48,278,384
TOTAL EQUITY		**124,140,812**	**114,597,944**
TOTAL LIABILITIES AND EQUITY		**551,415,772**	**487,799,169**

Belgrade, 10 February 2017

Rada Radović Head of Accounting Department	Dragica Mihajlović Chief Financial Officer	Draginja Đurić President of the Executive Board

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SEPARATE INCOME STATEMENT for the period from 1 January to 31 December 2016

in thousand RSD	Note	2016	2015
Interest income	3, 2.4	22,618,727	25,419,472
Interest expenses	3, 2.4	(3,704,345)	(5,209,044)
Net interest income		**18,914,382**	**20,210,428**
Fee and commission income	4, 2.5	9,350,652	8,556,828
Fee and commission expenses	4, 2.5	(3,722,472)	(3,113,026)
Net fee and commission income		**5,628,180**	**5,443,802**
Net profit on financial assets held for trading	5, 2.7	671,814	213,419
Net profit/(loss) on financial assets initially carried at fair value through profit and loss	6, 2.7	(8,642)	23,176
Net loss on financial assets available for sale	7, 2.7	(5,626)	(991)
Net profit on foreign exchange differences and foreign currency clause	8, 2.6	2,656,599	3,778,711
Other operating income	9	1,200,820	1,321,130
Impairment losses from financial assets and credit risk off-balance sheet items	10, 2.7	(4,381,721)	(7,778,192)
Net operating income		**24,675,806**	**23,211,483**
Salaries, wages and other personal expenses	11, 2.19	(5,738,671)	(5,464,282)
Depreciation expenses	12, 2.12, 2.13	(901,852)	(912,862)
Other expenses	13	(7,253,887)	(7,151,711)
Profit before income tax		**10,781,396**	**9,682,628**
Income tax		(857,053)	(1,098,049)
Profit after tax	14, 2.20	**9,924,343**	**8,584,579**
Basic earnings per share (in RSD)	15	46,558	40,273

Belgrade, 10 February 2017

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	Chief Financial Officer	President of the Executive Board

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SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME from 1 January to 31 December 2016

RSD thousand	**2016**	**2015**
Profit for the period	**9,924,343**	**8,584,579**
Components of comprehensive income that cannot be reclassified to profit or loss:		
Decrease of revaluation reserve on the valuation of intangible assets and tangible assets	-	(559,126)
The positive/(negative) effects of changes of financial assets available for sale	(381,475)	803,960
Components of comprehensive income that may be reclassified to profit or loss:		
Total positive/(negative) comprehensive income for the period	(381,475)	244,834
Total positive result for the period	**9,542,868**	**8,829,413**

Belgrade, 10 February 2017

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	Chief Financial Officer	President of the Executive Board

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SEPARATE STATEMENT OF CHANGES IN EQUITY for the period from 1 January to 31 December 2016

RSD thousand	**Shares capital and other capital**	**Share premium**	**Reserves from profit and other reserves**	**Revaluation reserves**	**Profit**	**Total equity**
Balance as of 1 January 2015	21,327,058	20,432,569	47,484,121	549,429	15,416,228	105,209,405
Positive effects of changes in fair value of financial assets available for sale	-	-	-	803,960	-	803,960
Decrease in revaluation reserves based on intangible assets and fixed assets	-	-	-	(559,126)	559,126	-
Current year profit	-	-	-	-	8,584,579	8,584,579
Balance as of 31 December 2015	21,327,058	20,432,569	47,484,121	794,263	24,559,933	114,597,944
Balance as of 1 January 2016	21,327,058	20,432,569	47,484,121	794,263	24,559,933	114,597,944
Unrealized losses of financial assets available for sale	-	-	-	(381,475)	-	(381,475)
Current year profit	-	-	-	-	9,924,343	9,924,343
Balance as of 31 December 2016	21,327,058	20,432,569	47,484,121	412,788	34,484,276	124,140,812

Belgrade, 10 February 2017

Rada Radović Head of Accounting Department	Dragica Mihajlović Chief Financial Officer	Draginja Đurić President of the Executive Board

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SEPARATE CASH FLOW STATEMENT for the period from 1 January 1 to 31 December 2016

RSD thousand	2016	2015
Cash receipts from operating activities	**33,829,173**	**36,307,383**
Interest receipts	21,280,834	23,936,033
Fee and commission receipts	9,421,434	8,605,096
Receipts from other operating income	2,999,242	3,765,378
Receipts from dividends and equity investments	127,663	876
Cash payments from operating activities	**(19,567,873)**	**(19,038,056)**
Interest payments	(2,286,837)	(3,212,872)
Fee and commission payments	(3,740,329)	(3,071,747)
Payments to and on behalf of employees	(5,824,439)	(5,511,233)
Taxes, contributions and other duties paid	(466,318)	(373,662)
Payments for other operating expenses	(7,249,950)	(6,868,542)
Net operating cash flows before changes in placements and deposits	**14,261,300**	**17,269,327**
Decreases in placements and increases in deposits and other liabilities	**76,293,554**	**4,881,285**
Decrease in loans and receivables from banks, other financial organizations, central bank and customers	21,605,866	-
Increase in deposits and other liabilities due to banks, other financial organizations, central bank and customers	54,687,688	4,881,285
Increases in placements and decreases in deposits and other liabilities	**(40,467,491)**	**(71,476,901)**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	-	(53,089,559)
Increase in financial assets initially carried at fair value through profit and loss, financial assets held for trading and other securities not held with investment purposes	(40,391,867)	(18,367,675)
Decrease in financial liabilities initially carried at fair value through profit and loss and financial liabilities held for trading	(75,624)	(19,667)
Net cash generated from/(used in) operating activities before taxes	**50,087,363**	**(49,326,289)**
Income tax paid	(1,418,366)	(195,679)
Net cash generated from/(used in) operating activities	**48,668,997**	**(49,521,968)**
Cash inflows from investing activities	**10,404**	**146,948**
Inflow from investments in investment securities	194	69
Inflow from sale of intangible assets and property, plant and equipment	10,210	146,879
Cash outflows from investing activities	**(1,770,073)**	**(3,656,633)**
Purchase of intangible assets and property, plant and equipment	(1,770,073)	(3,656,633)

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Net cash outflow from investing activities	**(1,759,669)**	**(3,509,685)**
Cash inflows from financing activities	**37,127,868**	**52,564,175**
Proceeds from received loans	37,127,868	52,564,175
Cash outflows from financing activities	**(40,973,986)**	**(55,799,934)**
Outflow from received loans	(40,973,986)	(55,799,934)
Net cash outflow from financing activities	**(3,846,118)**	**(3,235,759)**
Total cash inflows	**147,260,999**	**93,899,791**
Total cash outflows	**(104,197,789)**	**(150,167,203)**
Net increase/(decrease) in cash	43,063,210	(56,267,412)
Cash and cash equivalents at beginning of the year	**23,826,789**	**79,926,194**
Foreign exchange gains	1,423,794	2,715,851
Foreign exchange losses	(772,564)	(2,547,844)
Cash and cash equivalents at end of the year (Note 16)	**67,541,229**	**23,826,789**

Belgrade, 10 February 2017

Rada Radović	Dragica Mihajlović	Draginja Đurić
Head of Accounting Department	Chief Financial Officer	President of the Executive Board

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the period from 1 January to 31 December 2016

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Content:

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1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Beograd (hereinafter referred to as the "Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD, Beograd dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permission for the foundation of Delta banka DD, Beograd.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations. On 7 June 1995, a new Memorandum on Association was concluded, with a new Article of Association adopted at the General Assembly meeting held on 10 July 1995, whereby reconciliation of the Bank's acts with the provisions of the Law on Banks and other financial organizations was made.

Pursuant to the General Manager's Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Companies Register no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Beograd.

During the year ended 31 December 2007, the legal status change was carried out through a merger by absorption, whereby the acquirer was Banca Intesa a.d. Beograd, and the acquired bank was Panonska banka a.d. Novi Sad. Upon registration of the procedure of merger by absorption with the Serbian Business Registers Agency, the Bank as the acquirer and the legal successor has continued to operate under its existing business name, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and cancelled.

During 2012, upon receipt of the previous approval of the National Bank of Serbia, the Bank's Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Companies. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 85268/2012 dated June 27th, 2012.

During 2015, upon receipt of the previous approval of the National Bank of Serbia, the Bank's Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Banks. The Business Registers Agency has registered these changes by rendering a Decision no. BD 56475/2015 dated June 26th, 2015.

Furthermore, in August 2015, shareholding structure of the Bank was changed and it reflects in the fact that the minority shareholder IFC sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank had two shareholders, Intesa Sanpaolo Holding International S.A. and Intesa Sanpaolo S.p.A. Based on the previous change in the shareholding structure and upon the previous approval of the National Bank of Serbia, Bank's Assembly has adopted changes and amendments to the Memorandum of Association, which was registered with the Decision of the Serbian Business Registers Agency no. BD 2238/2016 dated January 18th, 2016.

In December 2016, the shareholding structure of the Bank was changed once more and it reflects in the fact that the minority shareholder Intesa Sanpaolo S.p.A. sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank has one shareholder and it is Intesa Sanpaolo Holding International S.A. As of 31 December 2016, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b. The Bank network consists of associated organizational units as follows: 4 regional centres and 166 branches.

The Bank had 3,032 employees as of 31 December 2016 (31 December 2015: 3,010 employees).

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for the preparation and presentation of the separate financial statements

The financial statements of the Bank for 2016 (further: the financial statements) have been prepared in accordance with International Financial Reporting Standards (further: IFRS).

In accordance with Law on accounting, banks must keep books and prepare financial statements in accordance with translated IFRS while, by Law on Banks (article 50.2), it has been designated that, when compiling Annual Financial Statements, a bank should apply the IFRS as of date which the competed authority has designed as the date of the application of these standards.

Standards and interpretations which have been applied for the first time as of the current period are as follows:

- IFRS 14 Regulatory Deferral Accounts (valid for financial periods as of 1 January 2016);
- Amendment to IFRS 11 Joint Arrangements – Accounting for acquisitions of Interests in joint operations accounting, (valid for financial periods as of 1 January 2016);
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of acceptable methods of depreciation and amortization (valid for financial periods as of 1 January 2016);
- Amendment to IFRS 10 Consolidated financial statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (valid for financial periods as of 1 January 2016);
- Annual improvements Cycle, 2012-2014 Cycle (valid for financial periods as of 1 January 2016).
- Amendment to IAS 27 - Separate Financial Statements (valid for financial periods as of 1 January 2016).

During the period in which the financial statements had been approved, following standards and interpretations were issued, which are to be applied in the following period as well as standards that are not translated:

- Amendments to IAS 7 – Disclosure initiative (valid for annual periods starting from or after 1 January 2017);
- Amendments to 12 Income taxes (valid for annual periods starting from or after 1 January 2017);
- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 12 Disclosure of Interests in Other Entities (valid for annual periods starting from or after 1 January 2017);
- IFRS 15 Revenue from Contracts with Customers (valid for annual periods starting from or after 1 January 2018);
- Amendments to IFRS 2 Share-based payments (valid for annual periods starting from or after 1 January 2018);
- Applying IFRS 9 Financial instruments with IFRS4 Insurance Contracts (valid for annual periods starting from or after 1 January 2018);
- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Venture (valid for annual periods starting from or after 1 January 2018);
- IFRIC 22 interpretations – Foreign Currency Transactions and Advance Consideration (valid for annual periods starting from or after 1 January 2018);

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for the preparation and presentation of the separate financial statements (continued)

– IFRS 16 Leases (valid for annual periods starting from or after 1 January 2019);
IFRS 16 defines recognition, measurement, presentation and disclosure of leases. Standard defines individual accounting model by which lessee should recognise asset and liability for all leases, except if lease matures in 12 month period or if it leases of low-value assets. Lessor continues to classify operating or finance leasing as rentals, in accordance with guidelines on accounting of lease specified by IFRS 16 that replaces current guidelines for IAS 17 Leases.
The Bank's Management is currently in the process of analyzing effects of listed standards and interpretations to the Bank's financial statements, as well as the date they will become valid.

- IFRS 9 Financial instruments (valid for financial periods as of 1 January 2018)

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank currently plans to apply IFRS 9 initially on 1 January 2018.

The Bank initiated project of implementation of IFRS9 in June 2016 that is closely monitored by the Bank's management and the Parent bank. The Bank is analysing the impact of IFRS9 on various processes, including accounting treatment of financial instruments, risk assessment, information system, lending and product development. The project is dividend in two streams, classification and measurement stream and impairment stream. Regarding classification and measurement stream, the Bank is in the process of finalizing analysis of current loan portfolio in order to conclude on whether there are certain loans whose contractual terms do not lead to cash flows that present payments of solely principal and interest and that would require fair value measurement.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics.
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.
Initially, financial asset is measured at fair value plus transaction costs directly attributable to its acquisition, except in case of financial assets at FVTPL for which such costs are expensed through profit and loss.

A financial asset is measured at amortized cost if it is not designated as at FVTPL and meets both of the following criteria:

- the asset is held within business model with objective to hold assets to collect contractual cash flows, and
- the contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within business model with objective both to collect contractual cash flows and sell, and
- the contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

On initial recognition of an equity instrument that is not held for trading, entity may irrevocably elect to present subsequent changes in fair value in OCI.

Subsequently, gain or loss on FVOCI shall be recognized in other comprehensive income, except for gains or losses on impaired financial assets and foreign exchange gains and losses, until the financial asset is derecognized or reclassified. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognized in profit or loss.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for the preparation and presentation of the separate financial statements (continued)

All other financial assets are classified as measured at FVTPL.

Based on its preliminary assessment, the Bank does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

In respect of impairment, the Bank is finalizing development of impairment methodology that is in line with IFRS 9 requirements and ISP Group guidelines.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Bank believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Bank will perform assessment of impact of IFRS 9 requirements as soon as it finalizes impairment model development.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI and
- the remaining amount of change in the fair value is presented in profit or loss.

The Bank has not designated any financial liabilities at FVTPL and the Bank has no current intention to do so. The Bank's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Bank's preliminary assessment included an analysis to identify data gaps against current processes and the Bank plans to implement the system and controls changes that it believes will be necessary to capture the required data.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for the preparation and presentation of the separate financial statements (continued)

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Bank's preliminary assessment included an analysis to identify data gaps against current processes and the Bank plans to implement the system and controls changes that it believes will be necessary to capture the required data.

First time adoption of IFRS9

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Bank plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in equity as at 1 January 2018.

The actual impact of adopting IFRS 9 on the Bank's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Bank holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future. The new standard will require the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

The Bank is in the process of performing the first preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016.

The enclosed financial statements are individual, since they include receivables, liabilities, operating results, changes in equity and the Bank's cash flow, excluding its subsidiary – Intesa Leasing d.o.o., Beograd, in which the Bank has 100% property. In accordance with IFRS 10, the Bank is excluded from preparation of consolidated financial statements in accordance with IFRS. The Bank recognized this investment in subsidiary at cost. Total asset of subsidiary is 2,32 % of total Bank`s assets as at 31 December 2016.

The ultimate parent company, Intesa Sanpaolo S.p.A., regularly prepares and disclosed consolidated financial statements in accordance with IFRS adopted by EU. These financial statements are publishing on website of Intesa Sanpaolo Group: www.group.intesasanpaolo.com.

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

The accompanying financial statements have been prepared under the going concern principle, which implies that the Bank will continue its operations in the foreseeable future.

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

2.2. Comparative data

Accounting policies and estimates applied in the preparation of the financial statements are consistent with the accounting policies and estimates applied in the preparation of the annual financial statements of the Bank for the year 2015.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant Accounting Estimates and Judgments

Use of Estimates

The preparation and presentation of the financial statements requires the Bank's management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as of the date of the preparation of the financial statements. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the income statement in the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of financial assets

The Bank assesses, at the end of each reporting period, 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 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 has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Concerning the loss assessment due to loan impairment, The Bank reviews its loan portfolio at least on a quarterly basis, in order to assess impairment.

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any reliable evidence indicating that there is a measurable decrease in estimated future cash flows from a loan portfolio before the decrease can be identified with an individual loan in that portfolio.

The evidences could include available data indicating adverse changes in respect of the client's ability to pay its liabilities toward the Bank on time.

The Bank's management performs estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between estimated and actual losses.

Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Due to the significant share of tangible and intangible assets in total assets of the Bank, the impact of each change in these assumptions could materially affect the Bank's financial position, as well as the results of its operations.

Impairment of Non-Financial Assets

As of balance sheet date Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment presented in the financial statements. 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. An impairment review requires from management to make subjective judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant Accounting Estimates and Judgments (continued)

Provisions for legal proceedings

The Bank is subject to a number of legal proceedings arising from daily operations that relate to commercial, contractual and labor disputes, which are resolved and considered in the course of regular business activity. The Bank regularly estimates the probability of negative outcomes to these matters, as well as the amounts of probable or reasonable estimated losses.

Reasonable estimates include judgments made by management, after considering information including notifications, settlements, estimates performed by the legal department, available facts, identification of other potentially responsible parties and their ability to contribute as well as prior experience.

Provision for legal proceedings is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (Note 24). The required provision may change in the future, due to occurrence of new events or obtaining additional information. Matters that are either contingent liabilities or that do not meet recognition criteria for provisioning is disclosed, unless the possibility of outflow of resources embodying economic benefits is remote.

Deferred tax assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax losses can be utilized. The Bank’s management necessarily performs significant estimate in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence, the amount of future taxable profit and strategy of tax planning policy (Note 14(c)).

Retirement and Other Post-Employment Benefits

The costs of defined employee benefits payable upon termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information is disclosed in Note 24.

2.4. Interest Income and Expenses

Interest income and expenses, including penalty interest and other income and other expenses from interest-bearing assets, as well interest bearing liabilities are recognized on an accrual basis, based on obligatory terms defined by a contract between the Bank and its customers.

For all interest-bearing financial instruments, except those classified as available for sale, and financial instruments at fair value through profit and loss, interest income and expenses are recognized within “Interest income“ and “Interest expense“ in the income statement using the effective interest rate method, 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 loan origination fee, which is a part of the effective interest rate, is recorded within “Interest income“. Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and discounted over the life of the loan.

After objective evidence of impairment have been identified and impairment recognized, interest income on these receivables is calculated on the net basis and by applying effective interest rate, which has been used to discount future cash flows for determining impairment losses.

In order to determine full amount of interest receivables, the Bank continues to calculate interest, however calculated interest is not recognized as an interest income, but it is recorded as an off-balance sheet item.

Suspended interest is calculated and recorded as an off-balance sheet item until the conclusion of the court proceedings.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Fee and Commission Income and Expenses

Fees and commissions originating from banking services are generally recognized on an accrual basis when the service has been provided.

Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other banking services.

2.6. Foreign Currency Translation

Items reported in the financial statements are measured using the currency of the Bank's primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official middle exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date (Note 32).

Income or expenses on foreign exchange arising upon the translation of balance sheet items or arising upon transactions in foreign currency are credited or debited as appropriate, to the income statement, as Income/expenses on foreign exchange rate and effects of the currency clause (Note 8).

Income or expenses arising upon the translation of financial assets and liabilities with contracted foreign currency clause are credited or debited as appropriate, to the income statement, as Income/expenses on foreign exchange rate and effects of the currency clause (Note 8).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official middle exchange rate prevailing at the balance sheet date.

2.7. Financial Instruments

All financial instruments are initially recognized at fair value including any directly attributable incremental costs of acquisition or issue that are directly attributable to the acquisition or issuing of financial asset or liability, except for financial assets and financial liabilities at fair value through profit and loss.

Financial assets and financial liabilities are recorded in the balance sheet of the Bank on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular purchases and sales of financial assets are recognized on the settlement date, which is the date the asset is delivered to the counterparty.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- either the Bank has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, financial assets held-to-maturity and financial assets available-for sale. The Bank's management determines the classification of its investments at the time of initial recognition.

2.7.1. Financial Assets at Fair Value through Profit or Loss

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

Financial assets are classified as held for trading if acquired or incurred principally for the purpose of selling or repurchasing in the near term and generating profit from short-term price fluctuations. These assets are stated at fair value in the balance sheet.

Financial instruments held for trading comprise HFT debt securities and HFT financial derivatives.

All realized or unrealized gains and losses from changes in fair value of trading financial assets are recognized in the income statement.

During 2007, the Bank introduced several types of financial instruments which met the definition of financial derivatives according to IAS 39 "Financial Instruments: Recognition and Measurement" and for which basic underlying variable is the foreign exchange rate. Derivatives used by the Bank are FX swap and FX forward contracts. For accounting purposes and in accordance with the requirements of IAS 39, derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value, while all fair value changes are recorded in the income statement under unrealized foreign exchange income and expenses.

Derivatives are initially recognized when the Bank becomes a party to an agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in the off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as an asset or a liability. The initial recognition of fair value applies to cases when the market price for the same or a similar derivative on an organized market is available, and when the price differs from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognized fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognize in the balance sheet (as assets or liabilities) and the income statement (initially positive or negative fair value) the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques. In accordance with the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognized at the end of each month, and the effect of changes in fair value are recognized in the income statement as the increase or decrease of fair value. Derivatives are recognized as assets or liabilities depending on whether their fair value is positive or negative. Derivatives are derecognized at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at termination date. At that moment, the ultimate effect of foreign exchange differences is recorded against realized foreign exchange differences, and all previously recognized changes in fair value (through unrealized foreign exchange differences) are reversed.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.1. Financial Assets at Fair Value through Profit or Loss (continued)

Since there is neither an active market for derivatives in Serbia, nor a possibility for determining fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries that have developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value which would be achieved on an active market.

The methodology incorporates market factors (median exchange rate, interest rates and similar) and is consistent with generally accepted methodologies for valuation of derivatives. At least once per month, the Bank performs back-testing and calibration of the implemented methodology for calculation of fair value by using market variables and alternative calculation methods.

2.7.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All loans and receivables from banks and customers are recognized in the balance sheet when cash is advanced to debtors. Loans and receivables are initially recognized at fair value. After initial recognition, loans are measured at amortized cost using the interest rate method, less allowance for loan impairment and any amounts written off.

Interest income and receivables in respect of these instruments are recorded and presented under interest income and interest, fees and commissions receivable, respectively, which are all comprised within the Balance Sheet position – Loans and receivables from banks and other financial organizations/customers. Fees which are part of effective yield on these instruments are recognized as deferred income and also comprised within the Balance Sheet position – Loans and receivables from banks and other financial organizations/customers and credited to the income statement as interest income over the life of a financial instrument using the straight-line method, which approximates the effective yield.

The Bank negotiates a foreign currency clause with the beneficiaries of the loans. Loans and receivables in dinars, with contracted foreign currency clause, i.e. dinar-eur, dinar-usd and dinar-chf foreign exchange rate, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated from foreign currency clause applied is disclosed within Loans and receivables from banks and other financial organizations/customers. Gains and losses resulting from the application of foreign currency clause are recorded in the income statement, as Income/expenses from foreign exchange rate and effects of the currency clause.

Impairment of financial assets and provisions for risks

The Bank, in accordance with internal policy, assesses at each balance sheet date 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 the borrower 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.

For loans and placements with banks and customers, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.2. Loans and receivables (continued)

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account, while impairment losses on loans and advances and other financial assets carried at amortized cost are charged to the income statement (Note 10) as the Impairment reversals/expenses from financial assets and credit risk off-balance sheet items. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. 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 within the Impairment reversals (Note 10).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling that collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank’s internal credit grading system that takes into account credit risk characteristics. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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 at the balance sheet date. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Direct write-offs for past due loans and receivables, partial or in full, may be performed during the year if inability of their collection is certain, i.e. impairment is recognized and documented. Write off is made based on the court decisions, or based on decisions made by the Bank’s authorities.

Uncollectable receivables write-off

Receivables write-off / transferring to off-balance sheet is performed in accordance with the Procedure on Write-off of Uncollectable Receivables. The procedure relates to the write-off / transferring to off-balance sheet of receivables that meet the following requirements: delay in payment of receivable is more than 360 days; the Bank has failed to collect receivables despite the implementation of all activities of collection specified by its policies and procedures; judicial or extrajudicial procedures of settlement of receivables have been initiated; receivables are fully impaired.

Exceptionally, receivables that do not fulfil the above mentioned requirements may be written-off / transferred to off-balance sheet if such decision is made by the appropriate authority, PAC (Problem Asset Committee), in accordance with the authorizations delegated by the Board of Directors.

2.7.3. Renegotiated Loans

If the Bank estimates that the clients delay in payment is temporary and that, under adjusted agreed conditions, the client could fulfil obligations toward Bank regularly, the Bank seeks to restructure loans rather than to activate collaterals. This may involve extending repayment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.4. Financial assets Held-to-Maturity

Financial assets held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity.

After the initial recognition, financial assets held-to-maturity is subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. The amount of impairment loss for financial assets held to maturity is calculated as the difference between the investments' carrying amount and the present value of expected future cash flows discounted at the investment's original interest rate.

As of 31 December, the Bank has no financial assets classified within this category and didn't invest in these assets during 2016.

2.7.5. Financial assets available for sale

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available for sale".

They comprise shares and investments in shares of other banks and companies, as well as treasury bills, government bonds of the Republic of Serbia and Italian government bonds with maturity of over 3 months.

Upon initial recognition, financial assets available for sale are measured at fair value. Investments in shares that are not quoted, and whose value cannot be determined with certainty, are measured at cost less allowances for impairment. The fair values of quoted financial assets in active markets are based on current bid prices. If secondary market for the quoted financial assets is non-existent or highly illiquid and if those positions are material, the Bank will apply certain haircuts on quoted prices for the reduction for illiquid/non-existent market if the need for their sale arises.

Unrealized gains and losses arising from financial assets available for sale are recognized directly in fair value reserves within, in equity, until the financial asset is not sold, collected or otherwise realized, or until the financial asset is not impaired. In the case of disposal or impairment of financial asset, accumulated gains or losses, previously recognized in equity, are recognized in gains or losses from sales of financial assets in the income statement. For all estimated risks that investments in shares and other financial assets available for sale will not be collected, the Bank recognizes allowances for impairment.

Interest income on treasury bills and government bonds of the Republic of Serbia is calculated and recognized monthly.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities is recognized as income when the shareholder's right to receive payment is established.

In case of financial assets available for sale, the Bank assesses on an individual basis whether there is objective evidence of impairment, based on the same criteria applied to financial assets carried at amortized cost (loans and receivables). Also, impairment already recognized represents cumulative loss valued as difference between amortized cost and current fair value, less any impairment loss previously recognized in the income statement. The Bank records impairment changes on available-for-sale equity investments when there has been a significant of prolonged decline in fair value below cost. When there is evidence of impairment, the cumulative loss, measured as the difference between cost and fair value, decreased for any impairment of investment previously recognized in the income statement, is transferred from equity and recognized in the income statement, while the increase in fair value, after recognition of impairment, is recognized in equity.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.6 Deposits from banks and customers

All deposits from banks and customers, as well as other interest-bearing financial liabilities are initially recognized at fair value decreased by transaction costs, except for financial liabilities at fair value through profit and loss. After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest rate method.

2.7.7. 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 unconditional right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.7.8. Operating liabilities

Trade payables and other short-term operating liabilities are stated at nominal value.

2.8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.9. Reserves for estimated losses on bank balance sheet assets and off-balance sheet items

Special reserves for estimated losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's "Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items" ("Official Gazette of the Republic of Serbia", no. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016 and 91/2016).

Total receivables from a single borrower (balance sheet and off-balance sheet exposure) are classified in categories from A to D, in accordance with the assessment of their recoverability. Collectability of receivables from a single borrower is assessed based on the borrower's payment record and his financial position, number of days past due, overdue principal and interest as well as based on the quality of collaterals pledged.

In addition, to monitor asset quality, the bank classify its balance sheet assets and off-balance sheet items either in the group of non-performing exposures or in the group of performing exposures, with each of these groups also including a sub-group of forborne exposures.

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

Through its internal act, the Bank has defined the criteria and methodology for determining classification of receivables and calculation of special reserves in accordance with the criteria defined in the "Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items". Primary criteria for classification of receivables include the borrower's timeliness in settlement of obligations, financial position and business performance, adequacy of cash flows as well as adequate collateral.

Calculated 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 Bank's accounting policy disclosed in Note 2.7.2. and charged to the income statement (Note 10).

The amount of special reserves for estimated losses, after reducing by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, is deducted from capital when calculating the Bank's regulatory capital.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Cash and balances with Central Bank

Cash and balances with Central Bank are comprised of cash in RSD and in foreign currency that is cash at gyro and current accounts, cash on hand and other cash in RSD and foreign currency, gold and other precious metals, deposited liquid surpluses and obligatory reserves in foreign currency at accounts with National Bank of Serbia.

2.11. Consolidated financial statements

Base principles for the preparation and presentation of the consolidated financial statements, if one entity controls one or more other entities, are determined within the IFRS 10 Consolidated Financial Statements.

IFRS 10 Consolidated Financial Statements requires from an entity (the parent) which controls one or more entities (subsidiaries) to present consolidated financial statements, defines control principles and determines control as the base for consolidation.

As of 31 December 2016, the Bank owns 100% of capital of Intesa Leasing d.o.o., Beograd and therefore has the full control over it. Equity investment in the aforementioned subsidiary is stated at cost, less allowance for impairment (Note 17(c)).

Except Intesa Leasing, Beograd, the Bank has no control over any other entity.

Considering that the highest parent entity, Intesa Sanpaolo S.p.A., prepares consolidated financial statements in accordance with IFRS adopted by EU, as well as with other requirements of IFRS 10.4. and publishes on website of Intesa Sanpaolo Group: www.group.intesasanpaolo.com the Bank does not prepare consolidated financial statements.

2.11.1 Investments in associates

In accordance with IAS 28 “Investments in Associates and Joint Ventures“, investments in associates are neither investments in an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Investments in associates are stated using the equity method and valued as financial assets available for sale.

Investments in associates are classified as financial assets available for sale and are recognized at cost less allowance for impairment.

The Bank has no investments in associates or joint ventures.

2.12. Intangible Assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are carried at cost less any accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (from 2 to 5 years).

Costs associated with software maintenance are recognized as an expense when incurred.

Costs that are directly associated with identifiable and unique software controlled by the Bank, and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the salaries of the team that developed the software, as well as appropriate portion of related overheads.

Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, in all accounting periods, as follows:

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13.1. Property, plant and equipment and Investment property

- Licenses and similar rights	10%-20%
- Software	20%-50%

Intangible assets include unamortized software in progress, since it is still not in use.

As of 31 December 2016, property, plant and equipment (further: Fixed assets) are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the items.

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

The Bank owns property as investments for generating rental income and/or appreciation in the market value of the property. Investment property is stated at cost less accumulated depreciation.

Depreciation is calculated using the straight-line method applied to cost of fixed assets, using the following prescribed annual rates in order to write them off over their useful lives, in all accounting periods:

Buildings	2.5%
Computer equipment	20%
Furniture and other equipment	7% - 25%
Investment property	2.5%

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount, which are not decreased by residual value, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation of property and equipment commences at the beginning of the month following the month when an asset is put into use. Depreciation charge is recognized as expense for the period when incurred.

The useful lives of assets are reviewed periodically, and adjusted if necessary at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains or losses from the disposal of property, plant and equipment are credited or debited in the income statement, included in Other operating income or Other expenses, respectively.

The calculation of depreciation for tax purposes is determined in accordance with the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes, which gives rise to deferred taxes (Note 14(c)).

2.13.2 Fixed assets held for sale

In accordance with IFRS 5, the Bank classifies a fixed asset as a non-current asset held for sale if its carrying amount will be recovered primarily through a sales transaction, rather than through further use. An asset classified as held for sale must be available for immediate sale in its present condition and its sale must be probable.

In order to make sale probable management of the Bank must be committed to a plan to sell the asset and an active program to locate a buyer and completion of the plan must have been initiated, and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected, to qualify for recognition, as a completed sale within one year from the date of classification. Events or circumstances out of the Bank's control may prolong sale completion period to more than one year.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13.2 Fixed assets held for sale (continued)

A non-current asset classified as held for sale is measured at the lower amount of the following:

- carrying amount
- fair value less costs to sell.

Once an asset is recognized as a held-for sale asset it is no longer depreciated (Note 20) .

2.14. Impairment of non-financial assets

In accordance with adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property, plant and equipment and investment property. 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 the 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 suffered impairment are reviewed for possible reversal of impairment at each reporting date.

2.15. Finance Leases

Bank as a Lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the cost and included in property, plant and equipment with the corresponding liability to the lessor included in other liabilities.

Lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as interest expense.

The Lease Agreement specifies that the Bank can, but does not have to, obtain ownership of the leased asset after the expiration of the Lease Agreement.

2.16. Operating Leases

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

Total payments made under operating leases are recognized as expenses within the income statement, when incurred, using a straight-line basis over the period of the lease.

2.17. Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognized in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognized initially for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes (Note 30), unless the possibility of outflow of resources embodying economic benefits is remote.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Provisions and Contingencies (continued)

Contingent assets are not recognized in the financial statements. Contingent assets are disclosed in the notes when an inflow of economic benefits is probable.

2.18. Equity

Equity consists of share capital (ordinary shares), other capital, share premium, reserves from profit and retained earnings.

Dividends on ordinary shares are recognized as a liability in the period in which the decision on their payment has been made. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the balance sheet date.

2.19. Employee benefits

(a) Employee taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank is obliged to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee and by the employer, in an amount calculated by applying specific rates prescribed by law. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement

.(b) Termination Benefits arising from Restructuring

Termination benefits are payable when employment is terminated or employee is voluntarily retired, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Other Employee Benefits - Retirement Benefits

In accordance with the Labor Law and article 28 of the General collective agreement, the Bank is obligated to pay retirement benefits in the amount equal to 3 average salaries realized in the Republic of Serbia, according to the latest data published by statistical office of the Republic. The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accumulated over the period of employment.

Provision for retirement benefits and unused days of vacation are calculated by an independent actuary and are recognized in the balance sheet at present value of discounted estimated future outflows (Note 24 (c)).

2.20. Taxes and contributions

(a) Income Tax

Current Income Tax

Current income tax represents an amount that is calculated and paid in accordance with the effective Law on Corporate Income Tax of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, based on the prior year’s tax return. Final tax base used for calculating income tax at the prescribed rate of 15% (2015: 15%) is disclosed in the Tax return.

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2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Taxes and contributions (continued)
(a) Income Tax (continued)

In order to determine the amount of taxable income, accounting profit is adjusted for certain permanent differences, as defined by tax regulations through Tax Balance which is to be submitted within 180 days from the end of the period for which the tax liability is determined, except in the case of status changes, liquidation or bankruptcy of the taxpayer, when it is submitted within 15 days after the end of the period for summiting the financial statements.

Deferred income tax

Deferred tax is provided for using the balance sheet method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the balance sheet date is used to determine the deferred income tax amount.

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 be reversed 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 profits 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 be reversed 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 balance sheet 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.

Deferred tax assets and liabilities are calculated at tax rates that are expected to be effective in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Current and deferred taxes are recognized as income or expense and are included in the profit for the period.

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

(b) Taxes and contributions not related to operating result

Taxes and contributions not related to operating result include property tax, value added tax, contributions on salaries charged to employer, as well as other taxes and contributions that are paid in accordance with tax regulations of the Republic of Serbia and local tax regulations. These taxes and contributions are presented as part of other expenses (Note 13).

2.21. Funds Managed on Behalf of Third Parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 27). The Bank is not exposed to any risk in respect of repayment of these placements.

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3. INTEREST INCOME AND INTEREST EXPENSES

a) Interest income and expenses by sector structure are presented as follows:

		RSD thousand
	2016	**2015**
Interest income		
– Central bank and other banks	746,175	1,254,542
– Holding companies	1	84
– Corporate	6,782,729	9,438,316
– Households	9,280,274	9,597,971
– Public sector	4,806,736	4,672,987
– Foreign banks and financial organizations	42,037	9,911
– Foreign entities	338,995	292,098
– Other customers	621,780	153,563
Total	**22,618,727**	**25,419,472**
Interest expenses		
– Central bank and other banks	(100,588)	(122,957)
– Holding companies	-	(6)
– Corporate	(1,055,208)	(1,506,497)
– Households	(1,076,726)	(2,067,690)
– Public sector	(991,010)	(721,593)
– Foreign banks and financial organizations	(297,791)	(324,986)
– Foreign entities	(115,453)	(215,872)
– Other customers	(67,569)	(249,443)
Total	**(3,704,345)**	**(5,209,044)**
Net interest income	**18,914,382**	**20,210,428**

During 2016, total interest income on impaired loans amounts RSD 898,179 thousand (2015: RSD 1,552,660 thousand).

b) Interest income and expenses by type of financial instruments are presented as follows:

		RSD thousand
	2016	**2015**
Interest income		
Loans	17,244,402	19,890,082
REPO transactions	163,977	230,254
Obligatory reserves	415,008	620,743
Deposits	114,164	358,285
Securities	4,474,548	4,010,704
Other placements	206,628	309,404
Total	**22,618,727**	**25,419,472**
Interest expenses		
Loans	(452,099)	(596,351)
Deposits	(2,529,828)	(4,389,931)
Securities	(719,648)	(220,554)
Other interest expenses	(2,770)	(2,208)
Total	**(3,704,345)**	**(5,209,044)**
Net interest income	**18,914,382**	**20,210,428**

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4. FEE AND COMMISSION INCOME AND EXPENSES

RSD thousand

	2016	2015
Fee and commission income		
Fee for banking services:		
– Domestic payment transaction services	2,423,179	2,326,617
– International payment transaction services	717,349	647,103
– Loan operations	147,536	145,459
– Cards operations	3,350,515	2,788,959
	6,638,579	**5,908,138**
Commissions related to issued guaranties and letter of credits	620,316	616,037
Current accounts maintenance	1,503,394	1,421,074
Fees slips, EDB and Telekom	293,558	302,829
Other fee and commission	294,805	308,750
Total	**9,350,652**	**8,556,828**
Fee and commission expenses		
Payment services fee:		
– Domestic	(200,687)	(204,464)
– International	(139,009)	(129,203)
National Bank of Serbia’s fee and commission	(67,356)	(76,734)
Credit Bureau’s fees	(122,400)	(149,062)
Cards operations fee	(2,887,954)	(2,382,001)
Other fees and commissions	(305,066)	(171,562)
Total	**(3,722,472)**	**(3,113,026)**
Net fee and commission income	**5,628,180**	**5,443,802**

5. NET PROFIT ON FINANCIAL ASSETS HELD FOR TRADING

RSD thousand

	2016	2015
Change in value income		
- currency swap	690,902	257,799
- forward	2,401	6,438
- debt securities	13,022	25,711
Total income	**706,325**	**289,948**
Change in value expenses		
- currency swap	(1,266)	(71,672)
- forward	(1,328)	(2,686)
- debt securities	(31,917)	(2,171)
Total expenses	**(34,511)**	**(76,529)**
Net profit	**671,814**	**213,419**

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6. NET PROFIT/(LOSS) ON FINANCIAL ASSETS INITIALLY CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

RSD thousand

	2016	2015
Income from change in value of financial assets initially carried at fair value through profit and loss		
- gold and silver	19,470	15,330
- equity securities	-	23,078
Total income	**19,470**	**38,408**
Expenses from change in value of financial assets initially carried at fair value through profit and loss		
- gold and silver	(12,184)	(15,232)
- equity securities	(15,928)	-
Total expenses	**(28,112)**	**(15,232)**
Net (loss)/profit	**(8,642)**	**23,176**

7. NET LOSS ON FINANCIAL ASSETS AVAILABLE FOR SALE

RSD thousand

	2016	2015
Gains on sales		
- debt securities	3,811	1,853
Total gains	**3,811**	**1,853**
Losses on sales		
- debt securities	(9,437)	(2,844)
Total losses	**(9,437)**	**(2,844)**
Net loss	**(5,626)**	**(991)**

8. NET PROFIT ON FOREIGN EXCHANGE RATE AND FX CONTRACTS

RSD thousand

	2016	2015
Income from positive exchange rate differences	21,659,409	41,169,816
Income from positive exchange rate differences related to FX contracts	7,913,089	13,313,252
Total income	**29,572,498**	**54,483,068**
Expenses on negative exchange rate differences	(22,087,301)	(39,717,553)
Expenses on negative exchange rate differences related to FX contracts	(4,828,598)	(10,986,804)
Total expenses	**(26,915,899)**	**(50,704,357)**
Net profit	**2,656,599**	**3,778,711**

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9. OTHER OPERATING INCOME

RSD thousand

	2016	2015
Income from reversal of unused provisions of liabilities	20,459	185,811
Property rentals income	54,895	57,136
Gains on sales of fixed assets and surpluses	6,909	15,108
Reimbursed expenses	14,863	17,233
Income from dividends and equity interests	791,550	126,376
Income from decrease of liabilities	-	7,105
Other income	312,144	912,361
Total	**1,200,820**	**1,321,130**

10. IMPAIRMENT LOSSES FROM FINANCIAL ASSETS AND CREDIT RISK OFF-BALANCE SHEET ITEMS

a) Overview by classes

RSD thousand

	2016	2015
Income from reversal of indirect write-offs of placements	4,137,628	4,893,985
Income from reversal of provisions for off-balance sheet items	426,289	426,620
Income from recovered written-off receivables	173,543	436,687
Total income	**4,737,460**	**5,757,292**
Expenses for indirectly written-off placements of balance sheet assets	(8,852,110)	(12,837,977)
Expenses for indirectly written-off equity investments	(996)	(1,398)
Expenses for provisions for off-balance sheet items	(208,398)	(508,835)
Expenses for written-off uncollectible receivables	(57,677)	(187,274)
Total expenses	**(9,119,181)**	**(13,535,484)**
Net loss	**(4,381,721)**	**(7,778,192)**

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10. IMPAIRMENT LOSSES FROM FINANCIAL ASSETS AND CREDIT RISK OFF-BALANCE SHEET ITEMS (Continued)

b) Movements in the allowance for impairment of financial assets and provisions for risk bearing off-balance sheet items

Movements in the allowance for impairment of balance-sheet items and provisions during the 2016 are presented as follows:

Movements in the allowance for impairment and provisions in 2016	Balance
Opening balance - 31 December 2015	**27,573,723**
Increase in provisions during the year	9,060,507
Reversal of provisions during the year	(4,563,917)
Increase in provisions due to exchange rate changes	376,091
Reversal of provisions due to exchange rate changes	(143,175)
Transfer to off-balance	(2,801,763)
Transfer from off-balance	15,127
Sale (transfer) of receivables	(4,167,486)
Reversal of provisions due to passage of time (unwinding)	(898,179)
Closing balance - 31 December 2016	**24,450,928**

Movements in the allowance for impairment and provisions in 2015	RSD thousand Balance
Opening balance - 31 December 2014	**30,082,738**
Increase in provisions during the year	13,346,812
Reversal of provisions during the year	(5,320,605)
Increase in provisions due to exchange rate changes	763,536
Reversal of provisions due to exchange rate changes	(677,820)
Transfer to off-balance	(3,049,853)
Transfer from off-balance	48,294
Sale (transfer) of receivables	(6,066,718)
Reversal of provisions due to passage of time (unwinding)	(1,552,661)
Closing balance - 31 December 2015	**27,573,723**

11. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

RSD thousand

	2016	2015
Net salaries	3,566,435	3,425,028
Tax on employee benefits	449,270	428,068
Contributions on employee benefits	1,670,618	1,584,882
Expenses for temporary and occasional work	5,175	4,981
Other personal expenses	45,159	20,990
Expenses for provisions for pensions and other provisions for employees	2,014	333
Total	**5,738,671**	**5,464,282**

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12. DEPRECIATION AND AMORTIZATION

	2016	RSD thousand 2015
Depreciation and amortization:		
– Amortization of intangible assets (Note 19)	412,566	380,370
– Depreciation of fixed assets and investment property (Note 20)	489,286	532,492
Total	**901,852**	**912,862**

13. OTHER EXPENSES

	2016	RSD thousand 2015
Material, energy and spare parts	393,849	376,965
Professional services	664,356	732,835
Advertising, marketing and entertainment expenses	271,304	384,565
Mail and telecommunication expenses	321,843	325,279
Insurance premiums	2,130,482	1,913,932
Maintenance of property, plant and equipment	545,871	420,448
Rental cost	1,153,891	1,147,672
Fees and commissions	168,600	173,691
Taxes and contributions	174,743	106,154
Physical-technical security	237,092	251,151
General and administrative expenses	280,197	352,009
Losses on write-offs, disposals and shortage of property, equipment and intangible assets	4,576	7,078
Other expenses	581,745	757,136
Expenses for provisions for liabilities	303,581	202,796
Impairment of the fixed assets, investment property and intangible assets (Note 20)	21,757	-
Total	**7,253,887**	**7,151,711**

14. INCOME TAX

(a) Components of Income Tax

The components of income tax expenses are:

	2016	RSD thousand 2015
Current income tax	873,985	1,093,806
Gains from deferred tax assets and reduction of deferred tax liabilities	(31,693)	(11,948)
Loss from reduction of deferred tax assets and creation of deferred tax liabilities	14,761	16,191
Total	**857,053**	**1,098,049**

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14. INCOME TAX (continued)

b) Reconciliation of total amount of income tax stated in the income statement with the amount of profit before tax multiplied by prescribed tax rate is as follows:

in thousand RSD

	2016	2015
Profit before tax	**10,781,396**	**9,682,628**
Income tax at the rate of 15%	**1,617,209**	**1,452,394**
Tax effects of expense reconciliation – permanent differences	10,110	76,654
Tax effects of revenue reconciliation – permanent differences	(794,917)	(667,886)
Tax effects of depreciation differences recognized for tax and statutory reporting – temporary differences	15,030	22,412
Tax effects of expenses that will be recognized in subsequent period – temporary differences	26,553	9,137
Tax credits on investments in fixed assets	-	201,095
Income tax stated in the income statement	**873,985**	**1,093,806**
Effective tax rate	**8.11%**	**11.30%**

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2016, the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions. Consequently, the tax base increased for the amount of provisions totaling RSD 305,596 thousand (31 December 2015: RSD 203,129 thousand), due to:
- Provisions for litigations in accordance with IAS 37 „Provisions, Contingent Liabilities and Contingent Assets“ in the amount RSD 69,693 thousand (31 December 2015: RSD 202,406 thousand);
- Provisions for restructuring in accordance with IAS 37 „Provisions, Contingent Liabilities and Contingent Assets“ in the amount RSD 233,889 thousand (31 December 2015: RSD 390 thousand);
- Provisions in accordance with IAS 19 „Employee benefits” in the amount of RSD 2,014 thousand (31 December 2015: RSD 333 thousand)

In accordance with the abovementioned, the Bank made an adjustment on the revenue side by excluding interest income generated by debt securities issued by the Republic, local government and the National Bank of Serbia from the tax base, for a total of RSD 4,490,890 thousand (31 December 2015: RSD 4,143,435 thousand).

(c) Deferred Tax Assets

In accordance with IAS 12, deferred tax assets and liabilities relate to taxable temporary differences between carrying amounts of tangible and intangible assets and their tax bases, temporary differences based on unpaid taxes that will be recognized in subsequent period.

Effects of the temporary differences stated in 2016, relate to:
- increase due to difference between accounting and tax depreciation in the amount of RSD 27,999 thousand,
- increase in tax assets based on difference between carrying amount and tax amount of land, in the amount RSD 3,264 thousand,
- increase in tax assets relating to impairment of shares in Panon Crvenka in the amount RSD 149 thousand,
- increase in tax assets relating to calculated retirement benefits and termination benefits, calculated but not paid in the tax period, in the amount RSD 242 thousand,
- increase in tax assets relating to benefits of employees in line with article 9, paragraph 2 of the Law, calculated but not paid in the tax period, in the amount RSD 39 thousand and
- decrease in tax assets relating to calculated taxes, contributions and other public levies that do not depend on the profit and which are not paid in the period, as well as the one paid, relating to previous tax period, in the amount RSD 14,761 thousand.

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14. INCOME TAX (continued)

(c) Deferred Tax Assets (continued)

Movements in deferred tax assets during the year were as follows:

		RSD thousand
	2016	**2015**
Balance as of 1 January	**220,561**	224,804
Effect of temporary differences credited to income statement	16,932	(4,243)
Balance as of 31 December	**237,493**	**220,561**

Finally a set amount Current tax liabilities shown in the balance sheet at 31 December 2016 amounted to RSD 455,668 thousand (31 December 2015, RSD 679,144 thousand), and was created by decreasing the amount of current income tax liability for the amount of prepaid income taxes for 2016, paid during 2016.

15. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit by the weighted average number of shares during the year. As of 31 December 2016 the Bank has no preferred shares.

	2016	**2015**
Net profit (in thousand RSD)	9,924,343	8,584,579
Weighted average number of ordinary shares during the year	213,159	213,159
Basic earnings per share in RSD (no decimals)	**46,558**	**40,273**

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16. CASH AND BALANCES WITH CENTRAL BANK

(a) Cash and balances with Central Bank

RSD thousand

	2016	2015
In RSD		
Gyro account	36,923,055	5,005,042
Cash on hand	5,732,166	4,978,800
Surplus liquidity deposits	-	25,000,000
Receivables for calculated interest, fee and commission based on cash and balances with the Central Bank	17,072	16,293
Accruals related to cash and balances with the Central Bank	-	1,417
	42,672,293	**35,001,552**
In foreign currency		
Cash on hand	3,225,829	2,351,224
Other monetary assets	18,857	26,222
Obligatory reserves with NBS	56,394,336	61,508,078
	59,639,022	**63,885,524**
Gold and precious metals	59,585	52,245
Gross balance as of 31 December	**102,370,900**	**98,939,321**
Less: Allowance for impairment		
- In RSD	-	-
- In foreign currency	-	-
	-	**-**
Balance as of 31 December	**102,370,900**	**98,939,321**

Obligatory dinar reserves with the National Bank of Serbia

The obligatory reserves in dinars is the minimal reserve in dinars allocated in accordance with the National Bank of Serbia's Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015, 102/2015).

The Bank is required to calculate and allocate the obligatory reserves in RSD by applying 5% on the average daily balance of liabilities in RSD with contractual maturity up to 730 days, while 0% is applied on the average daily balance of liabilities in RSD with contractual maturity of over 730 days. These percentages are calculated on the average daily balance of liabilities in local currency during the preceding calendar month, and the bank allocates the calculated amount to its gyro account with the National Bank of Serbia. The Bank calculates the obligatory reserves in RSD on deposits in RSD, loans and securities, and other obligations in RSD, excluding dinar deposits received under transactions performed on behalf and for the account of third parties that are not in excess of the amount of the investment made from such deposits as defined by the Decision. The obligatory reserves in RSD is also calculated as part of the foreign currency obligatory reserves by applying 38%, as the dinar equivalent, to the calculated foreign currency obligatory reserves on liabilities in foreign currency, and on foreign currency clause- indexed dinar liabilities denominated in foreign currency with contractual maturity of up to 730 days, while 30%, as the dinar equivalent, is applied on the calculated foreign currency obligatory reserves on liabilities in foreign currency and on foreign currency clause-indexed dinar liabilities denominated in foreign currency with contractual maturity of over 730 days.

During the accounting period, the Bank is required to maintain the average daily balance of the allocated obligatory reserves in dinars in the amount equal to the calculated obligatory reserves in dinars.

As of 31 December 2016, calculated obligatory reserves in dinars was RSD 25,085,664 thousand (31 December 2015: RSD 23,940,056 thousand) and in accordance with the above mentioned National Bank of Serbia's Decision.

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16. CASH AND BALANCES WITH CENTRAL BANK (continued)

(a) Cash and balances with Central Bank (continued)

On 31 December 2016, interest rate applied on the average amount of the allocated obligatory reserves in dinars, which does not exceed the amount of calculated obligatory reserves, was 1,75% per annum.

Foreign currency obligatory reserves with the National Bank of Serbia

In accordance with the Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015, 102/2015), The Bank calculated foreign currency obligatory reserves on 31 December 2016, by applying 20% on the amount of the average daily balance of the liabilities in foreign currency, while 100% is applied on the average daily balance of foreign currency clause-indexed dinar liabilities denominated in foreign currency during the preceding calendar month with contractual maturity of up to 730 days (with the exceptions defined by the Decision), while 13% is applied for the liabilities in foreign currency, and 100% is applied on the foreign currency clause-indexed dinar liabilities denominated in foreign currency with contractual maturity of over 730 days. Therefore, 62% of the calculated foreign currency obligatory reserves is allocated based on the balance of the liabilities in foreign currency and based on the balance of foreign currency clause-indexed dinar liabilities denominated in foreign currency with contractual maturity up to 730 days, as well as 70% of the calculated foreign currency obligatory reserves based on the balance of the same kind of liabilities denominated in foreign currency with contractual maturity of over 730 days to the National Bank of Serbia's foreign currency accounts in euros.

During the accounting period, the Bank is required to maintain the average daily balance of the allocated foreign currency obligatory reserves in the amount equal to the calculated foreign currency obligatory reserves.

The National Bank of Serbia does not pay interest on the average balance amount of the allocated foreign currency obligatory reserves.

As of 31 December 2016, calculated foreign currency obligatory reserves was EUR 258,080,366.51 which corresponds 31,865,776 thousand dinars (31 December 2015: EUR 259,659,577.83) and in accordance with the above mentioned National Bank of Serbia's Decision.

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16. CASH AND BALANCES WITH CENTRAL BANK (continued)

(b) Overview of the differences between Cash stated in Cash Flow Statement and balance-sheet item Cash and balances with Central Bank as of 31st December 2016:

RSD thousand

	Balance sheet	Statement of cash flows	Difference
In RSD			
Gyro account	36,923,055	36,923,055	-
Cash on hand	5,732,166	5,732,166	-
Receivables for calculated interest, fee and commission based on cash and balances with the Central Bank	17,072	-	17,072
	42,672,293	**42,655,221**	**17,072**
In foreign currency			
Cash on hand	3,225,829	3,225,829	-
Other cash assets	18,857	18,857	-
Obligatory reserves with NBS	56,394,336		56,394,336
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	21,553,182	(21,553,182)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	28,555	(28,555)
	59,639,022	**24,826,423**	**34,812,599**
Gold and other precious metals	59,585	59,585	-
Balance as of 31 December 2016	**102,370,900**	**67,541,229**	**34,829,671**

RSD thousand

	Balance sheet	Cash flows	Difference
In RSD			
Gyro account	5,005,042	5,005,042	-
Cash on hand	4,978,800	4,978,800	-
Surplus liquidity deposits	25,000,000	-	25,000,000
Receivables for calculated interest, fee and commission based on cash and balances with the Central Bank	16,293	-	16,293
Accruals related to the cash and balances with the Central Bank	1,417	-	1,417
	35,001,552	**9,983,842**	**25,017,710**
In foreign currency			
Cash on hand	2,351,224	2,351,224	-
Other monetary assets	26,222	26,222	-
Obligatory reserve with NBS	61,508,078	-	61,508,078
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	11,375,790	(11,375,790)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	37,466	(37,466)
	63,885,524	**13,790,702**	**50,094,822**
Gold and other precious metals	52,245	52,245	-
Balance as of 31 December 2016	**98,939,321**	**23,826,789**	**75,112,532**

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17. FINANCIAL ASSETS CLASSIFICATION

(a) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS HELD FOR TRADING

RSD thousand

	2016	2015
In RSD		
Financial derivatives	693,302	264,237
Debt securities held for trade	1,247,415	-
	1,940,717	**264,237**
In foreign currency		
Debt securities held for trade	44,003	1,167,546
	44,003	**1,167,546**
Total	**1,984,720**	**1,431,783**

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17. FINANCIAL ASSETS CLASSIFICATION (continued)

(b) FINANCIAL ASSETS INITIALLY CARRIED THROUGH PROFIT AND LOSS, FINANCIAL ASSETS AVAILABLE FOR SALE AND INVESTMENTS IN SUBSIDIARIES

RSD thousand

	2016				2015			
	Financial assets initially carried at fair value through Profit and Loss	Financial assets available for sale	Investments in subsidiaries	Total	Financial assets initially carried at fair value through Profit and Loss	Financial assets available for sale	Investments in subsidiaries	Total
– shares and equity investment	35,692	49,342	962,496	1,047,530	43,864	49,361	962,496	1,055,721
– debt securities issued by the Republic of Serbia	-	106,160,946	-	106,160,946	-	64,005,610	-	64,005,610
- accrued interest on debt securities issued by the Republic of Serbia	-	13,764,784	-	13,764,784	-	13,227,677	-	13,227,677
	35,692	**119,975,072**	**962,496**	**120,973,260**	**43,864**	**77,282,648**	**962,496**	**78,289,008**
Difference from the cost	10,376	412,788	-	423,164	27,110	794,263	-	821,373
	10,376	**412,788**		**423,164**	**27,110**	**794,263**	**-**	**821,373**
Gross balance	**46,068**	**120,387,860**	**962,496**	**121,396,424**	**70,974**	**78,076,911**	**962,496**	**79,110,381**
Less: Allowance for impairment	-	(29,070)	-	(29,070)	-	(28,086)	-	(28,086)
Balance as of 31 December	**46,068**	**120,358,790**	**962,496**	**121,367,354**	**70,974**	**78,048,825**	**962,496**	**79,082,295**

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17. FINANCIAL ASSETS CLASSIFICATION (continued)

(c) SHARES, EQUITY INVESTMENT AND INVESTMENT IN SUBSIDIARIES

		RSD thousand
	2016	**2015**
Investment in subsidiaries:		
INTESA LEASING DOO BEOGRAD – 100% shares	962,496	962,496
	962,496	**962,496**
Financial assets initially carried at fair value through profit and loss:		
INTESA SANPAOLO SPA	35,692	43,864
Difference from the market value	10,376	27,110
	46,068	**70,974**
Financial assets available for sale:		
KOSMAJ-MERMER AD MLADENOVAC	37	37
ALMA MONS DOO, NOVI SAD	30	30
BANCOR CONSULTING GROUP DOO NOVI SAD	34	34
PAN-TRGOVINA DOO NOVI SAD	466	466
IMK 29. NOVEMBAR AD SUBOTICA - U STEČAJU	15,073	15,073
AGENCIJA VEEDA DOO VRANJE	29	29
MENTA DOO PADEJ	5,814	5,814
PANON CRVENKA AD KELEBIJA	25,729	25,729
RAZVOJNA BANKA VOJVODINE AD NOVI SAD - U STEČAJU	1,566	1,566
TRŽIŠTE NOVCA AD BEOGRAD	564	583
MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA BONDS	108,690,302	66,031,242
BONDS OF THE REPUBLIC OF ITALY	11,224,758	11,202,045
Difference from the cost	423,458	794,263
Less: Allowance for impairment	(29,070)	(28,086)
	120,358,790	**78,048,825**
Balance as of 31 December	**121,367,354**	**79,082,295**

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18. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS

(a) LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

RSD thousand

	2016	2015
In RSD		
Loans under reverse repo transactions	906,169	10,000,000
Receivables for calculated interest	8,176	2,453
Current account loans	74	51
Loans approved and due with one day (overnight)	-	-
Liquidity and current assets loans	73	801,900
Investment loans	1,171,591	698,168
Other loans	2,635,105	795,532
Receivables arising from purchased placements - forfeting	5,692	10,862
Other placements	2,689,415	1,960,300
Deferred income on receivables carried at amortized cost using the effective interest rate	(4,065)	(4,524)
Accrued interest calculated on the basis of loans, deposits and other investments	1,829	42
	7,414,059	**14,264,784**
In foreign currency		
Foreign currency accounts	21,570,204	11,392,196
Cheques	28,555	37,466
Loans approved and due with one day (overnight)	702,812	243,252
Other loans	1,878	2,853
Other non-purpose deposits	5,798,297	7,242,210
Special-purpose deposits	4,939	4,865
Other placements	2,090,286	3,010,141
Accrued interest calculated on the basis of loans, deposits and other investments	3,316	1,607
	30,200,287	**21,934,590**
Gross loans	**37,614,346**	**36,199,374**
Less: Allowance for impairment		
– in RSD	(2,896)	(3,044)
– in foreign currency	(19,638)	(27,950)
	(22,534)	**(30,994)**
Balance as of 31 December	**37,591,812**	**36,168,380**

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18. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(b) LOANS AND RECEIVABLES FROM CUSTOMERS

RSD thousand

	2016	2015
In RSD		
Receivables for calculated interest	2,963,931	3,453,635
Accrued fee and commission	34	49
Current account loans	4,964,034	4,977,468
Consumer loans	784,240	1,138,735
Liquidity and current assets loans	52,651,528	20,910,083
Export loans	157,830	155,470
Investment loans	88,440,676	80,761,882
Mortgage loans	54,949,516	50,317,772
Cash loans	24,671,106	18,442,624
Other loans	52,589,847	89,182,533
Receivables arising from purchased placements - forfeiting	256,623	501,163
Receivables based on factoring without the right of recourse and reverse factoring	863,172	2,507,411
Receivables based on factoring with the right of recourse	544,499	300,075
Placements based on acceptances, endorsements and payments made under guarantees	263,677	419,021
Placements on ceded receivables on other grounds	2,605,120	2,367,076
Deferred income on receivables carried at amortized cost using the effective interest rate	(813,848)	(747,526)
Accrued interest calculated on the basis of loans, deposits and other investments	486,089	570,406
	286,378,074	**275,257,877**
In foreign currency		
Receivables for calculated interest	101,810	148,421
Loans for payment of import of goods and services in foreign currency	6,608,011	6,682,918
Loans for the purchase of immovable property in the country approved to a natural person	20,968	25,729
Other loans	881,768	851,711
Placements based on acceptances, endorsements and payments made under guarantees	1,051,765	1,036,039
Accrued interest calculated on the basis of loans, deposits and other investments	23,266	47,830
	8,687,588	**8,792,648**
Gross placements	**295,065,662**	**284,050,525**
Less: Allowance for impairment		
– in RSD	(22,740,143)	(25,586,094)
– in foreign currency	(575,590)	(615,822)
	(23,315,733)	**(26,201,916)**
Balance as of 31 December	**271,749,929**	**257,848,609**

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18. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(c) Overview by the type of client

RSD thousand

	2016			2015		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	5,734,766	1,186,053	6,920,819	11,665,501	1,490,284	13,155,785
– Holding companies	-	136	136	-	46	46
– Corporate	29,298,216	121,442,576	150,740,792	22,307,014	131,007,875	153,314,889
– Households	4,622,008	109,818,551	114,440,559	3,280,662	94,585,413	97,866,075
– Public sector	283,638	10,103,958	10,387,596	117,915	10,764,002	10,881,917
– Foreign banks and financial organizations	493,240	-	493,240	1,109,000	-	1,109,000
– Foreign entities	(1,507)	266,727	265,220	(16,641)	303,836	287,195
– Other customers	625,827	9,917,944	10,543,771	1,794,465	11,113,289	12,907,754
Total in RSD	**41,056,188**	**252,735,945**	**293,792,133**	**40,257,916**	**249,264,745**	**289,522,661**
In foreign currency						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	5,267,272	1,878	5,269,150	2,059,516	2,852	2,062,368
– Holding companies	-	575	575	-	124	124
– Corporate	301,881	5,211,174	5,513,055	203,912	4,117,787	4,321,699
– Households	43,446	717,798	761,244	59,144	672,462	731,606
– Public sector	5,420	536,304	541,724	5,695	604,888	610,583
– Foreign banks and financial organizations	24,931,136	-	24,931,136	19,872,221	-	19,872,221
– Foreign entities	1,861,654	1,622	1,863,276	1,843,273	1,282,006	3,125,279
– Other customers	1,758	5,957	7,715	1,301	2,057	3,358
Total in foreign currency	**32,412,567**	**6,475,308**	**38,887,875**	**24,045,062**	**6,682,176**	**30,727,238**
Gross loans and deposits	**73,468,755**	**259,211,253**	**332,680,008**	**64,302,978**	**255,946,921**	**320,249,899**
Less: Allowance for impairment- banks and other financial organizations	(19,920)	(2,614)	(22,534)	(28,267)	(2,727)	(30,994)
Less: Allowance for impairment- customers	(2,746,874)	(20,568,859)	(23,315,733)	(4,386,413)	(21,815,503)	(26,201,916)
	(2,766,794)	(20,571,473)	(23,338,267)	(4,414,680)	(21,818,230)	(26,232,910)
Balance as of 31 December	**70,701,961**	**238,639,780**	**309,341,741**	**59,888,298**	**234,128,691**	**294,016,989**

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18. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(c) Overview by the type of client (continued)

Short-term loans have been granted to companies for funding business activities within the following sectors: trade and services, manufacturing, construction, agriculture and food industry, as for the other purposes, with interest rates ranging between 5% and 9% per annum on RSD loans, as well as between 2% and 8% per annum on loans with currency clause and foreign currency loans.

Interest rates on the long-term loans to legal entities in RSD have been ranging between 6% and 13%, and on RSD long-term loans with currency clause, as well as on foreign currency loans ranging have been between 2.5% and 8.5% per annum.

Short-term loans to retail customers, have been approved with interest rates from 9,95% to 23% per annum for loans with no currency clause.

Short-term loans to small business customers, have been approved with interest rates ranging from 4,7% to 16% per annum for loans with no currency clause and from 2,6% do 11% per annum for loans with currency clause.

Interest rate on Overdrafts on retail current accounts has been ranging from 29,85% per annum and for small corporate customers from 15,6% to 31,2% per annum.

Long-term loans to retail customers have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 1.57% to 9,5% per annum for currency clause loans, as well as from 9,95% to 23% for the loans with no currency clause.

Long-term loans to small businesses have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 2,4%+3m EURIBOR to 10% per annum for currency clause loans, as well as from 2%+3m BELIBOR (or 5.2% fix) to 13,83%+3m BELIBOR for the loans with no currency clause.

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19. INTANGIBLE ASSETS

RSD thousand

	Licenses	Software	Intangible assets in progress	Total
COST				
Balance as of 1 January 2015	**487,455**	**1,956,350**	**92,743**	**2,536,548**
Additions during the year	-	-	398,017	398,017
Transfers	-	443,325	(443,325)	-
Balance as of 31 December 2015	**487,455**	**2,399,675**	**47,435**	**2,934,565**
Additions during the year	-	-	941,294	941,294
Transfers	-	466,053	(466,053)	-
Disposals and write offs	(4,132)	(359,464)	**-**	(363,596)
Balance as of 31 December 2016	**483,323**	**2,506,264**	**522,676**	**3,512,263**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2015	**374,129**	**1,361,372**	**-**	**1,735,501**
Amortization (Note 12)	42,028	338,342	-	380,370
Balance as of 31 December 2015	**416,157**	**1,699,714**	**-**	**2,115,871**
Amortization (Note 12)	35,640	376,926	-	412,566
Disposals and write offs	(4,132)	(359,464)	-	(363,596)
Balance as of 31 December 2016	**447,665**	**1,717,176**	**-**	**2,164,841**
Net carrying amount as of:				
– 31 December 2016	**35,658**	**789,088**	**522,676**	**1,347,422**
– 31 December 2015	**71,298**	**699,961**	**47,435**	**818,694**

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20. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY, FIXED ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

a) Property, plant and equipment and Investment property

RSD thousand

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Total property, plant and equipment	Investment property
COST						
Balance as of 1 January 2015	**6,014,376**	**3,854,464**	**739,901**	**46,019**	**10,654,760**	**250,827**
Additions during the year	-	-	-	3,047,980	3,047,980	-
Transfers from construction in progress	2,594,336	315,835	39,846	(2,950,017)	-	-
Disposals and write offs	-	(334,465)	(50,994)	-	(385,459)	-
Balance as of 31 December 2015	**8,608,712**	**3,835,834**	**728,753**	**143,982**	**13,317,281**	**250,827**
Additions during the year	-	-	-	661,685	661,685	-
Transfers from fixed assets to construction in progress*	(2,583,622)	-	-	2,583,622	-	-
Transfers from construction in progress	22,594	314,191	52,971	(389,756)	-	-
Adjustment of carrying value of land to its fair value (Note 13)	(21,757)	-	-	-	(21,757)	-
Transfer to Assets held for sale	(1,472,078)	-	-	-	(1,472,078)	-
Disposals and write offs	-	(189,119)	(43,748)	-	(232,867)	(49,278)
Balance as of 31 December 2016	**4,553,849**	**3,960,906**	**737,976**	**2,999,533**	**12,252,264**	**201,549**

*Following acquisition of part of the building in Milentija Popovića 7b at the end of 2015, it is identified that the premises are not fully ready for use. Therefore, it is decided to perform detail renovation of the building. Renovation lasted during the whole 2016, while its finalisation is planned for the first quarter 2017, when it is expected to put the premises in use.

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Total property, plant and equipment	Investment property
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2015	**1,078,520**	**2,828,843**	**508,163**	**-**	**4,415,526**	**20,199**
Depreciation (Note 12)	113,115	326,975	86,132		526,222	6,270
Purchase of used equipment	-	35,142	-	-	35,142	-
Disposals and write offs	-	(327,075)	(50,995)	-	(378,070)	-
Balance as of 31 December 2015	**1,191,635**	**2,863,885**	**543,300**	**-**	**4,598,820**	**26,469**
Depreciation (Note 12)	113,453	303,934	65,628		483,015	6,271
Disposals and write offs	-	(184,546)	(43,744)	-	(228,290)	(5,338)
Balance as of 31 December 2016	**1,305,088**	**2,983,273**	**565,184**	**-**	**4,853,545**	**27,402**
Net book value as of:						
– 31 December 2016	**3,248,761**	**977,633**	**172,792**	**2,999,533**	**7,398,719**	**174,147**
– 31 December 2015	**7,417,077**	**971,949**	**185,453**	**143,982**	**8,718,461**	**224,358**

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20. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY, FIXED ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS (Continued)

a) Property, plant and equipment and Investment property (Continued)

As of 31 December 2016, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

As of 31 December 2016, the carrying value of equipment under finance lease amounts to RSD 29,930 thousand (31 December 2015: RSD 36,160 thousand).

Acting in accordance with IAS 36 "Impairment of Assets", The Bank analyzed the market value of the fixed assets. Using external and internal sources of information, in order to analyze the existence of impairment of assets, the Bank's management concluded that there were no indications of impairment of the Bank's assets at the balance sheet date. As of 31 December 2016, as a result of fulfilling the recognition criteria defined by IFRS5, the Bank adjusted the carrying value of land, plot BLOK 11a Novi Beograd to fair value, and recognised decrease in value in the amount RSD 21,757 thousand within Other expenses, while at the same date it reclassified the land to position Assets held for sale.

Although The Bank in its books states the value of investment property at their acquisition cost reduced for the depreciation and accumulated impairment, the following table discloses market values of the abovementioned properties. As defined by IFRS13, the Level 3 inputs were used, that is Republic of Serbia local tax authorities' data, which determined the basis for the calculation of property tax.

RSD thousand

The address of the investment property	Area (m^2)	ZONE	Price per m2 in 2016, according to local tax authorities' data for sales of property made in 2015 (for property tax determination)	MARKET VALUE according to local tax authorities' prices	Acquisition cost as of 31 December 2016	Total depreciation as of 31 December 2016	Net carrying amount as of 31 December 2016
NOVI SAD, MAKSIMA GORKOG br. 2	46.09	I	141	6,481	5,978	(4,414)	1,564
VRBAS. KUCURA	26	II	17	441	1,116	(291)	825
NIŠ, VIZANTIJSKI BULEVAR br.6	41.58	IV	112	4,652	4,138	(1,151)	2,988
ZRENJANIN, KRALJA ALEKSANDRA I br.3	104.26	I	57	5,970	6,346	(2,266)	4,080
NOVA VAROS, Karađorđeva br.81	49.8	I	55	2,749	3,392	(1,194)	2,198
BEOGRAD, USTANICKA br.69	1847	II	199	368,310	180,579	(18,086)	162,493
			TOTAL	**388,604**	**201,549**	**(27,402)**	**174,148**

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20. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY, FIXED ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS (Continued)

b) Non-current fixed assets held for sale and assets from discontinued operations

As it is disclosed in Note 2.13.2, in accordance with the accounting policies of The Bank, assets classified as non-current assets held for sale are measured at the lower from two following amounts:

- carrying amount;
- fair value reduced by sales expenses.

	2016	2015
Non-current fixed assets held for sale	1,697,057	256,254
Non-current fixed assets held for sale and assets from discontinued operations	**1,697,057**	**256,254**

At the end of 2016, The Bank has following non-current fixed assets held for sale that are located in the Republic of Serbia:

- Novi Beograd, Goce Delčeva 36, business premises 1.824 m²,
- Novi Beograd, Milentija Popovića 5B, apartmant 175 m² and
- Novi Beograd, corner of streets Bulevar Mihajla Pupina and Trešnjinog cveta, plot BLOK 11a, 4.784 m².

The Bank does not apply depreciation on the fixed assets as long as they are classified as fixed assets held for sale.

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21. OTHER ASSETS

		RSD thousand
	2016	**2015**
Trade receivables	879	207,528
Other receivables from operating activities which determine income	789,387	125,500
Receivables from employees	5,118	4,497
Receivables for taxes paid in advance, except income tax	257	1,380
Advances paid	26,076	23,473
Other receivables from operating activities	3,296,102	2,213,344
Assets received through collection of receivables	327,461	309,892
Other assets	438,488	597,067
Interest receivables related to other assets:		
– in RSD	1,573	1,604
Fee and commission receivables related to other assets:		
– in RSD	169,940	167,432
– in foreign currency	17,230	11,411
Accrued interest expenses:		
– in RSD	2,618	2,915
– in foreign currency	28,495	28,069
Accrued other expenses:		
– in RSD	406,080	369,146
– in foreign currency	3,122	4,388
Other accruals:		
– in RSD	40,804	23,157
– in foreign currency	3	6
Total other assets	**5,553,633**	**4,090,809**
Less: Allowance for impairment	(57,414)	(79,752)
Balance as of 31 December	**5,496,218**	**4,011,057**

Other receivables from operations as of 31 December 2016 amounting to RSD 3,296,102 thousand (31 December 2015: RSD 2,213,344 thousand) mostly relate to receivables in RSD with respect to payment cards - Other receivables in RSD from other cards issuers - Master Card, VISA and DINA in the amount of RSD 1,588,966 thousand (31 December 2015: RSD 1,231,090 thousand).

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

		RSD thousand
	2016	**2015**
Difference from nominal value of other placements in RSD held for trading – currency derivatives money exchange - swap	1,266	71,672
Difference from nominal value of other placements in RSD held for trading – currency derivatives money exchange - forward	1,328	2,686
Balance as of 31 December	**2,594**	**74,358**

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23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

(a) DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

RSD thousand

	2016	2015
In RSD		
Transaction deposits	1,499,202	2,246,142
Deposits underlying granted loans	12,235	5,323
Special-purpose deposits	21,485	1,961
Other deposits	2,647,288	434,219
Deposits and loans due within one day (overnight)	7,200	-
Borrowings	3,000,000	-
Other financial liabilities	247,000	487,079
Interest liabilities	35,197	4,676
Fee and commission liabilities	7	6
Total in RSD	**7,469,614**	**3,179,406**
In foreign currency		
Transaction deposits	2,911,376	1,114,738
Deposits underlying granted loans	2,963	2,919
Special-purpose deposits	114,154	107,471
Other deposits	31,525	362,452
Borrowings	20,372,689	25,036,955
Other financial liabilities	3,220,618	1,374,971
Interest liabilities	19,317	48,014
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(86,797)	(131,864)
Total in foreign currency	**26,585,845**	**27,915,656**
Total	**34,055,459**	**31,095,062**

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23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(b) DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

RSD thousand

	2016	2015
In RSD		
Transaction deposits	87,348,373	74,068,994
Savings deposits	2,051,235	2,094,773
Deposits underlying granted loans	378,241	299,901
Special-purpose deposits	2,791,244	2,810,694
Other deposits	26,360,419	17,470,871
Deposits and loans due within one day (overnight)	731,562	633,786
Borrowings		22,691
Interest liabilities	307,610	138,332
Total in RSD	**119,968,684**	**97,540,042**
In foreign currency		
Transaction deposits	148,147,026	113,513,901
Savings deposits	78,182,367	91,517,874
Deposits underlying granted loans	6,075,239	6,057,816
Special-purpose deposits	1,777,675	1,419,251
Other deposits	20,929,663	11,991,708
Borrowings	5,642,088	7,322,906
Other financial liabilities	1,935,593	846,122
Interest liabilities	794,223	1,122,048
Total in foreign currency	**263,483,874**	**233,791,626**
Total	**383,452,558**	**331,331,668**

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23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(c) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY MATURITY

RSD thousand

	2016			2015		
	Short-term(up to one year)	**Long-term (more than one year)**	**Total**	**Short-term(up to one year)**	**Long-term (more than one year)**	**Total**
In RSD						
Transaction deposits	88,847,576	-	88,847,576	76,315,136	-	76,315,136
Saving deposits	2,050,678	556	2,051,234	2,094,108	665	2,094,773
Deposits related to granted loans	116,981	273,495	390,476	160,032	145,192	305,224
Special-purpose deposits	2,302,349	510,381	2,812,730	2,430,207	382,449	2,812,656
Other deposits	28,836,597	171,110	29,007,707	17,445,854	459,236	17,905,090
Overnight deposits and loans	738,762	-	738,762	633,786	-	633,786
Borrowings	3,000,000	-	3,000,000	-	22,691	22,691
Other financial liabilities	247,000	-	247,000	487,079	-	487,079
Interest liabilities	342,599	208	342,807	142,914	94	143,008
Fee and commission liabilities	7		7	6	-	6
Total in RSD	**126,482,549**	**955,750**	**127,438,299**	**99,709,122**	**1,010,327**	**100,719,449**
In foreign currency						
Transaction deposits	151,058,403		151,058,403	114,628,639	-	114,628,639
Saving deposits	61,180,766	17,001,601	78,182,367	70,153,798	21,364,077	91,517,875
Deposits related to granted loans	4,073,403	2,004,799	6,078,202	3,820,765	2,239,971	6,060,736
Special-purpose deposits	1,126,416	765,413	1,891,829	1,454,110	72,612	1,526,722
Other deposits	20,899,452	61,736	20,961,188	12,018,210	335,949	12,354,159
Borrowings		26,014,777	26,014,777	-	32,359,861	32,359,861
Other financial liabilities	5,156,209	-	5,156,209	2,221,092	-	2,221,092
Interest liabilities	813,540	-	813,540	1,170,061	-	1,170,061
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(86,797)	-	(86,797)	(131,864)	-	(131,864)
Total in foreign currency	**244,221,392**	**45,848,326**	**290,069,718**	**205,334,811**	**56,372,470**	**261,707,281**
Total	**370,703,941**	**46,804,076**	**417,508,017**	**305,043,933**	**57,382,797**	**362,426,730**

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23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(d) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY TYPE OF CUSTOMERS

RSD thousand

	2016			2015		
	Short-term(up to one year)	**Long-term (more than one year)**	**Total**	**Short-term(up to one year)**	**Long-term (more than one year)**	**Total**
In RSD						
– Central bank, banks and other financial sector and insurance	6,442,591	170,000	6,612,591	2,793,783	348,000	3,141,783
– Holding companies	861	-	861	878	-	878
– Corporate	70,396,120	749,134	71,145,254	58,672,331	614,497	59,286,828
– Households	31,065,291	24,237	31,089,528	24,057,032	4,035	24,061,067
– Public sector	11,559,054	11,479	11,570,533	6,869,472	38,921	6,908,393
– Foreign banks and financial organizations	857,023	-	857,023	37,624	-	37,624
– Foreign entities	321,492	-	321,492	365,210	-	365,210
– Other customers	5,840,116	900	5,841,016	6,912,792	4,874	6,917,666
Total in RSD	**126,482,548**	**955,750**	**127,438,298**	**99,709,122**	**1,010,327**	**100,719,449**
In foreign currency						
– Central bank, banks and other financial sector and insurance	5,255,597	2,963	5,258,560	2,329,116	2,919	2,332,035
– Holding companies	611	-	611	11,393	-	11,393
– Corporate	51,362,842	2,047,697	53,410,539	37,655,830	1,741,876	39,397,706
– Households	175,196,876	17,443,796	192,640,672	154,430,288	21,633,433	176,063,721
– Public sector	4,692,721	5,662,379	10,355,100	5,078,294	7,341,880	12,420,174
– Foreign banks and financial organizations	954,596	20,372,689	21,327,285	546,664	25,036,955	25,583,619
– Foreign entities	4,617,135	264,722	4,881,857	3,601,101	562,378	4,163,479
– Other customers	2,141,014	54,081	2,195,095	1,682,125	53,029	1,735,154
Total in foreign currency	**244,221,392**	**45,848,327**	**290,069,719**	**205,334,811**	**56,372,470**	**261,707,281**
Balance as of 31 December	**370,703,940**	**46,804,077**	**417,508,017**	**305,043,933**	**57,382,797**	**362,426,730**

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23. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (Continued)

(d) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY TYPE OF CUSTOMERS (Continued)

On the corporate transaction deposits the Bank has been paying interest within the range up to 60% of the annual reference interest rate depending on currency and the amount of deposit.

On the retail transaction accounts in RSD and in foreign currency the Bank has not been paying interest.

On term deposits in RSD and foreign currency, the Bank has been paying interest within the range up to 4% per annum, depending on maturity period and currency.

On special-purpose deposits of customers and natural persons the Bank has not been paying interest.

On short-term retail deposits in RSD the interest has been paid within the range from 0% to 3.5% per annum, depending on maturity period. Interest rate on short-term retail deposits in foreign currency has been ranging from 0.0% to 0.80% per annum, depending on maturity period and currency.

Long-term retail deposits in foreign currency are deposited at interest rates ranging from 0.5% to 1.25% per annum, depending on maturity period and currency.

Long-term borrowings have been granted to the Bank with interest rates ranging from 0.5% to 3% per annum.

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24. PROVISIONS

		RSD thousand
	2016	2015
Provisions for off-balance sheet exposures (a)	1,055,247	1,261,061
Provisions for employee benefits:		
– restructuring (b)	236,702	44,544
– long-term retirement benefits and unused days of vacation (c)	152,930	150,916
Provisions for litigations (Note 30 (a))	308,638	272,480
Balance as of 31 December	**1,753,517**	**1,729,001**

		RSD thousand
	2016	2015
Movements in provisions for losses on off-balance sheet items		
Opening balance	1,261,061	1,171,777
Release of provisions	(426,289)	(426,620)
Release of provisions - exchange rate	(8,129)	(28,078)
Increase of provisions	208,391	508,835
Increase of provisions – exchange rate	20,213	36,530
Sale of receivables	-	(1,383)
Balance as of 31 December	**1,055,247**	**1,261,061**
Movements in provisions for restructuring		
Opening balance	44,544	55,868
Release of provisions directly from provisions	(41,731)	(11,714)
Increase of provisions	233,889	390
Balance as of 31 December	**236,702**	**44,544**
Movements in provisions for employee benefits for restructuring and long-term retirement benefits and unused days of vacation		
Opening balance	150,916	150,583
Increase of provisions	2,014	333
Balance as of 31 December	**152,930**	**150,916**
Movements in provisions for litigations		
Opening balance	272,480	269,245
Release of provisions through profit and loss	(20,459)	(185,811)
Release of provisions directly from provisions	(13,076)	(13,360)
Increase of provisions	69,693	202,406
Balance as of 31 December	**308,638**	**272,480**

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24. PROVISIONS (Continued)

a) According to the Bank's internal policy, provisioning for off-balance sheet assets exposed to risk is performed in the same manner as for balance sheet assets, i.e. off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables when it comes to outflow of resources and probability of outflow of resources.

b) The project of considering and analyzing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started, but still not fully completed, therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that fulfil conditions for retirement or number of employees that potentially could be redundant. For the purpose of estimation, available laws and regulations, as well as internal acts have been used (Labour Law and Collective agreement).

c) Long-term provision for retirement benefits has been recognized at year ended on the basis of an independent actuary's calculation, in the amount of present value of estimated future cash outflows. Present value of estimated future cash outflows is calculated at discounted rate of 5.6% p.a., reflecting the long-term rate of return on high quality debt securities, Republic of Serbia bonds and treasury bonds of the National Bank of Serbia.

The provision was determined in accordance with the Bank's Collective Agreement, as well as in accordance with the assumption on average salary increase rate of 5.4% per annum over the period for which the provision has been formed.

Provision for unused days of vacation is calculated on the basis of an independent actuary's report at the balance sheet date. In accordance with article 114 of the Labour Law in Republic of Serbia, during vacation an employee is entitled to compensation in the amount of average salary for the last twelve months. In calculating provision for unused vacation days, the following is significant:
- average gross salary in the Bank and
- number of unused days of vacation.

25. OTHER LIABILITIES

RSD thousand

	2016	2015
Net salaries and compensations	219,946	212,750
Taxes, VAT, contributions and other duties payable, excluding income tax liability	147,710	145,070
Vendor liabilities	1,032,652	1,076,036
Advances received	1,538,455	1,783,739
Other liabilities	2,263,576	1,468,065
	5,202,339	**4,685,660**
Accruals and deferred income		
Accrued liabilities for other expenses:		
– in RSD	1,682	2,835
– in foreign currency	9,049	4,353
Deferred interest income:		
– in RSD	54,536	76,550
Other deferred income:		
– in RSD	79,348	74,848
– in foreign currency	22,654	32,462
Other deferrals		
– in RSD	417,098	2,268,869
– in foreign currency	2,068,073	943,506
	2,652,440	**3,403,423**
Long-term finance lease liabilities (a)	28,307	37,650
Total	**7,883,086**	**8,126,733**
Other tax liabilities	72,078	164,959
Balance as of 31 December	**7,955,164**	**8,291,692**

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25. OTHER LIABILITIES (continued)

Other liabilities in 2016 and 2015 are mostly comprised of balances at suspense and temporary accounts and accrued liabilities accounts.

Other accruals in foreign currency in 2016 and 2015 are mostly comprised of balances at other accruals accounts – Sales of foreign currency.

(a) Financial liabilities for leased equipment as of 31 December 2016 and 2015 are as follows:

RSD thousand

	2016		**2015**	
Minimal lease payments	**Present value**	**Future value**	**Present value**	**Future value**
Up to 1 year	12,538	13,823	13,690	15,239
From 1 to 5 years	15,769	17,102	23,960	25,326
Balance as of 31 December	**28,307**	**30,925**	**37,650**	**40,565**

26. EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2016 consists of shares capital, other capital, share premium, reserves, revaluation reserves and current and previous year profit.

Structure of the Bank's equity is presented in table below:

RSD thousand

	2016	**2015**
Share capital – ordinary shares	21,315,900	21,315,900
Other capital	11,158	11,158
Share premium	20,432,569	20,432,569
Reserves from profit	47,484,121	47,484,121
Fair value reserves	412,788	794,263
Retained earnings	24,559,933	15,975,354
Current year profit	9,924,343	8,584,579
Balance as of 31 December	**124,140,812**	**114,597,944**

/i/ Share capital

As of 31 December 20616 the total number of the Bank's registered shares amounts to 213,159 ordinary shares with nominal value of RSD 100 thousand per share.

During 2015, shareholding structure of the Bank was changed and it reflects in the fact that the minority shareholder International Finance Corporation (IFC) sold its entire stake to majority shareholder Intesa Sanpaolo Holding International SA. After this change the Bank has two shareholders, Intesa Sanpaolo Holding International S.A. and Intesa Sanpaolo S.p.A.

Further, in 2016, shareholding structure of the Bank was changed and it reflects in the fact that the minority shareholder Intesa Sanpaolo S.p.A. sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A., resulting in the fact that Intesa Sanpaolo Holding International S.A. became 100% shareholder of the Bank (Note 1).

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26. EQUITY (continued)

(a) Equity structure (continued)

The structure of shareholders of the Bank as of 31 December 2016 is as follows:

Shareholder	Number of shares	Nominal share value (RSD thousand)	Share in %
Intesa Sanpaolo Holding International S.A., Luxembourg	213,159	21,315,900	100.00
Total	**213,159**	**21,315,900**	**100.00**

The structure of shareholders of the Bank as of 31 December 2015 is as follows:

Shareholder	Number of shares	Nominal share value (RSD thousand)	Share in %
Intesa Sanpaolo Holding International S.A., Luxembourg	180,731	18,073,100	84,787
Intesa Sanpaolo S.p.A., Italy	32,428	3,242,800	15,213
Total	**213,159**	**21,315,900**	**100,000**

/ii/ *Share premium*

Share premium in the amount of RSD 20,432,569 thousand as of 31 December 2016 (31 December 2015: RSD 20,432,569 thousand) is the result of the Bank’s status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of RSD 2,989,941 thousand, as well as the result of the 4th, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

/iii/ *Reserves*

	2016	RSD thousand 2015
Reserves from profit for estimated losses	47,484,121	47,484,121
Revaluation reserves for changes in value of securities available for sale	828,294	897,575
Unrealized losses on securities available for sale	(415,506)	(103,312)
Total	**47,896,909**	**48,278,384**

b) Performance Indicators – Compliance with Legal Requirements

The Bank is required to reconcile the scope and the structure of its operations and risk placements with performance indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia passed on the basis of the aforementioned Law.

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26. EQUITY (continued)

b) Performance Indicators – Compliance with Legal Requirements (continued)

As of 31 December 2016, the Bank was in compliance with all prescribed performance indicators.

Performance indicators	Prescribed	Realized	
		31 December 2016	31 December 2015
Capital	Minimum EUR 10 million	EUR 492 million	EUR 469 million
Capital adequacy ratio	Minimum 12%	21.5%	20.72%
Permanent investments indicator	Maximum 60%	12.51%	15.72%
Indicator of large and the largest permissible loans	Maximum 400%	79.5%	78.60%
Liquidity ratio	Minimum 0.8	2.62	2.63
Acid-test ratio (quick ratio)	Minimum 0.5	2.26	2.05
Foreign currency risk indicator	Maximum 20%	1.81%	0.59%
Exposure to a single entity or to a group of related parties	Maximum 25%	15%	19.76%
Bank's investment in non-financial legal entity	Maximum 10%	0.03%	0.04%

27. OFF-BALANCE SHEET ITEMS

a) Classification of off-balance sheet items by the classification category

Off-balance sheet items	2016	2015
Off-balance sheet items to be classified	96,681,016	86,243,194
Off-balance sheet items not to be classified	518,627,876	576,127,151
Balance as of 31 December	**615,308,892**	**662,370,345**

In accordance with the Decision on the classification of bank balance sheet assets and off-balance sheet items, off-balance sheet items, which will not lead to cash outflows, are classified in the off-balance sheet items not to be classified category:

	Off-balance sheet items to be classified	Provisions for Off-balance sheet items to be classified	Off-balance sheet items not to be classified	Off-balance sheet items as of 31 December 2016
Funds managed on behalf of third parties (b)	-	-	3,807,513	3,807,513
Guarantees and other irrevocable commitments (c)	60,852,388	(1,055,226)	14,747,841	74,545,003
Derivatives (d)	-	-	137,781,893	137,781,893
Other off-balance sheet items (e)	36,883,875	(21)	362,290,629	399,174,483
Balance as of 31 December	**97,736,263**	**(1,055,247)**	**518,627,876**	**615,308,892**

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27. OFF-BALANCE SHEET ITEMS (continued)

a) Classification of off-balance sheet items by the classification category (continued)

	Off-balance sheet items to be classified	Provisions for Off-balance sheet items to be classified	Off-balance sheet items not to be classified	Off-balance sheet items as of 31 December 2015
Funds managed on behalf of third parties (b)	-	-	3,848,872	3,848,872
Guarantees and other irrevocable commitments (c)	61,206,415	(1,261,061)	16,637,407	76,582,761
Derivatives (d)	-	-	110,482,515	110,482,515
Other off-balance sheet items (e)	26,297,840	-	445,158,357	471,456,197
Balance as of 31 December	**87,504,255**	**(1,261,061)**	**576,127,151**	**662,370,345**

b) Funds managed on behalf of third parties

RSD thousand

	2016	2015
Funds managed on behalf of third parties:		
– Long-term	3,807,513	3,848,872
Balance as of 31 December	**3,807,513**	**3,848,872**

c) Guarantees and other irrevocable commitments

RSD thousand

	2016	2015
Financial guarantees:		
– in RSD	8,683,819	9,190,002
– in foreign currency	8,620,468	12,489,925
	17,304,287	**21,679,927**
Commercial guarantees:		
– in RSD	15,415,816	13,491,893
– in foreign currency	1,806,059	1,416,203
	17,221,875	**14,908,096**
Uncovered letters of credit in foreign currency	226,306	220,932
Sureties and Acceptances	832	1,113
Sureties	14,931,842	15,538,399
Irrevocable commitments for undisbursed loans	25,912,542	24,211,119
Other irrevocable commitments		20,636
Collateralized securities	2,545	2,539
	41,074,067	**39,994,738**
Balance as of 31 December	**75,600,229**	**76,582,761**

d) Derivatives

RSD thousand

	2016	2015
Foreign currency SWAP contracts	135,106,824	107,253,699
Foreign currency Forward contracts	2,675,069	3,228,816
Balance as of 31 December	**137,781,893**	**110,482,515**

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27. OFF-BALANCE SHEET ITEMS (continued)

e) Other off-balance sheet items

		RSD thousand
	2016	**2015**
Loro guarantees	49,899,905	51,310,582
Foreign currency savings' bonds	189,854	302,467
Suspended interest	8,338,694	10,348,366
Transfer from balance sheet	13,488,816	21,519,235
Revocable commitments for undisbursed loans	36,883,875	26,297,485
Receivables under repurchase agreements	958,150	10,000,000
Other	289,415,210	351,678,062
Balance as of 31 December	**399,174,504**	**471,456,197**

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28. RELATED PARTY DISCLOSURES

A number of banking transactions with shareholders and other related parties take place in the ordinary course of business.

The Bank enters into business relationship with its Parent company and other members of Intesa Sanpaolo Group. Outstanding balances of receivables and liabilities as of 31 December 2016 and 2015, as well as income and expenses for the years then ended, resulting from transactions with the shareholders and other Bank's related parties within Intesa Sanpaolo Group are presented as follows:

2016	Intesa Sanpaolo S.p.A., Italija, Engleska, SAD; Nemačka; Irska; Rumunija; Turska; Albanija;Group Service	Privredna bank d.d., Zagreb, Hrvatska	Intesa Leasing d.o.o., Beograd	Vseobecna Uverova banka A.S., Slovačka	Banka Koper d.d., Slovenija	Bank of Alexandria, Egipat	Intesa Sanpaolo Banka D.D. Bosna i Hercegovina	Intesa Sanpaolo Card d.o.o., Ljubljana	Intesa Sanpaolo Card d.o.o., Zagreb	CIB Bank, Madarska	Soeciete europeenn de banque S.A.	Intesa Sanpaolo Holding International S.A., Luxemburg	Banca IMI S.p.a
Loans and receivables from banks and other financial organisations	5,649,165	575,378	4,111,299	131,636	10,319	-	573,118	-	-	-	-	-	-
Loans and receivables from customers	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	689,278	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	22,813	55	805,996	6	-	-	4	-	-	-	-	-	-
Total assets	**6,361,256**	**575,433**	**4,917,295**	**131,642**	**10,319**	**-**	**573,122**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central bank	2,732,281	498,190	1,842,459	-	-	-	94	-		-	-	-	-
Deposits and other liabilities to customers	-	-	-	-	-	-	-	-	-	-	-	924	-
Financial liabilities at fair value held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilites	7,981	272	28,307	-	72	-	32	-	-	-	-	-	-
Total liabilities	**2,740,262**	**498,462**	**1,870,766**	**-**	**72**	**-**	**126**	**-**	**-**	**-**	**-**	**924**	**-**
Interest income	41,874	-	74,093	-		25	-	-	-	-	-	-	-
Fee and commission income	49,314	1,475	11,023	2,010	961	-	2	-	-	-	-	2	-
Net profit on financial assets held for trading	689,278	-	-	-	-	-	-	-	-	-	-	-	-
Net profit on foreign exchange rate and FX contracts	86,268	169	-	-	-	-	-	-	-	-	-	-	-
Other operating income	1,182		807,558	-	-	-	-	-	-	-	-	-	-
Total income	**867,916**	**1,644**	**892,674**	**2,010**	**961**	**25**	**2**	**-**	**-**	**-**	**-**	**2**	**-**
Interest expense	(16,201)	(1,892)	(5,179)	-	-	-	-	-	-	-	-	-	-
Fee and commission expenses	(77,603)	(3,064)	(42)	(123)	(1,283)	-	(449)	-	-	-	-	(4)	-
Net profit on financial assets held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss on foreign exchange rate and FX contracts	(269,745)	(847)	-	-	-	-	-	-	-	-	-	-	-
Other expenses	(380,713)	(28,804)	-	-	-	-	-	-	-	(6,649)	-	-	(6,163)
Total expenses	**(744,262)**	**(34,607)**	**(5,221)**	**(123)**	**(1,283)**	**-**	**(449)**	**-**	**-**	**(6,649)**	**-**	**(4)**	**(6,163)**
Off-balance sheet items - derivatives FX SWAPs	67,072,772	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	1,346,383	49,389	1,322,918	1,942,641	2,202,747	9,826				5,365			
Total off-balance sheet items	**68,419,155**	**49,389**	**1,322,918**	**1,942,641**	**2,202,747**	**9,826**	**-**	**-**	**-**	**5,365**	**-**	**-**	**-**

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28. RELATED PARTY DISCLOSURES (Continued)

2015	Intesa Sanpaolo S.p.A., Itali, England, SAD; Germany; Turkey; Ireland; Romania; Albania	Privredna bank d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgarde	Vseobecna Uverova banka A.S., Slovakia	Banka Koper d.d., Slovenia	Bank of Alexandria, Egipt	Intesa Sanpaolo Banka D.D. Bosnia i Herzegovin a	Intesa Sanpaolo Card d.o.o., Ljubljana, Slovenia	Intesa Sanpaolo Card d.o.o., Zagreb, Croatia	CIB Bank, Hungary	Soeciete europeenn de banque S.A.	Intesa Sanpaolo Holding International S.A., Luxemburg
Loans and receivables from banks and other financial organizations	7,448,847	514,433	2,233,176	588,740	483,301	556,992	592,008	-		-	-	-
Loans and receivables from customers	-	-	-	-	-	-	-	-	40	-	-	-
Financial assets held for trading	257,799	-	-	-	-	-	-	-	-	-	-	-
Other assets	28,188	13	12,494	-	1	-	1	-	287	-	-	-
Total assets	**7,734,834**	**514,446**	**2,245,670**	**588,740**	**483,302**	**556,992**	**592,009**	**-**	**327**	**-**	**-**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central Bank	3,285,188	4,481	1,242,330	-	-	-	93	-		-	-	-
Deposits and other liabilities due to customers	-	-	-	-	-	-	-	-	7,581	-	-	427
Financial liabilities at fair value held for trading	68,897	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	462,720	25,268	39,064	-	70	-	51	55,662	10,636	1,641	-	-
Total liabilities	**3,816,805**	**29,749**	**1,281,394**	**-**	**70**	**-**	**144**	**55,662**	**18,217**	**1,641**	**-**	**427**
Interest income	8,278	-	17,599	-		95	-	-	-	-	-	-
Fee and commission income	41,434	1,108	13,392	2,018	1,014	-	-	-	34	-	-	-
Net profit on financial assets held for trading	257,799	-	-	-	-	-	-	-	-	-	-	-
Net profit on foreign exchange rate and FX contracts	34,881	-	-	-	-	-	-	-	-	-	-	-
Other operating income	-		13,162	-	-	-	-	-	1,750	-	-	-
Total profits	**342,392**	**1,108**	**44,153**	**2,018**	**1,014**	**95**	**-**	**-**	**1,784**	**-**	**-**	**-**
Interest expenses	(28,157)	-	(15,804)	-	-	-	-	-	-	-	-	-
Fee and commission expenses	(66,089)	(2,460)	-	-	(892)	-	(426)	(419,550)	(233,390)	-	-	-
Net profit on financial assets held for trading	(68,897)	-	-	-	-	-	-	-	-	-	-	-
Net profit on foreign exchange rate and FX contracts	(211,517)	-	-	-	-	-	-	-	-	-	-	-
Other expenses	(460,160)	(28,439)	-	-	-	-	-	(9,943)	(36,082)	(1,641)	-	-
Total expenses	**(834,820)**	**(30,899)**	**(15,804)**	**-**	**(892)**	**-**	**(426)**	**(429,493)**	**(269,472)**	**(1,641)**	**-**	**-**
Off-balance sheet items - derivatives - swaps	49,975,957	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	405,365		3,040,653	4,257,329	2,330,468					2,615		
Total Off-balance sheet items	**50,381,322**	**-**	**3,040,653**	**4,257,329**	**2,330,468**	**-**	**-**	**-**	**-**	**2,615**	**-**	**-**

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28. RELATED PARTY DISCLOSURES (continued)

The aforementioned receivables and liabilities at the balance sheet date, as well as income and expenses, relate to business transactions transacted during the year with related parties of the Intesa Sanpaolo Group in the ordinary course of doing business.

Interest is calculated on the Bank's receivables and payables at the usual rates.

a) Gross salaries and other benefits of members of the Executive Board and other key personnel of the Bank, including members of the Board of Directors, during 2016 and 2015, are presented as follows:

RSD thousand

	2016	**2015**
Remunerations to members of the Executive Board, Board of Directors and other key management of the Bank	239,301	237,525
Total	**239,301**	**237,525**

b) Loans and receivables from the members of the Executive Board and the Board of Directors and other key personnel of the Bank, are presented as follows:

RSD thousand

	2016	**2015**
Loans	139,125	291,002
Allowances for impairment	(432)	(444)
Balance as of 31 December	**138,693**	**290,558**

29. RISK MANAGEMENT

Risk is an inherent part of the Bank's activities and cannot be eliminated completely. It is important to manage risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is a critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, risk of exposure toward a single entity or a group of related entities (concentration risk), risk of investments and risk related to the country of origin of the entity to which the Bank is exposed.

The Board of Directors and the Executive Board are responsible for implementation of an adequate risk management system and for its consistent application.

The Bank's Board of Directors determines the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors. The Executive Board approves internal acts which define risk management and proposes strategies and policies for risk management to Audit Committee and Board of Directors.

The Committee for monitoring business activities (Audit Committee) analyses and adopts proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

The Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management, as well as to enable functional and organizational segregation of risk management activities from regular business activities. This department is directly responsible to the Executive Board.

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29. RISK MANAGEMENT (continued)

The Bank has developed the comprehensive risk management system by introducing policies and procedures, as well as limits for risk levels acceptable for the Bank.

The Bank's organizational parts authorized for risk management constantly monitor changes in regulations, while analyzing their influence on the risks at entity level of the Bank. They take necessary measures to make the Bank's business activities and procedures fully compliant with new procedures within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

29.1. Credit risk

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Bank, whether fully or partially. Through its internal acts, policies and procedures, the Bank has implemented an adequate system of credit risk management, thus reducing credit risk to an acceptable level. The Bank manages credit risk through setting credit risk limits, establishing acceptable credit limits for individual customers or for groups of customers.

Credit risk is managed by the Bank at a counterparty specific level, group of related parties, and at total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates creditworthiness of each client, both at the moment of loan application, as well as through subsequent regular and continuous performance analysis. Analysis of the client's creditworthiness, timely settlement of liabilities in the past, value of collateral at customer level and at transaction level, is performed in the Credit Management Department.

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29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Maximal exposure to credit risk

Maximal exposure to credit risk by the type of client as of 31 December 2016 and 2015 are presented as follows:

	Balance sheet assets to be classified	Allowances for impairment for Balance sheet assets to be classified	Balance sheet assets not to be classified	Balance sheet as of 31 December 2016
Cash and balances with Central Bank	18,858	-	102,352,042	102,370,900
Financial assets at fair value held for trading through profit and loss		-	1,984,720	1,984,720
Financial assets initially carried at fair value through profit and loss	46,068	-	-	46,068
Financial assets available for sale	49,324	-	120,309,466	120,358,790
Loans and receivables from banks and other financial organizations	34,770,772	(22,533)	2,843,573	37,591,812
Loans and receivables from banks	27,757,204	(19,663)	-	27,737,541
Loans and receivables from other financial organizations	7,013,568	(2,870)	2,843,573	9,854,271
Loans and receivables from customers	295,061,619	(23,315,734)	4,044	271,749,929
Investments in subsidiaries	962,496	-	-	962,496
Intangible assets	-	-	1,347,422	1,347,422
Property, plant and equipment	-	-	7,398,719	7,398,719
Investment property	-	-	174,147	174,147
Deferred tax assets	-	-	237,493	237,493
Non-current assets held for sale and discontinued operations	1,697,057	-	-	1,697,057
Other assets	5,081,228	(57,414)	472,405	5,496,219
TOTAL ASSETS	**337,687,422**	**(23,395,681)**	**237,124,031**	**551,415,772**

	Balance sheet assets to be classified	Allowances for impairment for Balance sheet assets to be classified	Balance sheet assets not to be classified	Balance sheet as of 31 December 2015
Cash and balances with Central Bank	26,222	-	98,913,099	98,939,321
Financial assets initially carried at fair value through profit and loss	-	-	1,431,783	1,431,783
Financial assets available for sale	70,974	-	-	70,974
Loans and receivables from banks and other financial organizations	49,361	-	77,999,464	78,048,825
Loans and receivables from banks	26,122,981	(36,189)	10,081,588	36,168,380
Loans and receivables from other financial	23,593,548	(28,020)		23,565,528
organizations	2,529,433	(8,169)	10,081,588	12,602,852
Loans and receivables from customers	283,815,527	(26,196,721)	229,803	257,848,609
Investments in subsidiaries	962,496	-	-	962,496
Intangible assets	-	-	818,694	818,694
Property, plant and equipment	-	-	8,718,461	8,718,461
Investment property	-	-	224,358	224,358
Current tax assets	-	-	79,396	79,396
Deferred tax assets	-	-	220,561	220,561
Non-current assets held for sale and discontinued operations	256,254	-	-	256,254
Other assets	3,158,590	(79,752)	932,219	4,011,057
TOTAL ASSETS	**314,462,405**	**(26,312,662)**	**199.649.426**	**487,799,169**

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29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for covering the risk, risk concentration (large exposures), portfolio credit risk, the level of capital necessary for covering all credit risks is performed by the Risk Management Department.

The Bank established a special organizational unit, the Delinquency Management Department, in order to manage receivables with a problem of collectability in a timely manner.

The Credit Management Department, the Risk Management Department and the Delinquency Management Department are independent units in the Bank.

Principles prescribed by the National Bank of Serbia, as well as the Bank's internal procedures are applied in these analyses in order to anticipate potential risks that can arise in terms of a client's inability to settle liabilities when they fall due and according to contracted terms.

In that sense, an assessment of the required reserves level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, monthly portfolio analysis, are carried out. The analysis entails measuring the adequacy of provision/reserves according to client type, risk type, according to sub-portfolios and total portfolio of the Bank.

Decision making on exposure to credit risk is performed based on proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually, depending on the client type, purpose of loan, estimated creditworthiness and current market position. Types of collateral that accompany each loan are also determined according to a client's creditworthiness analysis, type of credit risk exposure, term of placement, as well as the amount of a particular loan. Conditions for loan approvals to retail clients and entrepreneurs are determined by defining standard conditions for different types of products. Risk price for standard types of products is calculated according to the analysis of credit costs which Bank had in the past and historical probability of getting into default status per each type of product. Risk price for the SME and Corporate segment is calculated on the basis of the client's internal rating or historically adjusted probability of getting into default status per each rating category.

Considering the importance of credit risk, dispersion of authorizations was carried out in respect of the decision making process related to loan approval activities. This dispersion is provided with prescribed limits up to which an authorized person or management body can make loan approval decisions. Organizational parts making decisions with respect to loan approvals, with different levels of authorizations, are as follows: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, approval of the Parent Bank is necessary.

The Bank manages credit risk by setting up limits with respect to period, amount and results of an individual customer's creditworthiness, through diversification of loans to a larger number of customers and contracting foreign exchange clauses and index-linking to a consumer price index in order to maintain the real value of loans.

Furthermore, the Bank manages credit risk through assessment and analysis of received collaterals, by providing allowances for impairment of financial assets, provisions for off-balance sheet items, as well as by determining the adequate price of a loan which covers the risk of a particular placement.

In addition to a clients' creditworthiness, risk limits are also set based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analyzed before executing a transaction.

Loan concentration risk

Loan Concentration Risk is the risk which is arising, directly or indirectly, from the Bank's exposure to the same or similar source or type of risk. The Bank controls loan concentration risk by limiting the exposure, which enables the diversification of the loan portfolio. In order to more efficiently monitors concentration risk, the Bank has determined three categories of limits: specific limits, general limits and regulatory limits.

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29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Derivative financial instruments

Derivative financial instruments result in the Bank's exposure to credit risk when the fair value of such instruments is positive for the Bank. Credit exposure arising from derivatives is calculated using the current exposure method, i.e. the sum of the positive fair value of the contract and the nominal value of the derivative multiplied by a coefficient which depends on the type and maturity of the financial derivative, as prescribed by the National Bank of Serbia. The credit risk of derivatives is limited by determining maximum credit exposure arising from a derivative for each individual customer.

In accordance with the above mentioned, as of 31 December 2016 and 31 December 2015 the Bank has the following exposures to counterparties:

		RSD thousand
	Nominal value	**Total exposure**
Total 2016	**66,992,882**	**1,360,831**
Currency (FX) Swap	66,992,882	1,360,831
Currency(FX) Forward		
Total 2015	**53,474,129**	**792,540**
Currency (FX) Swap	53,474,129	792,540
Currency(FX) Forward	-	-

Stated amounts represent credit exposure on derivatives, calculated as the sum of the positive fair value of the contract and the nominal value of the derivative, multiplied by a coefficient prescribed by the National Bank Serbia. Amounts presented within the Note 27d represent fair value of derivatives in the Bank's books.

Risks similar to credit risk

The Bank issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies applied for credit risk.

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of a customer's creditworthiness, type of exposure to the credit risk, placement's maturity, as well as the amount itself.

Contractual authorization, as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, state guarantees, guarantees issued by another bank or a legal entity, pledging of securities, or joint loan contracting with another legal entity which then becomes the joint debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuations of the assets, as carried out by an approved appraiser, in order to minimize potential risk. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardized, previously defined conditions, using a scoring model, with additional analysis by credit analysts.

Assessment of impairment of financial assets

The main factors considered for financial assets impairment assessment include: overdue payments of principal or interest, identified weakness in cash flows of customers, internal credit rating downgrades, or breach of original terms of contract. The Bank performs assessment of impairment at two levels, individual and collective.

Individual assessment of impairment

The Bank performs individual assessment of impairment for each individually significant loan or advance (exceeding EUR 250,000) if it is in the status of default (materially significant amount overdue more than 90 days), i.e. if there is objective evidence that the loan has been impaired

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29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc. Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a loan and its estimated recoverable amount, being the present value of expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client's creditworthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

Collective assessment of impairment

Collective Assessment of impairment is performed for loans and advances that are not individually significant and for individually significant loans and advances, where there is no objective evidence of individual impairment. Allowances are evaluated monthly with separate reviews of each sub-portfolio, which represents a specific group of loans and advances with similar characteristics and similar risk profile.

The collective assessment of impairment takes into account impairment that is likely to be present in the Bank's portfolio, even though there is not as yet objective evidence of individual assessment. Impairment losses are estimated based on PD (probability of default) and LGD (loss given default) parameters. For legal entities, with determined internal rating, the corresponding PD values are used. For individuals, PD calculation is based on long-term average of migration from performing to non-performing classes in a 1-year horizon. LGD parameter is estimated using historical recovery rates on non-performing positions.

Special reserves for estimated losses

Both for corporate and retail loans, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Bank Balance Sheet Assets and Off Balance Sheet Items. Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans and advances

a) Maximum Exposure to Credit Risk

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2016 and 2015 is presented in the table below:

RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified***		**Total 2016**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Serbia	307,822,029	2,794,639	97,076,407	41,063	407,734,138
Europe	2,103,846	20,637,861	48,138	529,556	23,319,401
America	4,206	2,157,542	79	6,050	2,167,877
Rest of the world	135	2,167,162	32,914	2,665	2,202,876
Total	**309,930,216**	**27,757,204**	**97,157,538**	**579,334**	**435,424,292**

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29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)
a) Maximum Exposure to Credit Risk (continued)

RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified*		Total 2015
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Serbia	289,332,321	3,679,009	87,313,496	39,908	380,364,734
Europe	1,508,932	19,103,515	102,905	5,506	20,720,858
America	4,197	226,763	1,171	33,708	265,839
Rest of the world	23,407	584,260	972	6,590	615,229
Total	**290,868,857**	**23,593,547**	**87,418,544**	**85,712**	**401,966,660**

** Maximum exposure to credit risk by off-balance sheet items is presented in the Note 27.*

Analysis of the Bank's exposure to credit risk, by industry sectors as of 31 December 2015 and 2014, is presented in the table below:

RSD thousad

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2016
Industry	**191,949,102**	**73,068,609**	**265,017,711**
Trade	40,247,211	19,057,316	59,304,527
Transportation and communication	7,316,566	2,901,261	10,217,827
Construction	15,722,122	12,054,310	27,776,432
Services, tourism and accommodation services	36,821,050	13,133,903	49,954,953
Food and beverage production	18,422,904	3,418,723	21,841,627
Permanent goods production	14,104,738	10,526,219	24,630,957
Agriculture, hunting, fishing and forestry	12,064,467	1,870,972	13,935,439
Other	47,250,044	10,105,905	57,355,949
Banks	**27,757,205**	**579,334**	**28,336,539**
Local Government	**8,110,037**	**997,169**	**9,107,206**
Retail loans	**109,871,076**	**23,091,760**	**132,962,836**
Mortgage loans	53,471,529	-	53,471,529
Other	56,399,547	23,091,760	79,491,307
Total	**337,687,420**	**97,736,872**	**435,424,292**

RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2015
Industry	**188,483,553**	**64,806,516**	**253,290,069**
Trade	38,625,984	14,444,646	53,070,630
Transportation and communication	6,774,381	1,838,288	8,612,669
Construction	16,778,060	9,337,838	26,115,898
Services, tourism and accommodation services	47,920,215	12,505,639	60,425,854
Food and beverage production	16,322,601	5,188,851	21,511,452
Permanent goods production	13,889,707	7,902,909	21,792,616
Agriculture, hunting, fishing and forestry	11,471,443	1,319,344	12,790,787
Other	36,701,162	12,269,001	48,970,163
Banks	**23,593,547**	**85,712**	**23,679,259**
Local Government	**8,432,837**	**1,593,195**	**10,026,032**
Retail loans	**93,952,468**	**21,018,832**	**114,971,300**
Mortgage loans	48,686,274	-	48,686,274
Other	45,266,194	21,018,832	66,285,026
Total	**314,462,405**	**87,504,255**	**401,966,660**

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29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal classification of placements which is in compliance with the standards of the Parent Bank.

The following table presents the quality of the portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2016 and 2015, based on the Bank's rating system:

RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified**		**Total 2016**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Category:*					
Performing	272,343,930	27,755,191	92,623,974	579,333	393,302,428
Past Due	518,368	-	98,457	-	616,825
Unlikely to Pay	14,318,545	12	4,304,179	-	18,622,736
Doubtful	22,749,374	2,001	130,928	-	22,882,303
Total	**309,930,217**	**27,757,204**	**97,157,538**	**579,333**	**435,424,292**

RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified**		**Total 2015**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Category:*					
Performing	243,089,810	23,591,544	82,828,347	85,712	349,595,413
Past Due	802,759	-	205,418	-	1,008,177
Unlikely to Pay	17,923,519	12	4,189,644	-	22,113,175
Doubtful	29,052,769	1,991	195,135	-	29,249,895
Total	**290,868,857**	**23,593,547**	**87,418,544**	**85,712**	**401,966,660**

Categories Past due, Unlikely to Pay and Doubtful are non-performing receivables (impaired receivables).

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29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Assessment of impairment of financial assets

The structure of allowances for impairment as of 31 December 2016 and 31 December 2015, which are determined in accordance with the Bank's internal methodology, is presented as follows:

RSD thousand

	Allowances for impairment		**Provisions**		**Total 2016**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Category:					
Performing	2,018,367	17,655	286,091	48	2,322,161
Past Due	227,825	-	21,672	-	249,497
Unlikely to Pay	7,132,670	8	689,648	-	7,822,326
Doubtful	13,997,155	2,001	57,788	-	14,056,944
Total	**23,376,017**	**19,664**	**1,055,199**	**48**	**24,450,928**

RSD thousand

	Allowances for impairment		**Provisions**		**Total 2015**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Category:					
Performing	2,764,677	26,020	494,651	46	3,285,394
Past Due	209,355	-	39,328	-	248,683
Unlikely to Pay	7,373,888	8	646,102	-	8,019,998
Doubtful	15,936,722	1,991	80,935	-	16,019,648
Total	**26,284,642**	**28,019**	**1,261,016**	**46**	**27,573,723**

Ageing analysis of unimpaired loans and receivables from customers

The ageing analysis of loans and receivables from customers past due, but not impaired as well as loans and receivables not yet due, as of 31 December 2016 and 2015 is presented as follows:

RSD thousand

	Balance sheet assets to be classified		**Allowances for impairment**		**Total 2016**	
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Balance sheet assets to be classified***	***Allowance for impairment***
Receivables undue:	**262,260,689**	**27,755,191**	**1,769,791**	**17,655**	**290,015,880**	**1,787,446**
Receivables overdue:	**10,083,241**	**-**	**248,576**	**-**	**10,083,241**	**248,576**
01-30 days	8,877,382	-	188,454	-	8,877,382	188,454
31-60 days	674,229	-	44,696	-	674,229	44,696
61-90 days	270,039	-	14,603	-	270,039	14,603
>90 days[1]	261,591	-	823	-	261,591	823
Total	**272,343,930**	**27,755,191**	**2,018,367**	**17,655**	**300,099,121**	**2,036,022**

[1] Receivables past due for more than 90 days, but not impaired relate to smaller amounts of receivables which are due, but immaterial and therefore have no impact on classification of debtors**.**

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29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

RSD thousand

	Balance sheet assets to be classified		Allowances for impairment		Total 2015	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowance for impairment*
Receivables undue:	**231,626,693**	**23,591,544**	**2,502,443**	**26,020**	**255,218,237**	**2,528,463**
Receivables overdue:	**11,463,117**	**-**	**262,234**	**-**	**11,463,117**	**262,234**
01-30 days	8,519,991	-	171,016	-	8,519,991	171,016
31-60 days	980,403	-	46,643	-	980,403	46,643
61-90 days	1,619,060	-	33,691	-	1,619,060	33,691
>90 days[2]	343,663	-	10,884	-	343,663	10,884
Total	**243,089,810**	**23,591,544**	**2,764,677**	**26,020**	**266,681,354**	**2,790,697**

Collateral analysis

Analysis of portfolio balance and off-balance sheet items by the collateral type, as of 31 December 2016 and 2015:

RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2016
Corporate Loans:	**191,949,103**	**73,068,609**	**265,017,712**
Guaranteed by government	15,640,204	-	15,640,204
Guaranteed by bank	78,262	10,000	88,262
Secured by mortgage	45,525,937	6,174	45,532,111
Secured by deposit	1,660,036	1,095,336	2,755,372
Unsecured	129,044,664	71,957,099	201,001,763
Loans to banks:	**27,757,204**	**579,333**	**28,336,538**
Unsecured	27,757,204	579,333	28,336,538
Loans to local government:	**8,110,037**	**997,169**	**9,107,206**
Secured	729,420	-	729,420
Unsecured	7,380,617	997,169	8,377,786
Retail loans:	**109,871,076**	**23,091,760**	**132,962,836**
Secured by residential mortgage	47,736,212	-	47,736,212
Secured by non-residential mortgage	1,899,306	-	1,899,306
Secured by deposit	460,264	104,405	564,669
Unsecured	59,775,294	22,987,355	82,762,649
Total	**337,687,420**	**97,736,871**	**435,424,292**

[2] Receivables past due for more than 90 days, but not impaired relate to smaller amounts of receivables which are due, but immaterial and therefore have no impact on classification of debtors**.**

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29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2015
Corporate Loans:	**188,483,553**	**64,806,516**	**253,290,069**
Guaranteed by government	23,160,302	-	23,160,302
Guaranteed by bank	82,940	-	82,940
Secured by mortgage	59,459,665	11,601,029	71,060,694
Secured by deposit	1,845,069	1,278,392	3,123,461
Unsecured	103,935,576	51,927,096	155,862,672
Loans to banks:	**23,593,547**	**85,712**	**23,679,259**
Secured	-	-	-
Unsecured	23,593,547	85,712	23,679,259
Loans to local government:	**8,432,837**	**1,593,195**	**10,026,032**
Secured	1,096,709	-	1,096,709
Unsecured	7,336,128	1,593,195	8,929,323
Retail loans:	**93,952,468**	**21,018,832**	**114,971,300**
Secured by residential mortgage	44,558,605	-	44,558,605
Secured by non-residential mortgage	2,553,064	-	2,553,064
Secured by deposit	649,484	100,824	750,308
Unsecured	46,191,315	20,918,008	67,109,323
Total	**314,462,405**	**87,504,255**	**401,966,660**

All collaterals are presented to the amount of receivables. Mortgage must meet the requirements of the National Bank of Serbia in order to be used as a collateral and those requirements are: to be registered, there must be an appraisal for the mortgaged property by the authorized appraiser not older than 3 years (except in the case of mortgaged residential real estate property where the amount of the outstanding bank exposure does not exceed 40% of its value), owner of the property cannot be under bankruptcy, appraised value of property reduced by all higher ranked receivables must be greater than the amount of receivables, receivables secured by the mortgage cannot be overdue for more than 720 days.

Collateral Analysis

Loan to value ratio (LTV ratio) for mortgage loans as of 31 December 2016 and 2015:

Mortgage LTV	2016	Mortgage LTV	2015
< 50%	13,308,347	< 50%	14,267,556
51%-70%	12,338,126	51%-70%	15,874,912
71%-90%	15,642,237	71%-90%	10,724,631
91%-100%	3,065,874	91%-100%	1,469,441
> 100%	9,116,945	> 100%	6,349,734
Total	**53,471,529**	**Total**	**48,686,274**

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29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Non-performing loan analysis

Balance sheet assets and allowances for impairment (NPL – categories: past due, unlikely to pay, doubtful and restructured) as of 31 December 2016 and 31 December 2015 are presented as follows:

RSD thousand

	Balance sheet assets to be classified		**Allowances for impairment**		**Total 2016**	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowances for impairment*
Individual assessment	31,751,790	-	17,189,913	-	31,751,790	17,189,913
Collective assessment	5,834,497	2,013	4,167,737	2,009	5,836,510	4,169,746
Total	**37,586,287**	**2,013**	**21,357,650**	**2,009**	**37,588,299**	**21,359,659**

RSD thousand

	Balance sheet assets to be classified		**Allowances for impairment**		**Total 2015**	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowances for impairment*
Individual assessment	41,873,534	-	20,051,247	-	41,873,534	20,051,247
Collective assessment	5,905,513	2,003	3,468,718	1,999	5,907,516	3,470,717
Total	**47,779,047**	**2,003**	**23,519,965**	**1,999**	**47,781,050**	**23,521,964**

Renegotiated loans analysis

Balance sheet assets and allowances for impairment for renegotiated loans as of 31 December 2016 and 2015 are presented as follows:

RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified**		**Total 2016**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Renegotiated Loans:					
Loans	7,288,246	-	1,182	-	7,289,428
Allowances for impairment	(2,570,731)	-	-	-	(2,570,731)
Total	**4,717,515**	**-**	**1,182**	**-**	**4,718,697**

RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified**		**Total 2015**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Renegotiated Loans:					
Loans	11,173,949	-	137	-	11,174,086
Allowances for impairment	(2,975,589)	-	-	-	(2,975,589)
Total	**8,198,360**	**-**	**137**	**-**	**8,198,497**

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29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Renegotiated loans are all loans for which previous conditions, as term, dynamics of settlement, interest rate and etc. have been changed in order to provide benefits for the client.

Credit Conversion Factor Analysis

Credit Conversion Factors (CCF) for off-balance sheet items in portfolio as of 31 December 2016 and 31 December 2015 are presented as follows:

	Off-balance sheet items to be classified			**Total 2016**
	Corporate Loans	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
CCF				
0%	36,859,875	-	-	36,859,875
20%	190,688	-	-	190,688
50%	21,790,888	571,099	23,091,760	45,453,747
100%	15,224,327	8,234	-	15,232,561
Total	**74,065,778**	**579,333**	**23,091,760**	**97,736,871**

RSD thousand

	Off-balance sheet items to be classified			**Total 2015**
	Corporate Loans	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
CCF				
0%	26,297,647	-	-	26,297,647
20%	-	-	-	-
50%	19,919,916	-	21,013,310	40,933,226
100%	20,182,149	85,712	5,521	20,273,382
Total	**66,399,712**	**85,712**	**21,018,831**	**87,504,255**

29.2. Liquidity Risk and Financial Assets Management

The Risk Management Department is responsible for measuring and monitoring liquidity and for the regular preparation of reports, which present the effects of the migration of various categories of assets and liabilities of the Bank to its liquid assets position. Liquidity Risk Management system is in compliance with measures and criteria determined by the Parent Bank as well as regulations determined by the National Bank of Serbia.

In 2014, the Bank has adopted and implemented requirements for monitoring and measuring liquidity risk, determined by the Parent Bank, and in that way implemented Basel III Standards on monitoring liquidity in its internal systems. These standards have been implemented through local Liquidity policy, which is completely in compliance with Group standards and ERMASnet 5 technical solution, which provides standardized monitoring of liquidity risk on the level of ISP Group. Further, the Bank must monitor and report on liquidity indicators, which are determined by the local regulations and are not in compliance with Basel III Standards.

Basic activities of liquidity risk management include:
- planning of cash inflows and outflows;
- implementation and monitoring of liquidity indicators;
- measurement and monitoring of the Bank's liquidity;
- monitoring of liquidity crisis indicators; and
- preparation of the Reports for the management.

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29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

Liquidity Risk management is done through monitoring following limits/indicators:
- Regulatory liquidity ratio and Narrow regulatory liquidity ratio;
- LCR (Liquidity Coverage Ratio) – Delegated Act (EU) 2015/61 regulation (2016) i.e.. CRR/CRD IV regulation (2015) for monitoring short-term liquidity;
- LCR by significant currency;
- NSFR (Net Stable Funding Ratio) - Basel III standard for monitoring long-term liquidity;
- Amount and structure of liquidity reserves;
- Liquidity reserves for daily operations;
- Projected cumulative gap up to one week;
- Stress test of liquidity - stress LCR indicator.

In 2016 Regulatory liquidity ratio and Narrow regulatory liquidity ratio were significantly above the limit determined by Law and average regulatory liquidity ratio was three times above required level.

Liquidity ratio

	31 December	Average	Maximum	Minimum
2016	2.62	2.83	3.44	2.18
2015	2.63	2.83	3.40	2.24

Narrow liquidity ratio

	31 December	Average	Maximum	Minimum
2016	2.26	2.30	2.97	1.71
2015	2.05	2.22	2.78	1.69

LCR is in compliance with Delegated Act regulation (EU regulation) and represents short-term liquidity position of the Bank (in 2015 LCR indicator was calculated in accordance with CRR/CRD IV regulation). LCR indicator should provide adequate level of highly liquid assets (cash or assets which can be converted into cash with small or without any loss in value) in order to fulfil Bank's needs for liquidity in 30 day period of stress scenario. Limit is defined according to Intesa Group's guidelines and it must not be less than 0.8 (80%).

LCR (Liquidity Coverage Ratio)

	31 December	Average	Maximum	Minimum
2016 (LCR_DA)	3.28	6.70	7.83	3.28
2015 (LCR_CRR)	1.95	2.47	3.62	1.59

LCR is monthly reported to ALCO board by the most significant currencies (RSD and EUR), and as of 31 December it is 6.88 for liquidity position in domestic currency and 1.76 for liquidity position in foreign currency (EUR). Considering that USD is the most significant foreign currency at the Group level, the Bank must report monthly on LCR in USD, although USD participation in balance sheet assets is 4.4%.

NSFR (Net Stable Funding Ratio)

NSFR is in compliance with Basel III requirements and represents Bank's structural liquidity position. NSFR is an indicator of structural liquidity in normal conditions (usual business circumstance), which represents term transformation and should limit it in one year time period. This standard should reduce financing risk during the longer time period by requiring from the Bank to fund its activities from stable sources of funds. Limit is set in accordance with the Groups guidelines and it must not be less than 0.9 (90%).

	31 December	Average	Maximum	Minimum
2016	2.00	1.99	2.04	1.94
2015	1.87	1.91	2.12	1.79

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29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

Although average values of indicators defined by National Bank of Serbia and by the Delegated Act regulations coincide and provide similar view to liquidity, differences in the calculation of these indicators must be remarked:

- by the regulations of the National Bank of Serbia, when calculating liquidity indicators, total amount of required reserves are considered to be liquidity reserves, while in the calculation of LCR indicator only amount above required reserves is considered to be the part of liquidity reserves.
- local regulations consider government securities in local currency with maturity longer than 90 days to be liquidity reserves by applying 10% haircut on the market value of the bonds. However, when calculating LCR indicator, government securities are taken in account both in local and foreign currency with 0% haircut.
- in accordance with local regulations, cash flows from high quality loans are calculated with the coefficient of 100%, however when calculating LCR indicator loans with maturity date within the following month coefficient of 20%/50%/100% is applied depending on type of counterparty;
- Only matured part of retail term deposits is included in the calculation of liquidity indicator defined by the National Bank of Serbia, while total amount of retail term deposits is included in the calculation of LCR indicator, because of the possibility to be withdrawn at any time, without the penalty that is greater than the loss of interest.
- Local regulations require 20% haircut to be applied on irrevocable commitments for undisbursed loans, while Delegated Act regulation requires 5% haircut.

By adopting Group Liquidity Risk Management Guidelines (by the Board of Directors as at 23rd of September 2015) which define Basel III standards, CRR/CRD IV regulation and Delegated Act of liquidity as the primary measure of the liquidity risk at the ISP Group level, the Bank has included the most advanced system of monitoring liquidity into its internal risk management system.

Requirements defined by Basel III,CRR/CRD IV regulation and Delegated Act liquidity standards and ISP Group Policy are adopted locally through Liquidity risk management policy and Policy implementation procedure by the Board of Directors (as of 26th of November 2015). LCR is implemented as the primary liquidity indicator, which is ratio between high quality liquid assets (HQLA) and net outflows, expected in one month time period.

Further, the Bank must maintain and report on liquidity reserves level, required by the ISP Group standards, which is defined by the Liquidity policy.

Structure of the liquidity reserves in total as of 31 December 2016 is presented in the following table (RSD thousand):

Liquidity reserves	Carrying amount / Fair value	Haircut	Available value
Reserves required by the Central Bank	93,317,391	0%	93,317,391
RSD reserves required by the Central Bank	36,923,055	0%	36,923,055
Foreign currency reserves required by the Central Bank	56,394,336	0%	56,394,336
Cash on foreign currency account at Central Bank	2,469,446	0%	2,469,446
Cash on nostro accounts at other banks	19,100,758	0%	19,100,758
Other cash and cash equivalents	11,517,416	0%	11,517,416
Available no-load government securities	121,629,955	9.59%	109,966,429
In local currency	56,871,481	11%	50,615,618
In foreign currency	64,758,474	8.35%	59,350,811
Total liquidity reserves	248,034,966		236,371,440

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29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

Structure of the liquidity reserves in total as of 31 December 2015 is presented in the following table (RSD thousand):

Liquidity reserves	Carrying amount / Fair value	Haircut	Available value
Reserves required by the Central Bank	66,513,120	0%	66,513,120
RSD reserves required by the Central Bank	5,005,042	0%	5,005,042
Foreign currency reserves required by the Central Bank	61,508,078	0%	61,508,078
Cash on nostro accounts at other banks	11,392,196	0%	11,392,196
Other cash and cash equivalents	7,429,550	0%	7,429,550
Available no-load government securities	79,195,113	9%	71,970,065
In local currency	49,466,834	11%	44,025,482
In foreign currency	29,728,280	6%	27,944,583
Total liquidity reserves	164,529,979		157,304,931

Liquidity reserves structure is as follows: Reserves required by the Central Bank in domestic and foreign currency on which 0% haircut is applied, Cash on nostro accounts at other banks, Other cash and cash equivalents (including gold), Government bonds in domestic and foreign currency, on which haircut defined in advance is applied. As of 31 December 2016, haircut on foreign currency securities is 8%, while on dinar securities haircut is 11%.

By the Liquidity policy, calculation of the available liquidity reserves in the stress circumstances demands use of the total amount of reserves. This amount is calculated and reported regularly to the ALCO Board. However, LCR calculation demands use of required reserves in the amount above the amount required for the period. The Parent Bank demands this cautious approach, and when it is applied the available required reserves for LCR calculation are RSD 47,552,753 thousand as of 31 December 2016 ((2015: RSD 36,856,196 thousand).

As of 31 December 2016, foreign currency account’s balance is 21,570,204 thousand dinars out of which 2,469,446 thousand dinars are on foreign account at National Bank of Serbia while 19,100,758 thousand dinars are on nostro accounts (2015: 11,392,196 thousand dinars). Currency structure of the cash on nostro accounts is as follows as of the reporting date: EUR 11,472,980 thousand dinars (2015: 7,778,252 thousand dinars), USD 3,001,132thousand dinars (2015: 1,518,717 thousand dinars), GBP 1,541,916 thousand dinars (2015: 73,619 thousand dinars), CHF 828,775 thousand dinars (2015: 1,407,651 thousand dinars), SEK 393,034 thousand dinars (2015: 270,052thousand dinars), RUB 75,445 thousand dinars (2015: 115,488 thousand dinars), and other currencies 1,787,477 thousand dinars (2015: RSD 303,034 thousand dinars).

As of 31 December 2016, available unencumbered financial assets issued by the Republic of Serbia were 110,385,913thousand dinars (2015: 67,972,631 thousand dinars), of which 56,871,481 thousand dinars are in local currency (2015: 49,466,834 thousand dinars), 44,421,365thousand is in euro currency (2015: 15,023,590 thousand dinars) and 9,093,067 thousand in USD (2015: 3,482,207 thousand dinars). On 31st of December 2016, available unencumbered financial assets issued by the Republic of Italy amounts 11,244,042 thousand dinars denominated in euro.

The Central Bank regularly determines haircut rates for different securities issues in RSD, depending on term, type of bonds and initial interest rate. Risk Management Department calculates weighted average of haircut rates, and the fair value of securities available as liquidity reserves is reduced by the calculated amount. As of reporting date, calculated and applied weighted average of haircut rates is 10%.

For the government securities, for which Central Bank does not determine haircut, for example euro securities, 10% haircut is determined by the Parent Bank and adopted through the Liquidity Policy.

However, calculation of LCR does not include ponders defined this way. Available unencumbered government financial assets are classified as First line liquidity reserves and a 0% haircut is applied to them in accordance with Delegated Act and CRR/CRD IV regulations i.e.Basel III liquidity standard.

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29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents the remaining maturity mismatch report as of 31 December 2016:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	102,353,828	-	-	-	-	17,072	102,370,900
Financial assets at fair value through profit and loss held for trading	-	-	163,091	1,128,327	-	693,302	1,984,720
Financial assets initially carried at fair value through profit and loss	46,068	-	-	-	-	-	46,068
Financial assets available for sale	7,035,337	10,393,377	54,356,854	48,595,040	-	(21,817)	120,358,790
Loans and receivables from banks and other financial organizations	33,090,868	46,703	3,581,663	882,239	12,873	(22,534)	37,591,812
Loans and receivables from customers	42,192,750	18,105,151	68,139,894	114,153,903	53,287,813	(24,129,581)	271,749,929
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	1,347,422	1,347,422
Property, plant and equipment	-	-	-	-	-	7,398,719	7,398,719
Investment property	-	-	-	-	-	174,147	174,147
Deferred tax assets	-	-	-	-	-	237,493	237,493
Non-current assets held for sale and discontinued operations	-	-	-	-	-	1,697,057	1,697,057
Other assets	-	-	-	-	-	5,496,219	5,496,219
Total assets	**184,718,851**	**28,545,230**	**126,241,501**	**164,759,508**	**53,300,686**	**(6,150,005)**	**551,415,772**

In maturity mismatch report table as of 31 December 2016, provisions are shown within bucket with non-defined maturity.

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29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	2,594	2,594
Deposits and other liabilities due to banks, other financial organizations and Central Bank	10,517,249	268,533	5,996,931	12,335,938	3,594,596	1,342,210	34,055,459
Deposits and other liabilities due to customers	275,006,654	18,571,264	66,762,094	18,868,760	1,206,362	3,037,425	383,452,558
Provisions						1,753,517	1,753,517
Tax liabilities	-	-	-	-	-	55,668	55,668
Other liabilities	3,705,477	9,431	88,999	7,820	-	4,143,438	7,955,164
TOTAL LIABILITIES	**289,229,379**	**18,849,228**	**72,848,024**	**31,212,518**	**4,800,958**	**10,334,852**	**427,274,960**
TOTAL EQUITY	-	-	-	-	-	**124,140,812**	**124,140,812**
TOTAL LIABILITIES AND EQUITY	**289,229,379**	**18,849,228**	**72,848,024**	**31,212,518**	**4,800,958**	**134,475,664**	**551,415,772**
MATURITY MISMATCH	**(104,510,528)**	**9,696,002**	**53,393,477**	**133,546,990**	**48,499,728**	**(140,625,669)**	
CUMULATIVE MATURITY MISMATCH	**(104,510,528)**	**(94,814,526)**	**(41,421,049)**	**92,125,941**	**140,625,669**		

The remaining maturity mismatch report table as of 31 December 2016, presents future cash flows based on the highly conservative assumptions, which are that total a vista deposits will mature at the same time within the following month. These assumptions do not provide realistic view on the Bank’s liquidity, considering that by analyzing time series of a vista deposits it can be concluded that they have been very stable source of funds

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29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents the remaining maturity mismatch report as of 31 December 2015:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	98,921,611	-	-	-	-	17,710	98,939,321
Financial assets at fair value through profit and loss held for trading	-	-	974,228	193,317	-	264,238	1,431,783
Financial assets initially carried at fair value through profit and loss	70,974	-	-	-	-	-	70,974
Financial assets available for sale	43,067	5,616,057	21,240,902	51,170,609	-	(21,810)	78,048,825
Loans and receivables from banks and other financial organizations	33,926,980	54,888	1,789,331	413,154	15,021	(30,994)	36,168,380
Loans and receivables from customers	44,810,747	16,109,747	61,012,163	116,965,395	45,152,473	(26,201,916)	257,848,609
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	818,694	818,694
Property, plant and equipment	-	-	-	-	-	8,718,461	8,718,461
Investment property	-	-	-	-	-	224,358	224,358
Current tax assets	-	-	-	-	-	79,396	79,396
Deferred tax assets	-	-	-	-	-	220,561	220,561
Non-current assets held for sale and discontinued operations	-	-	-	-	-	256,254	256,254
Other assets	-	-	-	-	-	4,011,057	4,011,057
Total assets	**177,773,379**	**21,780,692**	**85,016,624**	**168,742,475**	**45,167,494**	**(10,681,495)**	**487,799,169**

In maturity mismatch report table as of 31 December 2015, provisions are shown within bucket with non-defined maturity.

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29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	74,358	74,358
Deposits and other liabilities due to banks, other financial organizations and Central Bank	4,820,257	1,098,282	4,854,976	15,444,914	4,188,961	687,672	31,095,062
Deposits and other liabilities due to customers	216,289,639	24,982,302	70,198,030	16,622,291	1,131,905	2,107,501	331,331,668
Provisions						1,729,001	1,729,001
Current Tax liabilities	-	-	-	-	-	679,444	679,444
Other liabilities	4,686,266	13,331	61,087	1,362	-	3,529,646	8,291,692
TOTAL LIABILITIES	**225,796,162**	**26,093,915**	**75,114,093**	**32,068,567**	**5,320,866**	**8,807,622**	**373,201,225**
TOTAL EQUITY	-	-	-	-	-	**114,597,944**	**114,597,944**
TOTAL LIABILITIES AND EQUITY	**225,796,162**	**26,093,915**	**75,114,093**	**32,068,567**	**5,320,866**	**123,405,566**	**487,799,169**
MATURITY MISMATCH	**(48,022,783)**	**(4,313,223)**	**9,902,531**	**136,673,908**	**39,846,628**	**(134,087,061)**	
CUMULATIVE MATURITY MISMATCH	**(48,022,783)**	**(52,336,006)**	**(42,433,475)**	**94,240,433**	**134,087,061**		

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29. RISK MANAGEMENT (continued)

29.3. Market Risk

In 2016, the Bank did acquire Trading book positions and therefore was exposed to interest rate risk, price risk which could be caused by the Trading book. However, banking book was exposed to foreign currency risk, but not above the limits set by the Decision of the Board of Directors.

Foreign currency risk is the risk of occurrence of negative effects on the financial result and equity of the Bank due to changes in foreign currency exchange rates. Banking operations in different foreign currencies result in exposure to fluctuations in exchange rates of foreign currencies.

The Bank applies foreign currency risk monitoring system based on the first and second class limits.

First class limit is considered to be FX VaR limit, which is calculated and reported on daily basis. Calculation methodology is regulated by the ISP Group, which applies EWMA historical method, with 99% confidence interval and one day time period. FX VaR has been calculated on positions for each currency, because of the requirements of the Parent Bank, as well as for the increase of volatility of some currencies, which Bank has in its portfolio. However, the FX VaR is mostly determined by the volatility of EUR, since the portion of EUR of the total open FX position was 67% in average during 2016.

Second class limit is considered to be the limit of net open FX position, which represents difference between currency sensitive assets and currency sensitive liabilities. Second class limits exposure is calculated and reported on the daily basis.

During 2016, first class limit (FX VaR limit) and second class limit(limit of net open FX position), remained unchanged. During 2016 there were no registered breaches of first class limit while there was registered one breach of second class limit.

During 2016, the Bank was complied with foreign currency risk indicator, required by the regulations, which represents 20% of the regulatory equity. As of 31 December 2016 regulatory indicator of foreign currency risk was 1.81%.

The following table shows the open foreign currency position as of 31 December 2016:

RSD thousand

31 December 2016	**Carrying amount**	**Trading book**	**Banking book**
Assets complied with market risks	**372,565,903**	**44,002**	**372,521,900**
Cash and balances with Central Bank	59,697,874	-	59,697,874
Financial assets at fair value through profit and loss held for trading	44,002	44,002	-
Financial assets initially carried at fair value through profit and loss	46,068	-	46,068
Financial assets available for sale	64,714,472	-	64,714,472
Loans and receivables from banks and other financial organizations	34,974,296	-	34,974,296
Loans and receivables from customers	212,808,439	-	212,808,439
Other assets	280,752	-	280,752
Liabilities complied with market risks	**293,568,595**	**-**	**293,568,595**
Deposits and other liabilities due to banks, other financial organizations and Central Bank	26,585,845	-	26,585,845
Deposits and other liabilities due to customers	264,430,956	-	264,430,956
Other liabilities	2,551,793	-	2,551,793
Off-balance sheet financial derivatives which impact FX position	(64,593,150)	-	(64,593,150)
Allowances for impairment	(15,317,054)		(15,317,054)
Open net foreign currency position	(912,896)	44,002	(956,898)

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29. RISK MANAGEMENT (continued)

29.3. Market Risk (continued)

The following table shows the open foreign currency position as of 31 December 2015:

RSD thousand

31 December 2015	Carrying amount	Trading book	Banking book
Assets complied with market risks	**328,625,543**	**1,167,545**	**327,457,998**
Cash and balances with Central Bank	63,937,209	-	63,937,209
Financial assets at fair value through profit and loss held for trading	1,167,545	1,167,545	-
Financial assets initially carried at fair value through profit and loss	70,974	-	70,974
Financial assets available for sale	28,560,735	-	28,560,735
Loans and receivables from banks and other financial organizations	23,517,435	-	23,517,435
Loans and receivables from customers	211,123,651	-	211,123,651
Other assets	247,995	-	247,995
Liabilities complied with market risks	**264,521,288**	**-**	**264,521,288**
Deposits and other liabilities due to banks, other financial organizations and Central Bank	27,921,782	-	27,921,782
Deposits and other liabilities due to customers	234,713,270	-	234,713,270
Other liabilities	1,886,236	-	1,886,236
Off-balance sheet financial derivatives which impact FX position	(48,146,084)	-	(48,146,084)
Allowances for impairment	(16,038,629)	-	(16,038,629)
Open net foreign currency position	**(80,458)**	**1,167,545**	**(1,248,003)**

Following table represents currency structure of open net foreign currency position as of 31 December 2016 and 31 December 2015:

RSD thousand

Net open foreign currency position	2016	2015
EUR	(1,001,191)	(276,230)
USD	(8,090)	33,677
CHF	(28,385)	9,291
Other currencies	65,918	101,119
Gold and other precious metals	58,852	51,685
Total	(912,896)	(80,458)

EUR

Foreign currency VaR	31 December	Average	Maximum	Minimum
2016	4,425	13,977	49,762	2,307
2015	24,112	44,701	169,450	2,403

Following table represents effect of the change in the exchange rates on the Bank’s profit and regulatory capital:

RSD thousand

Scenario	Effect 2016	Effect 2015
10% depreciation of RSD	(91,290)	(8,046)
20% depreciation of RSD	(182,579)	(16,092)

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29. RISK MANAGEMENT (continued)

29.4. Interest rate risk

Interest rate risk is the risk of decrease in profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to interest rate risk depends on the ratio of the interest-sensitive assets and interest- sensitive liabilities.

Interest rate risk is calculated separately for the Banking book (portfolio of securities available for sale) and for Trading Book (portfolio of securities held for trading). Indicators, used for the calculation of interest rate risk in the Banking book, are sensitivity of net assets on changes in interest rate by 100 bps and sensitivity of interest income and expenses on the changes in interest rate by 100 bps.

ISP Group Methodology on the calculation of interest rate risk has been changed at the beginning of 2014 and adopted by the Bank, through internal documents and ERMAS net 5 technical solution. Changes in the methodology have included: treatment of the margin as fixed future cash flow; calculation of future cash flows by using FTP prices, instead of the contractual prices; modelling a vista deposits and discounting future cash flows by applying yield curves, modified by the historical values of PD (default probability).

The sensitivity of net assets value to changes in market interest rates of 100 bps, 200 bps and minus 200 bps is calculated, monitored and submitted monthly to Alco Committee and to the Parent Bank.

Measures used for assessment of interest rate risk on Banking Book are sensitivity of economic value of assets on 100 basis points interest rate change and sensitivity of income revenues and costs on change of on 100 basis points interest rate change.

During 2016, interest rate risk VAR limit on Trading Book remained unchanged while the total interest rate risk exposure limit on Banking Book was decreased twice.

Interest rate risk is daily monitored and submitted for the financial assets available for sale (AFS) as well as for portfolio of securities held for trading (HFT). For the financial assets available for sale following ratios of interest rate risk are calculated: IRR VaR, duration and stress test (change scenario by 50 bps, 100 bps and 200 bps). For portfolio of securities available for sale IRR VaR is calculated as measure of interest rate risk exposure.

Acceptable interest rate risk is limited to the highest possible value at interest rate risk (IRR VaR) for the portfolio of financial assets available for sale as well as the portfolio of securities held for trading.

Value at interest rate risk (IRR VaR) is considered to be the highest possible one day loss in the AFS securities portfolio and securities held for trading that the Bank could undertake under usual market movements in interest rates. IRR VaR calculation methodology is determined by the ISP Group which applies EWMA historical method with 99% confidence interval and one day time period.

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29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2016:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	102,353,828	-	-	-	-	17,072	102,370,900
Financial assets at fair value through profit and loss held for trading	-	-	163,091	1,128,327	-	693,302	1,984,720
Financial assets initially carried at fair value through profit and loss	46,068	-	-	-	-	-	46,068
Financial assets available for sale	7,035,337	10,393,377	54,356,854	48,595,040	-	(21,817)	120,358,790
Loans and receivables from banks and other financial organizations	33,638,948	39,783	3,374,516	561,099	-	(22,534)	37,591,812
Loans and receivables from customers	109,253,374	81,342,754	47,704,716	50,091,527	6,673,291	(23,315,733)	271,749,929
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	1,347,422	1,347,422
Property, plant and equipment	-	-	-	-	-	7,398,719	7,398,719
Investment property	-	-	-	-	-	174,147	174,147
Deferred tax assets	-	-	-	-	-	237,493	237,493
Non-current assets held for sale and discontinued operations	-	-	-	-	-	1,697,057	1,697,057
Other assets	-	-	-	-	-	5,496,219	5,496,219
Total assets	**252,327,555**	**91,775,914**	**105,599,177**	**100,375,993**	**6,673,291**	**(5,336,157)**	**551,415,772**

In table that represents Reprising Gap report i.e. the Bank's exposure to interest rate risk as of 31 December 2016, provisions are shown in the bucket without non-defined maturity.

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29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	2,594	2,594
Deposits and other liabilities due to banks, other financial organizations and Central Bank	11,037,249	11,545,273	5,791,486	4,149,278	189,962	1,342,210	34,055,459
Deposits and other liabilities due to customers	280,533,887	19,775,075	63,833,417	15,451,789	820,965	3,037,425	383,452,558
Provisions	-	-	-	-	-	1,753,517	1,753,517
Current Tax liabilities						55,668	55,668
Other liabilities	3,705,477	9,431	88,999	7,820	-	4,143,438	7,955,164
TOTAL LIABILITIES	**295,276,612**	**31,329,779**	**69,713,902**	**19,608,887**	**1,010,928**	**10,334,852**	**427,274,960**
TOTAL EQUITY	-	-	-	-	-	**124,140,812**	**124,140,812**
TOTAL LIABILITIES AND EQUITY	**295,276,612**	**31,329,779**	**69,713,902**	**19,608,887**	**1,010,928**	**134,475,664**	**551,415,772**
MATURITY MISMATCH	**(42,949,057)**	**60,446,135**	**35,885,274**	**80,767,105**	**5,662,364**	**(139,811,821)**	
CUMULATIVE MATURITY MISMATCH	**(42,949,057)**	**17,497,078**	**53,382,352**	**134,149,458**	**139,811,821**		

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29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2015:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	98,921,611	-	-	-	-	17,710	98,939,321
Financial assets at fair value through profit and loss held for trading	-	-	974,228	193,317	-	264,238	1,431,783
Financial assets initially carried at fair value through profit and loss	70,974	-	-	-	-	-	70,974
Financial assets available for sale	43,067	5,616,057	21,240,902	51,170,609	-	(21,810)	78,048,825
Loans and receivables from banks and other financial organizations	35,270,919	118,928	793,097	16,430	-	(30,994)	36,168,380
Loans and receivables from customers	122,923,087	80,998,334	42,053,917	34,422,569	3,652,618	(26,201,916)	257,848,609
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	818,694	818,694
Property, plant and equipment	-	-	-	-	-	8,718,461	8,718,461
Investment property	-	-	-	-	-	224,358	224,358
Current tax assets	-	-	-	-	-	79,396	79,396
Deferred tax assets	-	-	-	-	-	220,561	220,561
Non-current assets held for sale and discontinued operations	-	-	-	-	-	256,254	256,254
Other assets	-	-	-	-	-	4,011,057	4,011,057
Total assets	**257,229,658**	**86,733,319**	**65,062,144**	**85,802,925**	**3,652,618**	**(10,681,495)**	**487,799,169**

In table that represents Reprising Gap report i.e. the Bank's exposure to interest rate risk as of 31 December 2015, provisions are shown in the bucket without non-defined maturity.

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29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	74,358	74,358
Deposits and other liabilities due to banks, other financial organizations and Central Bank	4,839,444	12,917,149	9,984,542	2,666,254	-	687,673	31,095,062
Deposits and other liabilities due to customers	220,246,753	29,787,531	66,571,523	12,087,174	531,185	2,107,502	331,331,668
Provisions	-	-	-	-	-	1,729,001	1,729,001
Tax liabilities	-	-	-	-	-	679,444	679,444
Other liabilities	4,686,266	13,331	61,087	1,362	-	3,529,646	8,291,692
TOTAL LIABILITIES	**229,772,463**	**42,718,011**	**76,617,152**	**14,754,790**	**531,185**	**8,807,624**	**373,201,225**
TOTAL EQUITY	-	-	-	-	-	**114,597,944**	**114,597,944**
TOTAL LIABILITIES AND EQUITY	**229,772,463**	**42,718,011**	**76,617,152**	**14,754,790**	**531,185**	**123,405,568**	**487,799,169**
MATURITY MISMATCH	**27,457,195**	**44,015,308**	**(11,555,008)**	**71,048,135**	**3,121,433**	**(134,087,063)**	
CUMULATIVE MATURITY MISMATCH	**27,457,195**	**71,472,503**	**59,917,495**	**130,965,630**	**134,087,063**		

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29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

The table below shows the effects of change in interest rates on the Bank's net income and net assets, valued by applying standard scenario and not taking into account assumptions on asymmetrical changes of the yield curve. Standard scenario implies parallel movement of the yield curve by 100bps and 200 bps.

RSD thousand

	Increase by 100bps	Decrease by 100bps	Increase by 200bps	Decrease by 200bp
Sensitivity of the Bank's net income on the change in interest rates				
2016				
As of 31 December	(294,185)	294,185	(588,370)	588,370
Period average	(257,967)	257,967	(515,934)	515,934
Period maximum	158,693	507,998	317,386	1,015,995
Period minimum	(507,998)	(158,693)	(1,015,995)	(317,386)
2015				
As of 31 December	(195,818)	195,818	(391,636)	391,636
Period average	(104,476)	104,476	(208,952)	208,952
Period maximum	191,054	512,025	382,107	1,024,050
Period minimum	(512,025)	(191,054)	(1,024,050)	(382,107)
Sensitivity of the Bank's net assets on the change in interest rates				
2016				
As of 31 December	(838,377)	838,377	(1,844,676)	2,484,480
Period average	(921,712)	921,712	(1,470,006)	2,199,051
Period maximum	(535,917)	1,152,259	(1,094,714)	2,628,681
Period minimum	(1,152,259)	535,917	(1,844,676)	1,687,687
2015				
As of 31 December	(971,530)	971,530	(1,817,094)	2,447,331
Period average	(786,846)	786,846	(1,440,785)	2,155,138
Period maximum	(599,305)	974,464	(1,066,595)	2,587,001
Period minimum	(974,464)	599,305	(1,817,094)	1,644,336

The following table represents value at risk for financial assets available for sale portfolio:

EUR

IRR AFS VaR	31. December	Average	Maximum	Minimum
2016	719,077	518,910	721,262	400,897
2015	505,374	859,737	1,312,175	446,897

The following table represents value at risk for financial assets held for trading portfolio:

EUR

IRR HFT VaR	31. December	Average	Maximum	Minimum
2016	12,415	24,571	72,176	1,420
2015	47,497	21,283	50,047	1,649

29. RISK MANAGEMENT (continued)

29.5. Operational Risk

Operational risk is the risk of negative effects on the Bank's financial result and equity due to failures in performance of operating activities (processes), human mistakes, system errors and the influence of external factors. This definition includes legal risk, but excludes strategic and reputational risk.

Bank's goal is to manage operational risk, in order to achieve balance between preventing financial loss and damage to the Bank's reputation, on one side, and economic profitability and innovation, on the other. Bank's policy requires respecting all currently valid regulations.

The Bank has developed and implemented specific standards of operational risk management in the following areas:

- Operational risk identification, which comprises:
    - Collecting data on operational risks and losses – identification, registration and classification of data on Bank's losses,
    - Integrated process of assessment of exposure to operational risk;
    - Assessment of operational risk when implementing new product, process or system;
- Operational risk measuring;
- Monitoring and reporting on operational risk;
- Reducing operational risk.

At least once a year, Bank's Internal Audit performs independent assessment of adequacy of the operational risk management system. The results of this assessment are disclosed within the Audit Report, which includes all findings and improvement suggestions.

For the purposes of capital requirements for operational risk calculation, the Bank applies standardized approach. The capital requirement for operational risk calculated by applying standardized approach as of 31 December 2016 is RSD 4,294,527 thousand (31 December 2015: RSD 4,327,257 thousand).

29.6. Exposure Risk

The Risk Management Department monitors, measures and reports to the Bank's boards on the Bank's exposure to a single client or to group of clients, risk of investment in other legal entities, as well as in fixed assets, country risk to which the Bank is exposed, as well as operational risk. In 2016, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia as well as the investment limits prescribed by the Bank.

Exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank.

In accordance with the Risk Management Policy, the Bank's management sets exposure limits, i.e. the concentration of placements to a single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant bodies and employees of the Bank seek to ensure the compliance of the Bank's exposures with prescribed limits, i.e., exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures does not exceed 400% of the Bank's equity.

29.7. Investment Risks

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National Bank of Serbia's regulations, the Risk Management Department monitors the Bank's investments and reports to the Executive Board. The Department also ensures that the Bank's investment in a single non-financial entity does not exceed 10% of the Bank's equity and that total investments of the Bank in non-financial entities and in fixed assets do not exceed 60% of the Bank's equity

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29. RISK MANAGEMENT (continued)

29.8. Country Risk

Country risk relates to the country of origin of the Bank's client and includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economic or social conditions in the client's country of origin.

The Bank's exposure to country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

29.9. Capital management

The objective of the Bank's capital management is to maintain the Bank's ability to continue operating into the foreseeable future, in order to maintain the optimal structure of capital with a view to decreasing the costs of capital, and securing dividends for shareholders.

The Bank permanently manages its capital in order to:
- Ensure compliance with capital requirements set by the National Bank of Serbia;
- Ensure adequate level of capital in order to ensure operations as a going concern; and
- Maintain capital at the level that will ensure future development of the business;
- Maintain capital at the level that is adequate to cover internally assessed capital requirements for all significant risks identified in the Internal Capital Adequacy Assessment Process (ICAAP)

Capital adequacy, as well as use of the Bank's capital, is monitored on a monthly basis by the Bank's management. The National Bank of Serbia has set the minimal capital adequacy ratio at 12%, with restriction to dispose the realized profit, if it is above 14.5%.

The Bank's total capital comprises Tier 1 and Tier 2, and deductible items:
- Tier 1 capital include: share capital from ordinary shares, share premium, reserves from profit, retained earnings/accumulated losses, capital gains/losses on repurchase of treasury shares as well as intangible assets and repurchased treasury shares (excluding cumulative preference shares) as Tier 1 capital deductible items,
- Tier 2 capital include: share capital from preference shares, share premium on preference shares, revaluation reserves related to fixed assets and equity investments, subordinated liabilities up to 50% of capital and repurchased treasury preference shares as Tier 2 capital deductible item,
- Deductible items comprise: the amount of required special reserves for potential losses, equity investments in banks or other financial organization exceeding 10% of its capital, and 10% of the investing bank capital, and the amount of the Tier 2 capital of the Bank which exceeds its Tier 1 capital.

Regulatory capital by years:

RSD thousand

Position	31 December 2016	31 December 2015
CAPITAL	**60,859,986**	**57,038,090**
Tier 1	**61,118,432**	**57,237,647**
Share capital from ordinary shares, excluding cumulative preference shares	21,315,900	21,315,900
Share premium	20,432,569	20,432,569
Reserves from profit	47,484,121	47,484,121
Intangible assets	(1,347,422)	(818,694)
Regulatory value adjustment	**(26,766,736)**	**(31,176,249)**
Unrealized losses from securities available for sale	(415,506)	(103,312)
Required reserves from profit for potential losses from balance and off-balance sheet items	(26,351,230)	(31,072,937)
Tier 2	**704,050**	**762,939**
Part of revaluation reserves	704,050	762,939
DEDUCTIBLE ITEMS	**(962,496)**	**(962,496)**
Deduction from Tier 1	(481,248)	(481,248)
Deduction from Tier 2	(481,248)	(481,248)
Direct or indirect equity investments in banks or other financial organization exceeding 10% of its capital	(962,496)	(962,496)
TOTAL Tier 1	**60,637,184**	**56,756,399**
TOTAL Tier 2	**222,802**	**281,691**

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29. RISK MANAGEMENT (continued)

29.10. Fair value of financial assets and liabilities

The Bank's policy is to disclose information on the fair value of assets and liabilities, for which official market information is available and when their fair value significantly differs from their carrying amounts.

Determining fair value of the financial instruments, which are not carried at amortized cost must follow the principles, criteria and hierarchy prescribed by the Fair value policy, which is in accordance with ISP Group's requirements for determining fair value. Determining fair value of the financial instruments not carried at amortized cost respects the following hierarchy, which reflects credibility of the inputs used in determination of fair value:

- Level 1: inputs are the quoted market prices (without corrections) on active markets;
- Level 2: inputs other than quoted prices from level 1, but directly or indirectly (derived from prices) quoted on market. This category includes: market interest rates, CDS (credit default swap) market quotations, market prices of primary bonds issue or market exchange rates when determining value of the instrument.
- Level 3: inputs that are not information available on the market. This category includes each instrument, for which information on value is not directly or indirectly available on the market.

Implementation of the hierarchy is not optional, and the Bank cannot choose the information for determining fair value of financial instruments that are not carried at amortized cost, but it must respect the abovementioned hierarchy.

Financial instruments not carried at amortized cost and on which Fair Value Policy is applied are:

- government FX bonds, Government Bonds issued by Republic of Italy for which exists active and liquid market, which provides direct information about quoted market prices (level 1),
- financial assets available for sale comprise Republic of Serbia Treasury bills, which are valued by discounting future cash flows by applying market non-risk yield curves, adjusted for country risk (at euro bonds) and liquidity risk (at RSD bonds, without direct quotation of maturity). (level 2)
- over the counter financial derivatives (FX swap and FX forward) which are valued by discounting future cash flows with market non-risk yield curves adjusted for country risk and (at euro bonds) and liquidity risk (at RSD bonds without direct quotation of maturity). (level 2)
- shares and investments in legal entities, which are not sold on active markets and for which there is no reliable value, are carried at cost or last available information about value, reduced by impairment (level 3).

There is not enough market experience in the Republic of Serbia neither the stability nor liquidity in the trade of receivables and other financial assets and liabilities, since official market information are not always available. Therefore, fair value cannot be reliably determined in the absence of active market.

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29. RISK MANAGEMENT (continued)

29.10. Fair value of financial assets and liabilities (continued)

The following table represents value of financial instruments based on different information and in accordance with hierarchy within Fair Value Policy:

Fair value as of 31 December 2016:

RSD thousand	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit and loss held for trading	-	1,984,720	-	1,984,720
Financial assets initially carried at fair value through profit and loss	46,068	-	-	46,068
Financial assets available for sale	20,337,109	100,001,428	20,253	120,358,790
Total	**20,383,177**	**101,986,148**	**20,253**	**122,389,578**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	-	2,594	-	2,594
Total	**-**	**2,594**	**-**	**2,594**

Fair value as of 31 December 2015:

RSD thousands				
Assets				
Financial assets at fair value through profit and loss held for trading	-	1,431,783	-	1,431,783
Financial assets initially carried at fair value through profit and loss	70,974	-	-	70,974
Financial assets available for sale	14,704,690	63,322,878	21,257	78,048,825
Total	**14,775,664**	**64,754,661**	**21,257**	**79,551,582**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	-	74,358	-	74,358
Total	**-**	**74,358**	**-**	**74,358**

The Bank’s management considers that amounts, in the enclosed financial statements, are the most reliable and the most useful for reporting purposes in the current circumstances.

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29. RISK MANAGEMENT (continued)

29.10. Fair value of financial assets and liabilities (continued)

The following table represents fair value of instruments not carried at fair value and classified by the appropriate levels of hierarchy:

Fair value as of 31 December 2016:

RSD thousand	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with Central Bank	-	102,370,900	-	102,370,900	102,370,900
Loans and receivables from banks and other financial organizations		37,591,812	-	37,591,812	37,591,812
Loans and receivables from customers		-	316,385,615	316,385,615	271,749,929
Total	**-**	**139,962,712**	**316,385,615**	**456,348,327**	**411,712,642**
Liabilities					
Deposits and other liabilities due to banks, other financial organizations and Central Bank	-	34,055,459	-	34,055,459	34,055,459
Deposits and other liabilities due to customers	-	-	382,788,857	382,788,857	383,452,558
Other liabilities	-	7,955,164	-	7,955,164	7,955,164
Total	**-**	**42,010,623**	**382,788,857**	**424,799,480**	**425,463,181**

Fair value as of 31 December 2015:

RSD thousand	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with Central Bank	-	98,939,321	-	98,939,321	98,939,321
Loans and receivables from banks and other financial organizations		36,168,380		36,168,380	36,168,380
Loans and receivables from customers	-	-	294,413,126	294,413,126	257,848,609
Total	**-**	**135,107,701**	**294,413,126**	**429,520,827**	**392,956,310**
Liabilities					
Deposits and other liabilities due to banks, other financial organizations and Central Bank	-	31,095,062	-	31,095,062	31,095,062
Deposits and other liabilities due to customers	-	-	337,618,026	337,618,026	331,331,668
Other liabilities	-	8,291,692	-	8,291,692	8,291,692
Total	**-**	**39,386,754**	**337,618,026**	**377,004,780**	**370,718,422**

Fair value of Cash and balances with Central Bank, Loans and receivables from banks and other financial organizations, Deposits and other liabilities due to banks, other financial organizations and Central Bank and Other liabilities are represented at carrying amounts, considering that those are short-term deposits at financial institutions (the money market) with high credit rating, market interest rates and at level 2.

Fair value of Loans and receivables from customers and Deposits and other liabilities due to customers are calculated by discounting future cash flows based on the currency, customer's credit quality and maturity, by applying market yield curves.

The Bank's management is assessing the risk, and when it is determined that carrying amount of assets would not be realized, allowances for impairment are created.

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30. CONTINGENT LIABILITIES

(a) Court cases

As of 31 December 2016, the Bank is a defendant in a certain number of legal proceedings. Total estimated amount of claims is RSD 471,000 thousand (31 December 2015: RSD 411,054 thousand), including penalty interests and fees.

The final outcome of the ongoing legal proceedings is uncertain. As disclosed in Note 24 as of 31 December 2016, the Bank recognized provisions for potential losses that could arise from the aforementioned litigations in the total amount of RSD 308,638 thousand (31 December 2015: RSD 272,480 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The Bank is involved in a number of lawsuits as plaintiff related to collection of receivables. All disputed receivables from corporate and retail customers have been impaired and charged to the results of the current and previous years.

(b) Tax Risks

The tax system of the Republic of Serbia is in the process of continuous review and amendments. The tax period in the Republic of Serbia is considered to be open for five years. Under various circumstances, the tax authorities could have a different approach to certain issued, and could assess additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are presented fairly.

31. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 18 of the Law on Accounting, the Bank performed reconciliation of liabilities and receivables with its debtors and creditors as of 30 November 2016, and maintained reliable documentation.

From a total of 2,889 submitted confirmations of balances, 25 were disputed.

The balance of unreconciled outstanding receivables and liabilities is RSD 126,703 thousand. The largest amount refers to receivables from legal entities in bankruptcy and with statutory change (72.04% of the total unreconciled balance).

32. EXCHANGE RATES

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

		RSD
	2016	**2015**
EUR	123.4723	121.6261
USD	117.1353	111.2468
CHF	114.8473	112.5230

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33. SUBSEQUENT EVENTS

There have been no significant events subsequent to the balance sheet date, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2016.

Rada Radović Head of Accounting Department	Dragica Mihajlović Chief Financial Officer	Draginja Đurić President of the Executive Board

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TRANSLATION

BANCA INTESA BEOGRAD

Annual Report 2016

Content:

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1. Key Financial Indicators

in 000 RSD

Banca Intesa Beograd	2016	2015
INCOME STATEMENT		
Net interest income	18,914,382	20,210,428
Net fee and commission income	5,628,180	5,443,802
Profit before tax	10,781,396	9,682,628
Income tax	(873,985)	(1,093,806)
Net profit from deferred tax assets and liabilities	16,932	(4,243)
Profit after tax	9,924,343	8,584,579

BALANCESHEET		
Cash and balances with Central Bank	102,370,900	98,939,321
Financial assets at fair value through profit and loss held for trading and financial assets designated upon initial recognition at fair value through profit and loss	2,030,788	1,502,757
Financial assets available for sale	120,358,790	78,048,825
Loans and receivables from banks, other financial organisations and customers	309,341,741	294,016,989
Investments in subsidiaries	962,496	962,496
Intangible assets, property, plants and equipment, investment property and non-current assets held for sale and discontinued operations	10,617,345	10,017,767
Other assets, current and deferred tax assets	5,733,712	4,311,014
Total assets	**551,415,772**	**487,799,169**
Financial liabilities at fair value through profit and loss held for trading	2,594	74,358
Deposits and other liabilities due to banks, other financial organisations, Central Bank and other customers	417,508,017	362,426,730
Provisions	1,753,517	1,729,001
Other liabilities and deferred tax liabilities	8,010,832	8,971,136
Total liabilities	**427,274,960**	**373,201,225**
Equity	**124,140,812**	**114,597,944**
Total liabilities and equity	**551,415,772**	**487,799,169**

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Banca Intesa Beograd	2016	2015
INDICATORS		
Profit before tax/ Total assets	1.96%	1.98%
Profit before tax / Total equity	8.68%	8.45%
Interest income / Total assets	4.10%	5.21%
Interest expenses / Total liabilities	0.67%	1.07%
Capital adequacy ratio	21.5%	20.7%
Total assets per employee	181,865	162,060
Number of employees	3,032	3,010

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2. Letter from the Chairman of the Board of Directors

Ladies and gentlemen,

I am pleased to announce that 2016 was a year of remarkable progress for Banca Intesa. Fostering a customer-centric universal business model, while constantly pursuing innovation, bolstering operational efficiency and managing risk in a proactive manner, Banca Intesa closed the year with outstanding financial results and business performance across all key indicators. Our firm focus on these strategic priorities allowed us to reinforce our leadership market position in a highly competitive environment, empowering the economy to grow, while enabling people to seize more opportunities and providing stable contribution to community development.

On the macroeconomic scene, trends shaping the local financial landscape were largely positive last year. The Serbian economy picked up growth momentum, with considerable progress achieved in strengthening macroeconomic stability, supported by strong fiscal performance and implementation of structural reforms. GDP continued to expand on the back of robust exports and investments, with growth estimated to reach 2.7 percent year-on-year in 2016. Inflation remained well below the lower end of the tolerance band, at 1.6 percent in December, and the domestic currency maintained relative stability against the euro throughout the year. Furthermore, public debt increase was curbed a year ahead of schedule and the government deficit will be halved against the original target, due to stronger-than-expected revenues and tight control of expenditures. Still, sustainable economic growth in the long run requires a continued focus on reducing fiscal imbalances and full implementation of broad-based structural reform measures in order to enhance market confidence and underpin country’s growth prospects.

With inflation firmly under control, the central bank continued easing monetary policy, reducing its key policy rate to an all-time low 4 percent at the end of the year. This allowed banks to further cut interest rates on dinar lending to record low levels, which coupled with a low interest rate environment in Eurozone, invigorated a more dynamic recovery of credit activity. Total lending went up 2.5 percent year-on-year to 2 trillion dinars, mainly driven by loans to private individuals whose growth was primarily fuelled by cash and housing loans. Even though interest rates on deposits were at a historic low, banks in Serbia reported a 7.7 percent increase in total deposits which exceeded 1.9 trillion dinars, led by corporate deposits. Owing to the implementation of the national strategy for NPL resolution, as well as individual bank efforts, the NPL rate was slightly reduced. Despite still high NPL rate, the Serbian banking sector reported a capital adequacy ratio of 21.2 percent, well above the legal required minimum of 12 percent, as well as a 23 percent increase in profitability at the end of the third quarter. As a result, key profitability indicators were improved, with ROA ending the third quarter of the year at 1.4 percent and ROE standing at 6.9 percent.

In such business environment, our deep understanding of customer needs and broadened portfolio of unique products and modern services enabled us to expand our market share in total lending to 15.2% percent and reaffirm our number one market spot. On the deposit front, the stability and trust inspired by market leadership resulted in the largest deposit base

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in the Serbian banking sector and market share increase to 17.4% percent. With digital continuing to rapidly impact landscape of the banking industry, we prioritized investments in new technologies that seek to transform our processes and improve efficiency in operations while at the same time building an enhanced customer experience through advanced products and channels. Still, knowing that the branch office remains an important point of interaction between the bank and the customer, we introduced new branch concept that completely reinvents customer experience. Also, we continued to consistently implement our social and environmental responsibility policy, providing measurable contribution for community at large.

Our relentless focus on prudent risk and NPL management enabled us to further bolster asset quality, cementing our stability and prospects for healthy growth. Also, we placed a strong emphasis on boosting efficiency and focused on controlling costs, while also maintaining a strong liquidity position with a loan-to-deposit ratio of 74.1 percent and keeping a stable capital base with a very high level of capital adequacy ratio. Our consistent results across all key metrics are also mirrored in our financial soundness and our net profit, which improved 15.6 percent year-on-year, from 8.6 billion dinars in 2015 to 9.9 billion dinars at the end of 2016.

Looking back on our progress and performance in 2016, I would like to thank members of the Board of Directors and the Executive Board, as well as to all our employees for working together towards achieving our common objective: driving a strong, sustainable business that creates value for all our stakeholders. Our direction is clear, our team is determined, and I am certain that diligent execution of the selected strategy, supported by the parent Group, will position us well to reach this objective.

Sincerely,

Giovanni Boccolini

Chairman of the Board of Directors

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3. Foreword by the President of the Executive Board

Dear all,

The year behind was distinguished by important business developments for Banca Intesa, in which we achieved all defined goals, despite challenging environment, thus reinforcing our leading position, while creating additional value for its shareholders. The continuity of our successful operations has been based on the principles of sustainability, innovation and customer satisfaction, accompanied by integration of the highest standards of corporate ethics and social responsibility. The Bank had significant investments, but also initiated important projects aiming at setting a solid base for the next phase in its development, in which it has been planned to replace traditional banking with completely new communication channels and points of the interaction with clients. All these developments have been occurring in specific market conditions, dictating negative interest rates in international markets, implying serious alignments of existing business models among banks.

On the other hand, positive trends in domestic economy fostered the recovery of local banks' credit activity, after a number of years. Main macroeconomic parameters have been improved as a result of activities related to fiscal consolidations measurements and key structural reforms, but also to favourable external factors. Solid economic growth was achieved, budget deficit sliced into half, and further growth of external debt significantly slowed down. The macroeconomic setting was also determined by a low inflation rate and relative stability of the dinar exchange rate, as well as an improved external position owing to a stable inflow of foreign direct investment and accelerated exports. In such circumstances, the National Bank of Serbia (NBS) continued to ease its monetary policy through further cuts in the key policy rate and reductions of the required reserve ratio, which coupled with low interest rates in the international market created vital preconditions for the further drop in interest rates on loans.

Consequently, loan interest rates fell on a historically low level, but still the banking sector recorded profitability recovery mainly on the back of lower net loan losses. Furthermore, even with the low passive interest rates, the banks enlarged deposit potential, as the reflection of unquestionable customer trust.

Initial positive signals also came in terms of the NPL rate, which was reduced as a result of the implementation of the NBS strategy, as well as measures taken by individual banks. And while they hampered a more dynamic increase in lending, NPLs did not compromise the stability of the Serbian banking sector whose CAR was well above the legal requirement.

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Operating under these circumstances, in 2016 Banca Intesa has been determined to further improve its products and services offer, as well as overall customer experience. Having this in mind, we launched new layout branch, making people feel “at home”, where they have been provided with the professional, but friendly advice and adequate service delivered through traditional and digital channels, finally resulting in customer satisfaction increase. In the individuals segment we can report record achievements driven by a sharp increase in cash loans and our strengthened leadership in housing loans. Along with the top spot in lending, we preserved our leadership in deposits which were additionally bolstered despite a further decline in interest rates. Remarkable results were achieved in the small business segment as well.

Integrating advanced technologies in everyday business and creating innovative products and services was an important item of our business strategy agenda. Keeping up with the latest global banking trends and growing needs, expectations and preferences of customers, we introduced the first mobile wallet in the domestic market through the Wave2Pay contactless mobile payments service. Furthermore, we enabled online applications for cash loans, providing our customers with even more flexibility in the use of banking products and services.

Our pioneering role in the domestic banking sector was also confirmed in operations with small businesses and registered farming households, whose needs were addressed through unique credit products in the market. Being the first bank in Serbia to launch COSME programme of the European Commission for strengthening the competitiveness of small and medium sized enterprises (SMEs) and entrepreneurs, we additionally eased access to finance for our customers through lower interest rates and relaxed collateral. At the same time, farmers were provided with Agroprotekt loan, the first in the market to integrate crop insurance policy.

On the corporate front we also maintained leading position in the lending market owing to the high quality of service to existing and acquisition of new clients. We set ourselves apart as the largest creditor in SME segment, while at the same time putting focus on expanding portfolio and strengthening client base in the segment of multinationals.

Efficient implementation of our strategy had a positive effect on our business volume growth. Our total assets rose to 551 billion dinars, with total loans to the economy and households hitting 309 billion dinars, while customer loyalty and trust paved the way for growth in deposits which reached 418 billion dinars. With such performance, we reaffirmed our top position at the Serbian market, with largest market share in all balance sheet categories. On top of this, we further improved our loan portfolio quality owing to a more efficient risk management and NPL collection, preserved our robust capital base and maintained our high liquidity.

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What was especially significant for the Bank and marked the entire 2016 was the renovation of our new headquarter building and relocation of all business lines under a single roof. This significant project, implemented with support from our parent Group, created an even more modern high-quality working environment for our employees, which will enable us to further improve everyday communication and cooperation. Also, acknowledging the principles of CSR, we addressed community needs by investing in healthcare, social welfare issues, culture, sport and education, as well as by bolstering corporate volunteering. We joined the CSR index, the first national platform for assessment of socially responsible companies in the country and further improved our reporting practice in line with the highest global standards.

All our achievements were the result of professional approach of our employees, their large experience and dedication to clients, who, on the other hand, inspired us to strive for new achievements and push our boundaries over and over. My gratitude goes to business partners, our shareholders and members of the Board of Directors whose support was critical for our market leading position for almost a decade. In an environment where innovations and competition crucially determine operating conditions, we will continue to adjust to changes through constant work on advancing products and services and improving their availability to clients, making contribution to the further economic expansion and better life of people in Serbia.

Draginja Đurić
Đurić
President of the Executive Board

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4. Macroeconomic Environment and the Banking Sector

Macroeconomic fundamentals improved in Serbia during 2016. Economic growth accelerated, budget deficit was halved, halting the growth of public debt to GDP, inflation was low and stable throughout the year, while relative stability of the dinar against the euro was preserved as a result of improved fiscal and external trade performance and better macroeconomic outlook of the country. The progress achieved in the field of macroeconomic stability is a reflection of the country's economic policies, but also favourable impact of external factors.

Owing to the reforms conducted by the Government, overall business and investment climate improved. Serbia continued with the implementation of fiscal consolidation measures which commenced the previous year, as well as of key structural reforms, as confirmed by the successful completion of the latest, sixth review of the precautionary stand-by arrangement with the IMF. On the other hand, in certain areas there was a delay in reforms, especially related to general government rightsizing, public procurement and evaluation of public capital projects, restructuring of public enterprises, as well as completion of the privatisation process of state-owned enterprises.

In 2016 Serbia was ranked 47th in the Doing Business list of the World Bank, improving its position comparing to the previous year when it was ranked 56th. The greatest progress was made in the domain of improved procedures for issuing construction permits, property registration in the real estate cadastre and business registration, while the efficiency of the judicial system and the quality of public administration present the areas still marked by poor results.

In June 2016, Fitch Ratings improved Serbia's credit rating from 'B+' to 'BB-' with stable outlook, while in December Standard and Poor's upgraded the outlook for the country's long-term foreign and local currency sovereign credit rating from stable to positive and affirmed its credit rating at 'BB-'.

Positive trends in the economy are expected to continue in the coming year, along with slight acceleration of growth which will be based on intensified investment activity and recovery of private consumption, while economic outlook will significantly depend on the developments in the international economic environment, as well as success in further structural economic adjustments and public sector reforms.

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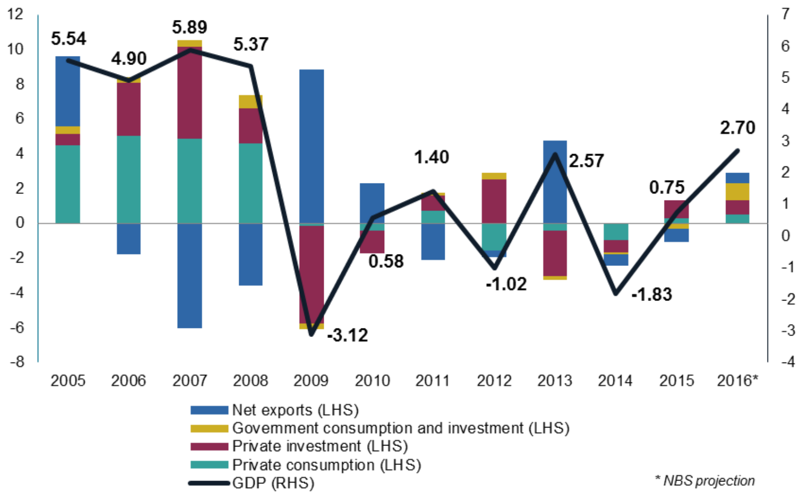
Macroeconomic Environment

Economic Activity

Positive trends in the economy which began in mid-2015, continued in 2016 as well. In the first three quarters of 2016, Serbia recorded positive year-on-year growth rates, with GDP growth rate reaching 2.7% in the first nine months. The National Bank of Serbia and the IMF expect the overall economic growth of 2.7% in 2016. On the expenditure side, positive contribution to growth primarily originated from investments and net exports, while employment growth and a slight increase in real wages in the private sector, supported by the growth of new loans to households, were the main factors which led to faster-than-expected recovery of private consumption. On the supply side, growth was diversified and characterised by strong increase in construction and agriculture, along with solid growth of manufacturing, with the tertiary sector also providing positive contribution to growth starting from the second quarter of 2016.

Chart 1 - Contributions to the annual GDP growth rate, in %



In 2017, the National Bank of Serbia expects a 3% GDP growth led by investment and exports, while the positive contribution of private and government consumption will be more pronounced compared to the previous year. From the production side, the main growth drivers in 2017 will be industrial production, construction and services.

Inflation

Year-on-year inflation moved below the lower bound of the target tolerance band (4.0%±1.5%) during 2016 and stood at 1.5% in December 2016, while relative to 2015 CPI increased by 1.2%. Relatively low inflation was largely a consequence of a drop in oil prices and primary agricultural products, slower administered price growth, stable domestic currency as well as low inflation in the international environment, primarily in the euro zone.

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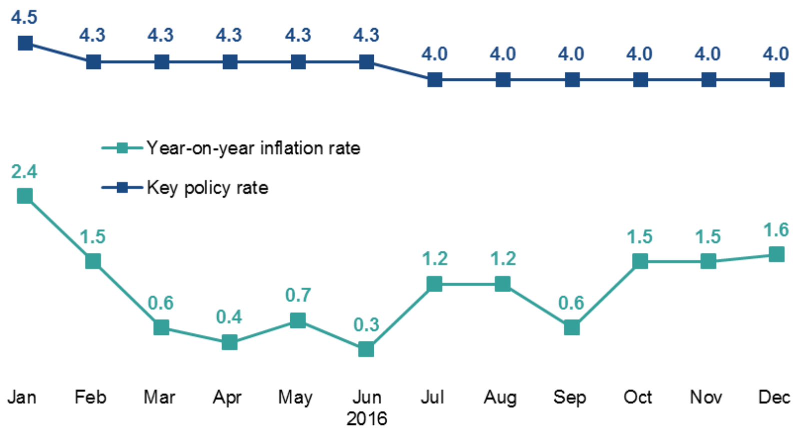
In November 2016, the National Bank of Serbia revised the inflation target rate down by 1.0pp to 3.0%±1.5 pp. The decision was based on the significant improvement of the country's macroeconomic indicators and prospects for the following period, as well as the fact that in the previous three years inflation had been kept low and stable owing to well-coordinated fiscal and monetary policy measures. Lower medium-term inflationary expectations of the corporate and financial sector, which are now aligned with the new target, also contributed to the change of the target band.

Return of the year-on-year inflation to the target band is now expected in early 2017. Gradual recovery of oil prices, rising domestic demand and inflation in the international environment will contribute to the increase in consumer prices in the period ahead, while relatively low food production costs will continue to have a disinflationary effect for some time.

Chart 2 - Year-on-year inflation rate and key policy rate trends, in %
Source: NBS



Monetary Policy

In the current cycle of monetary easing, which was launched in May 2013, the National Bank of Serbia lowered its key policy rate by a total of 775 basis points to a historic low of 4.0% as of July 2016.

Only during 2016, the key policy rate was lowered twice by a total of 50 basis points, while in July, along with the latest rate cut, the interest rate corridor relative to the key policy rate was lowered to ± 1.5pp.

The relaxation of monetary policy in the past period was carried out also through a reduction of the foreign currency required reserve rate by 1 percentage point per month in the period from September 2015 to February 2016, whereby the foreign currency required reserve rate for liabilities with a maturity up to two years fell to 20%, and for liabilities with longer maturities to 13%.

Such monetary easing allowed for a further reduction of interest rates on loans and release of a part of the banks' credit potential, with the aim of encouraging credit growth in the country.

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Although the improvement of economic performance had a positive impact on the implementation of monetary policy, due to considerable uncertainties in the international environment (Brexit, presidential elections in the United States, the pace of Fed's monetary policy normalisation, political uncertainty in Europe), the Central Bank adopted a cautious monetary policy stance, which is expected to continue to impact its monetary policy-related activities in the next period as well. On the other hand, narrowing fiscal and external imbalances and improved macroeconomic prospects of the country in the medium term positively influence the resilience of the economy to potential negative impacts from the international environment.

Dinar Exchange Rate

In 2016, the dinar nominally depreciated against the euro by 1.5% and against the US dollar by 5.3%, while the NBS intervened in the foreign exchange market by selling EUR 980 million and buying EUR 820 million in order to avoid excessive daily fluctuations of the exchange rate.

Relative stability of the EUR/RSD exchange rate was a result of improved economic and fiscal performance, reduced current account deficit owing to stronger exports of goods and services, as well as greater non-residents' interest in government securities due to improved country risk perception. On the other hand, occasionally stronger depreciation pressures during the year were mainly influenced by seasonally induced higher demand for foreign currency (at the beginning and at the end of the year) as well as uncertainties in the global financial market related to Brexit and anticipation of the Fed rate hike.

Chart 3 - Dinar exchange rate trend

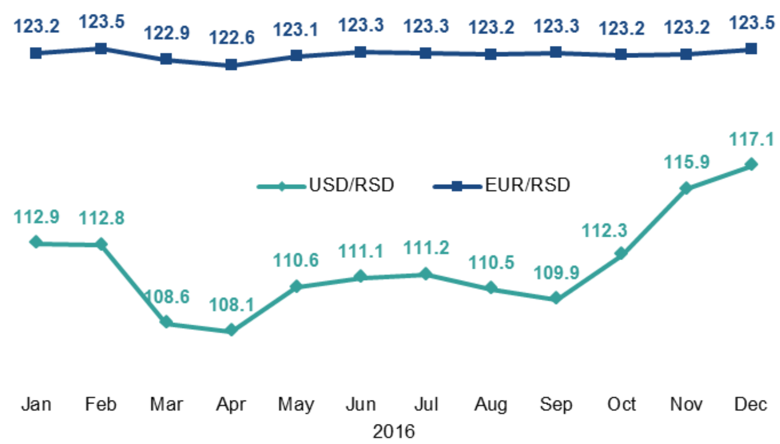

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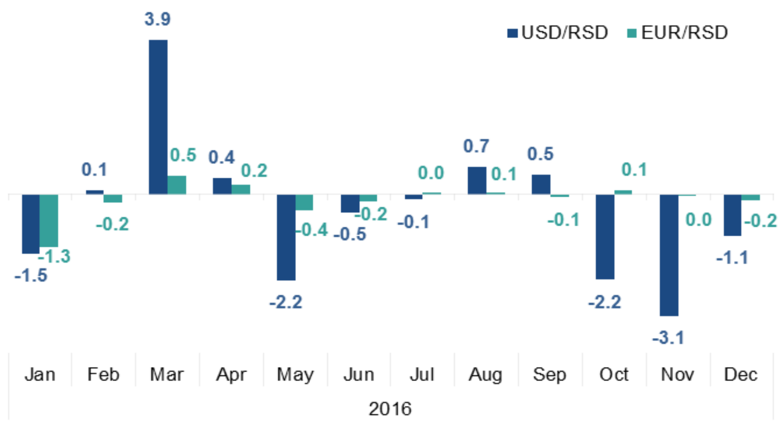
Chart 4 - Monthly exchange rate changes, in %
Source: NBS



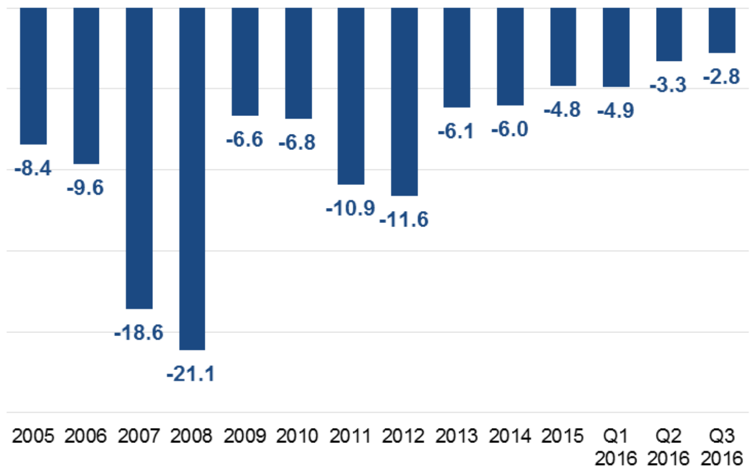
Current Account Deficit and External Debt

In 2016, an external position of the country was improved on the back of more favourable terms of trade, higher investments in the export-oriented sectors during the previous period and the recovery of external demand. The current account deficit was significantly lower due to the exports of goods and services growing faster than imports, which led to an increase in the export-import coverage ratio to nearly 80%. Stable inflow of foreign direct investments continued, while remittances registered somewhat lower inflow in comparison to 2015.

According to the projections of the National Bank of Serbia, the current account deficit will be around 4.1% of GDP at the end of 2016, which presents a decline compared to 2015, when it amounted to 4.8% of GDP. The NBS expects that the ongoing investment cycle will have a positive impact on export growth in 2017 as well, contributing to further current account deficit reduction.

Net inflow of foreign direct investments will remain more than sufficient to cover fully the current account deficit, reducing the need for external financing.

Chart 5 - Current account deficit (% of GDP)
Source: NBS



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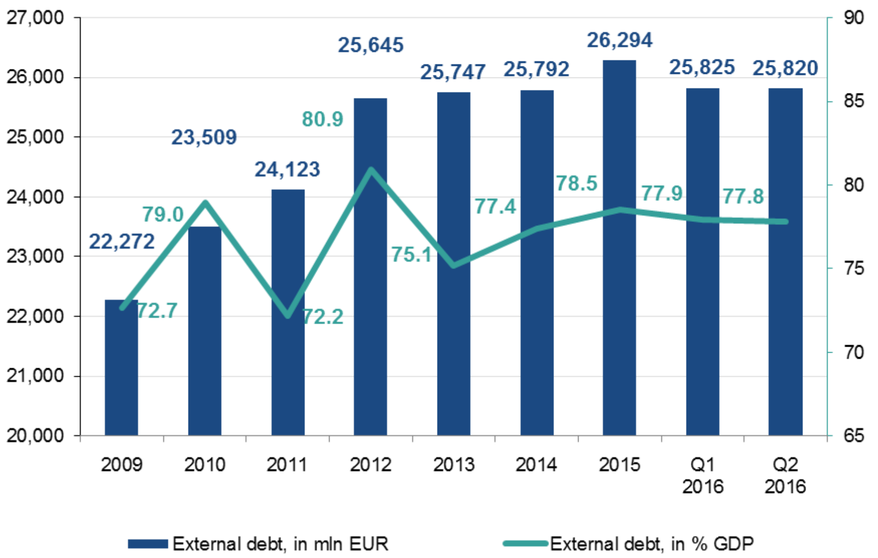
At the end of the second quarter of 2016, Serbia's external debt amounted to EUR 25.8 billion or 78% of GDP, which is close to the threshold of severe indebtedness, according to the World Bank criteria (80% of GDP).

Since the beginning of the year, external debt decreased by EUR 470 million, largely as a result of public sector and bank deleveraging. On account of this reduction and concurrent export rise, the external solvency indicator (external debt to goods and services exports ratio) improved from 168.2% in 2015 to 157.2% at the end of second quarter of 2016. According to this criterion, Serbia is among medium-indebted countries (according to the World Bank, a ratio above 220% indicates high indebtedness).

The share of debt service in goods and services exports, as one of the external liquidity indicators, also posted steady improvement dropping from 32.7% in 2014 to 25.7% in 2015 and additionally to 23.6% at the end of the first half of 2016.

According to the latest IMF projection from the report on the completion of the sixth review under the stand-by arrangement, Serbia’s total external debt was set to reach 79% at the end of 2016, followed by a decrease to 75.7% of GDP by the end of 2017, barring significant exchange rate depreciation due to external shocks.

Chart 6 - External debt
Source: NBS



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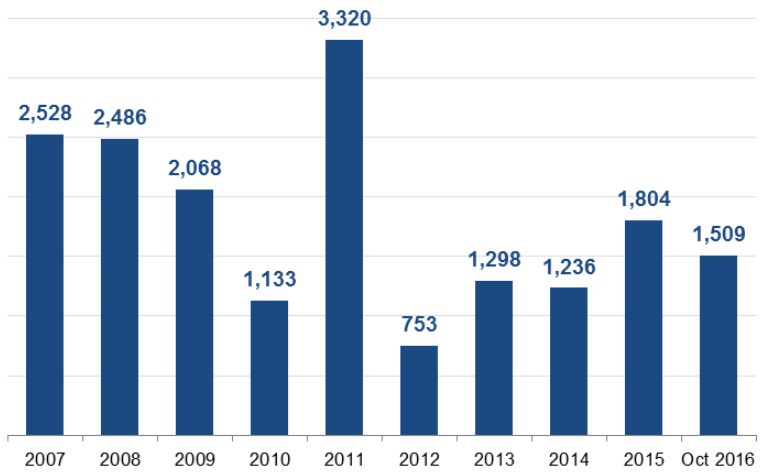
Foreign Direct Investment

In the period January – October 2016, Serbia recorded a net-inflow of foreign direct investments in the amount of EUR 1.5 billion, which is 4.5% more than in the same period of the previous year, while at the annual level the net FDI inflow is projected to reach EUR 1.8 billion, as in the previous year.

By sector, the FDI structure has improved significantly during the past several years, on the back of increased FDI inflow into tradable sectors, with good diversification across the manufacturing industry. This has driven exports up further, improving the country's external position. Investments in export-oriented sectors are expected to be the main GDP growth driver in the medium run.

Stable foreign direct investment inflow in the following period should be supported by enhanced business and investment environment, continued structural reform implementation and the country's further progress with the EU-integration agenda, as well as improved overall Serbia's risk perception by investors.

Chart 7 - Foreign direct investment (in EUR million)
Source: NBS



Foreign Trade

Relatively low oil prices and recovery of import demand of Serbia's main foreign trade partners positively influenced its foreign trade balance during 2016. Visible trade deficit was significantly reduced on account of faster increase in exports than in imports, while the surplus in services recorded an upward trend.

Serbia's foreign trade reached around EUR 28 billion in January-November 2016, increasing by 7.9% year-on-year. The exports of goods amounted to EUR 12.3 billion (+11.0%), while imports reached EUR 15.7 billion (+5.6%), resulting in a total trade deficit of EUR 3.46 billion (-10.0%).

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Road vehicles were again the most important export product in 2016, despite a drop in Fiat exports, accounting for 10.4% of total exports. Fiat remained the largest exporter in Serbia with a total value of exported goods amounting to EUR 990 million in the period January-November 2016, while the total value of exports of the 15 largest exporters amounted to around EUR 3.6 billion, i.e. 30% of total exports, in the same period.

In addition, the acquisition of Železara Smederevo (Smederevo Steel Mill) by the Chinese company Hesteel resulted in a significant export increase in the second half of the year, while the exports of chemical, rubber and plastic products, followed by electric equipment and apparatus continued to provide positive contribution to exports growth.

At the same time, increasing investments and industrial production caused a rise in imports throughout the year, primarily of capital equipment and intermediate goods.

Around two-thirds of Serbia's foreign trade were routed towards EU countries, while CEFTA countries were the second most important trade partner with whom Serbia posted a high trade surplus (an export-import coverage ratio of 3.5).

The most important foreign trade partners in exports were Italy (EUR 1.8 billion), Germany (EUR 1.62 billion), and Bosnia and Herzegovina (EUR 1.02 million), while the largest imports came from Germany (EUR 2.03 billion), Italy (EUR 1.64 billion), and China (EUR 1.3 billion).

Chart 8 - Foreign trade
(EUR million)

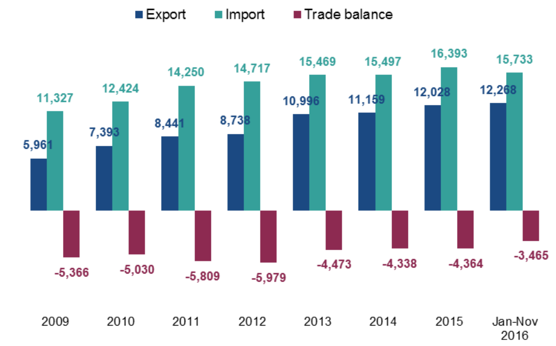
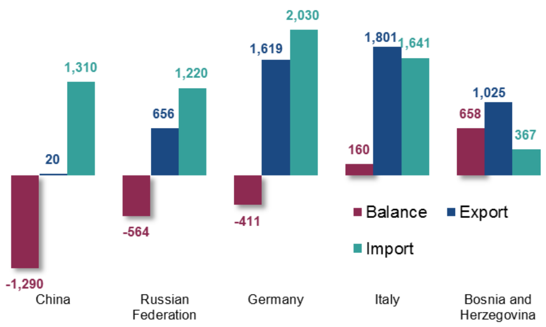


Chart 9 - Foreign trade with major partners
(EUR million)



Source: Statistical Office of the Republic of Serbia

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Fiscal Policy

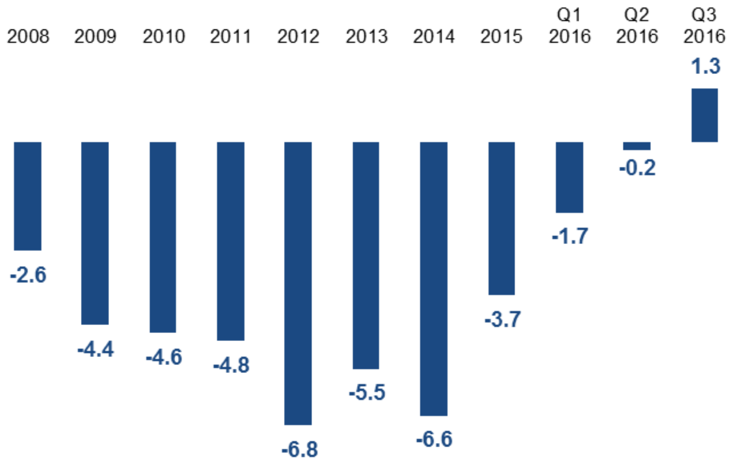
Year 2016 saw the continuation of implementation of fiscal consolidation and structural reforms agreed under the three-year stand-by arrangement concluded with the IMF, which resulted in the improvement of public finances, enhancement of business environment, with better country's perception by the investors in the international financial market.

In January-September 2016 the general government deficit reached RSD 4.5 billion, making 0.1% of GDP, significantly below the target deficit agreed with the IMF. Significant fiscal over performance was achieved primarily owing to a stronger-than-expected increase in both tax and non-tax revenue. Growth of tax revenue during the first three quarters was recorded partly as a result of expanded economic activity, but also owing to better tax and excise duty collection, owing to measures combating grey economy.

On the expenditure side, during January-September 2016 there was a notable increase in capital expenditures of around 30%, which is more than welcome from the economic point of view, while costs of wages and pensions, as the largest expenditure item, were kept within the budgeted amounts.

Considering favourable fiscal trends, by the end of the year the deficit is expected to be halved in comparison with the original target, at the level of 2% of GDP. Next year the budget deficit is planned at the level of 1.7% of GDP, in line with the targets of the Fiscal Strategy for the period 2017-2019, which envisages a further reduction of deficit to 1.3% in 2018 and to 1.0% in 2019.

Chart 10 - Consolidated budget deficit (% of GDP)
Source: NBS



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Owing to good fiscal performance and economic growth, the trend of public debt growth was reversed a year ahead of expectations. At the end of November 2016 public debt amounted to EUR 24.7 billion, a decrease by around EUR 102 million relative to the end of 2015. The public debt/GDP ratio was 72.4% at the end of November 2016, which is far above the legally prescribed ceiling of 45% of GDP and Maastricht ceiling of 60% of GDP.

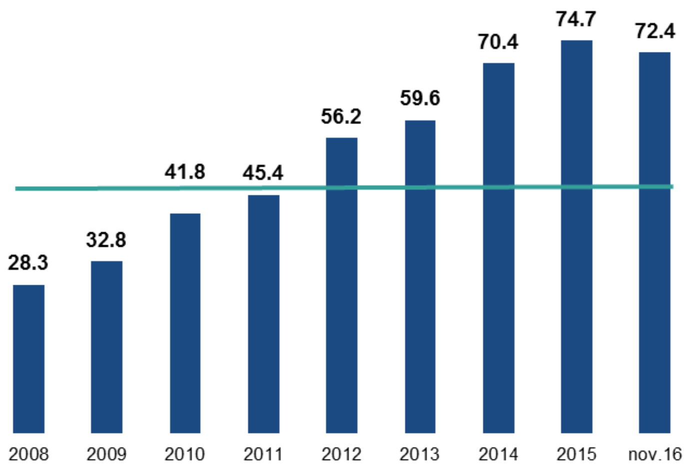
The public debt of the Republic of Serbia is extremely sensitive to changes in exchange rates because of its unfavourable currency structure, since around 79% of public debt is denominated in foreign currency, with liabilities in US dollars amounting to close to 34%.

In the following medium-term period, fiscal policy will focus on the improvement of macroeconomic stability and further public debt reduction, with further implementation of structural reforms (especially in the area of improving public sector efficiency and public enterprise restructuring), additional strengthening of the financial sector, as well as improvement of competitiveness and business environment, including continued combating of grey economy.

The fiscal strategy for 2017-2019 envisions a reduction of public debt below 70% of GDP (67%) by 2019, which does not eliminate the risk of public debt crisis, with a debt decrease to a safer level of 60% planned only beyond 2020.

Chart 11 – Public debt (% of GDP)

Source: Public Debt Administration



With regard to expectations for 2017, the acceleration of economic activity will be supported by further growth of investments and exports, as well as a recovery of government and private consumption. Implementation of structural reforms and fiscal adjustments is set to continue, with non-reformed public and state-owned enterprises whose restructuring and privatisation have been delayed remaining as one of key fiscal risks, as well as a possible call for early elections, which would additionally slow down the reforms.

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Banking Sector

The banking sector in Serbia consisted of 31 banks at the end of 2016, of which 24 banks were majority-owned by foreign entities, accounting for around three quarters of total assets, while 7 banks were in domestic ownership, mostly majority-owned by the state. In 2016 the first bank from Asia, Bank of China, was established in Serbia since it obtained an operating licence in the last quarter of the year.

The total assets of the banking sector exceeded the level of RSD 3.6 trillion (EUR 29 billion), posting a nominal increase of 4.9% compared to the previous year.

In 2016 lending activity in the Serbian banking sector continued to recover, supported by monetary policy, low interest rates in the euro area, stronger competition, decreased risk premium and intensified economic activity. This led to a 2.8% increase in total loans, reaching RSD 2 trillion (EUR 16.2 billion). The main drivers of this increase are still loans to private individuals, which grew by 10.6%, while the corporate sector posted a decline of -2.1%, mainly due to a sale of bad loans to non-banking entities and their write off.

The National Bank of Serbia successfully promoted lending growth again in 2016 owing to monetary easing due to low inflationary pressures and by reducing the key policy rate and relaxing the required reserve rates. Consequently, the recovery of corporate lending started in mid-2016, with a rise in dinar lending. Increased borrowing was primarily noticeable in the sectors of manufacturing, agriculture, construction and trade, mainly referring to working capital loans and debt restructuring. Moreover, a positive signal is the increasing share of investment loans in newly-approved loans, which had a favourable effect on extending the credit portfolio maturity.

Despite the existing risk associated with receivables collection and collateral enforcement, in 2016 the banks worked to a certain extent on the relaxation of corporate credit standards, primarily because of fierce competition and lower funding costs.

Loans to private individuals posted robust growth throughout the year. As in the previous period, there was increased demand for cash loans due to the need for financing existing liabilities under more favourable conditions. Unlike businesses, for a long period of time private individuals have been borrowing mainly in dinars, while loans indexed to foreign currency are primarily housing loans. In 2016 there was an evident relaxation of credit standards by some banks both for dinar and foreign currency loans, with a reduction in interest margins and accompanying costs, primarily as a consequence of stronger competition. Cash loans and refinancing loans are expected to continue to be in the greatest demand, with a recovery of demand for housing loans. Namely, due to more favourable interest rates on housing loans and more favourable circumstances in the real estate market, both in terms of offer and prices, as well as new dinar housing loans with a duration over 30 years and interest rates below 5%, housing loans have shown growth after a period of stagnation.

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When investing funds, the banks mainly relied on domestic funding, primarily on dinar and foreign currency deposits of private individuals and corporate customers. Total bank deposits continued to grow in the previous year, reaching the level of close to RSD 2 trillion (EUR 16.2 billion), which is an increase of 7.9%. Corporate deposits were the main driver of the overall increase with a nominal growth of 17.8%, further supported by the growth of private individuals recorded a stable growth of 7.9%, corporate deposits were the main driver of the overall increase with a nominal growth of 17.8%. Although interest rates on foreign currency deposits are at a historical low and the exchange rate was quite stable during 2016, private individuals still choose mainly to keep their assets in foreign currency.

A factor with a damping effect on banks' lending activity is still a relatively high level of bad loans, which largely refers to the corporate sector. In 2016 banks invested significant efforts in resolving this problem. The share of NPLs in total loans is still high at 19.5%. Comparing to the previous year this indicator is 2pp lower as a result of various measures taken by the banks and the Serbian Government. Namely, in late 2015 the Government adopted the NPL Resolution Strategy, which, apart from the Action Plan of the Government defining activities of all government institutions, also resulted in the Action Plan of the National Bank of Serbia for implementing this Strategy. Key activities refer to improvements in the area of bank supervision and application of international accounting standards, bank reporting, as well as support for adequate collateral appraisal.

The capital adequacy ratio in the Serbian banking sector is very high at 21.15% in the third quarter (9.15pp over the legal limit).

The Serbian banking sector posted a trend of rising profitability despite record low interest rates on placements to clients in 2016, as well as lower interest income. At the end of the third quarter of 2016 the banking sector's pre-tax net financial result amounted to RSD 32.6 billion, which is 23.1% higher compared to the same period of the previous year. The main driver behind this growth is a decrease in net credit losses, while fee and commission income and trading income maintained the level from the previous year. Consequently, profitability indicators improved significantly in 2016, as demonstrated by the return on assets and the return on equity ratios. At the end of the third quarter the return on assets (ROA) reached 1.4% (an increase of 0.22 pp compared to the previous year), with the return on equity (ROE) amounting to 6.89% (an increase of 1.24 pp).

In 2016 Banca Intesa reaffirmed its leading position with the largest market share in total assets (16.1%), loans (14.7%) and customer deposits (19.4%) at the end of Q3. Moreover, the Bank ranks first in card and payment operations, with a base of over 1.4 million customers. The Bank operates through an extensive network consisting of 166 branches, supported by the largest network of ATMs and POS terminals in the market.

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5. Highlights of the Bank's Strategy and Planned Development

Banca Intesa strives to solidify its leading position in the Serbian banking sector, providing sustainable solutions and active support to the process of economic recovery.

The strategic goal of the Bank is to reinforce its market position through selective growth of products intended for 'upper mass' and 'affluent' customers in the retail segment, while in the corporate segment the Bank will focus more on export-oriented enterprises. At the same time, the Bank will strive to improve the quality of its loan portfolio with an aim to minimise the cost of risk, as well as to upgrade it's information system that will be able to support the planned growth of business activities.

The accomplishment of strategic goals is planned through strategic initiatives, which are grouped into three main areas:

I Realisation of Untapped Potential for Revenue Growth

One of the main objectives of the Bank is to increase the volume of business activities with low-risk customers in both the retail and corporate segment. With regard to retail customers, the Bank plans to utilise the potential for lending to the “upper mass” customer segment and improve its positioning in the “affluent” customer market niche, by enhancing the standard of operation of personalised business model.

In the corporate segment, the biggest focus will be placed on business with lower-risk customers while gradually scaling down the volume of business with large and state-owned enterprises with lower credit rating. Additionally, the Bank intends to achieve the planned growth by providing active support to foreign direct investment, increasing cross-selling to customers and enhancing price efficiency. The plan also envisages an accelerated shift from the traditional model with the branch as the main sales channel towards an integrated approach through direct channels, aimed at more efficient business activities and better understanding of customers' needs. The development of a number of channels will be promoted through website improvement, greater participation of social media and integration with the CRM system.

II Maintaining High Cost Efficiency through Continuous Cost Management

The Bank intends to continue with its strong commitment to sustainable efficiency, taking fully into account the necessity of constant cost and productivity control. The main areas of cost improvement include the optimisation of the Bank network, enhancement of efficiency by streamlining business processes and reducing labour-intensive activities. The Bank plans to use cheaper distribution and communication channels in order to keep abreast of modern technologies and new banking operations. The Bank also plans to engage in further stabilisation of the IT platform, as well as the development of an integrated IT infrastructure with capabilities of quick calculation and processing, with the aim of improving the overall capacity of the Bank in response to the ever-changing and dynamic market environment.

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III Dynamic Lending and Risk Management

One of the main objectives of the Bank will be to strengthen continuously the risk management activities in order to rein in the cost of risk, to design and enhance procedures and tools for delinquency management, as well as to maintain stable reserve levels. The Bank will standardise the entire loan approval process and automate credit analysis functions by improving predictive and descriptive risk monitoring techniques and early-warning operations that point to any credit portfolio deterioration at an early stage.

An improved system for monitoring the quality of portfolio is aimed at the full implementation of the model that will enable analytical decision-making and create the basis for the introduction of the Basel III standards. Moreover, in the forthcoming period the Bank will continue its efficient liquidity management, while maintaining a stable deposit base and adequate liquidity buffers at a lower price, with a gradual decrease in large customers' deposits and expanded use of affordable funding from supranational organisations. In the forthcoming period, the Bank will strive to manage capital adequacy efficiently by directing business towards improvement in return on risk in accordance with the Basel III standard.

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6. Retail Banking

Individuals Segment

Stable economic growth measured by GDP growth and industrial recovery, in spite of the rising costs of living, contributed to fierce competition in the banking sector. With an adequate response to the challenges of the business environment, Banca Intesa achieved dynamic growth of banking assets in the retail segment in the amount of RSD 16.6 billion or 17% year-on-year, reaching level of total lending to individuals of RSD 115.2 billion.

In 2016 increasing customer satisfaction was again one of the key business priorities. By adjusting offer to clients' needs, and following the latest banking trends, in 2016 Banca Intesa implemented a new service for cash loans applications, through electronic banking application.

By continuously striving to provide the best service quality to clients and justify the clients' trust, while respecting the concept of a transparent business offer in terms of all price and non-price elements, Banca Intesa achieved a record production of cash loans with the total placement over EUR 262 million, which is 62% more than in the previous year, while the number of cash loan beneficiaries increased by 8%. Dynamic business activity contributed to the reaffirming of the leadership position and increase in the market share from 10.6% to 12.2% in cash lending to individuals.

In 2016 the Bank also strived to improve financing conditions and expand the offer in the area of mortgage lending, all with the aim of providing to its clients the most favourable conditions for financing a purchase of residential property. Revitalization of the construction industry, as well as the growing interest of clients in this type of financing are the main determinants of the market situation in 2016 which resulted in more intensive competition in this type of financing of individuals. Despite the fact that the Bank operated in in highly competitive environment, dictating interest rate decline, commercial production grew by 44% compared to 2015, while the market share in mortgage loans to individuals increased from 14.5% to 15.4% year-on-year.

Chart 12 - Loans to individuals (RSD million)

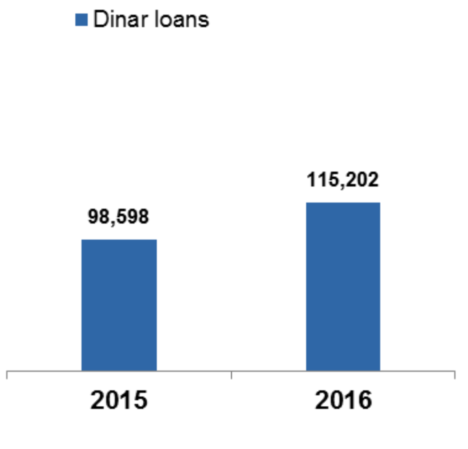

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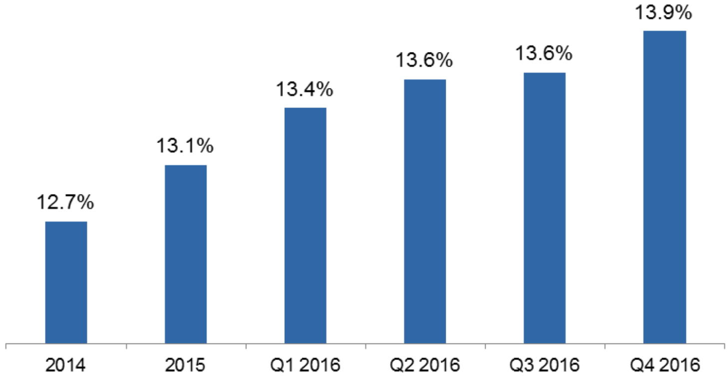
Chart 13 – Market share in loans to individuals



As a result of the downward trend of the cost of funds in 2015, the decline in interest rates on deposits of individuals continued. Nevertheless, owing to the clients' long-term trust, retail deposits increased by 12% in 2016 compared to the previous year.

Retail deposit growth outpaced the market growth, with the Bank's market share rising from 17.4% in 2015 to 18.1% in 2016.

Chart 14 – Individuals' deposits (RSD million)

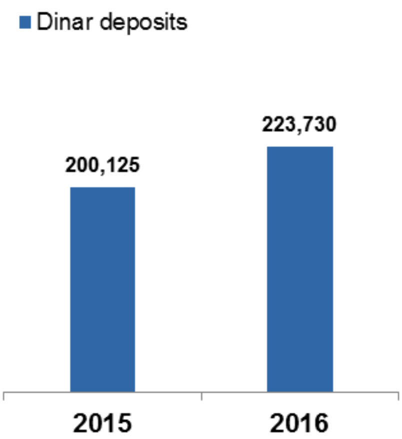


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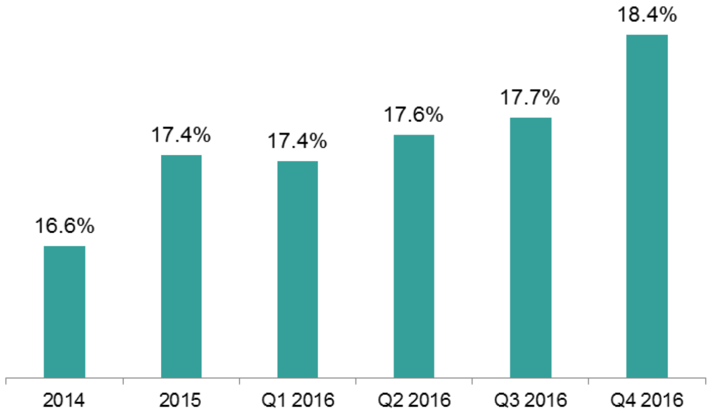
Chart 15 - Market share in individuals' deposits



Payment Card Business

Banca Intesa maintained its market leader position during last year in terms of the number of issued payment cards and the number and volume of performed transactions.

During 2016 the Bank continued to promote the most advanced payment technologies aiming to make Wave2Pay contactless payments via mobile phone available to all our customers. There were significant efforts in training invested, aiming at introducing this technology to all participants in the payment process. The number of transactions performed by Banca Intesa payment cards in 2016 rose steadily, increasing by 18.8% for transactions in the country and 29.5% for transactions abroad, including internet transactions.

Compared to the previous year, the number of transactions on POS terminals rose by 23.7%, while the volume increased by 21.6%.

We continued with the expansion of the number of points of sale allowing payment by credit cards in instalments and increased the share of instalment transactions in total volume: the number of transactions went up by 19.3%, while the total transaction volume increased by 17.3% compared to the previous year.

During last year we devoted a lot of attention to cardholder education and increased usage of credit cards in online shopping through expanding cooperation with the largest e-commerce merchants and providing adequate discounts and benefits for all our clients.

In 2016 we conducted a number of activities together with our major partner merchants who provided significant discounts and benefits for Banca Intesa cardholders. These activities resulted in a significant increase of Banca Intesa credit cards transaction volume – with selected partners from 38% to more than 100% compared to the same period in 2015. Total BIB credit card transaction volume at domestic points of sale increased by 20.9% compared to 2015.

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Direct Channels and E-services

Migration of customers’ transactions to e-banking channels continued as in the previous years, as demonstrated by the increase in the number of transactions through digital channels by 39% compared to the previous year.

Mobile banking still posts the strongest growth, with the number of active clients on this channel increasing by 32% year-on-year in 2016.

In order to improve the e-commerce service, in August 2016 Banca Intesa introduced Nest Pay, a new e-commerce platform. This system provides secure on-line shopping by payment cards, and, compared to the previous one, offers additional functionalities, the most important being payment in instalments and support for mobile phones.

In October 2016, Banca Intesa rolled out Wave2Pay application, the first mobile wallet in the Serbian market. By December, 3,133 users enrolled for this service.

At the end of December 2016, Banca Intesa provided a new sales channel, introducing a new functionality in the Internet banking application, online loan application. The process enables online offer production, application submission and processing, documentation preparation and loan decision issuance. In this way, the loan approval process is significantly easier for the client and just one visit to the branch is sufficient for loan disbursement.

Business Network

At the end of year 2016 the Bank’s business network consisted of 166 branches and 8 specialized Intesa Casa mortgage centres in 99 towns throughout Serbia.

All the activities in 2016 were focused on the improvement of customer experience and optimisation of business network operations, in line with global trends.

Branch layout improvement was implemented in line with the principle of building close relationship with clients: new banking based on more direct relations creating the impression of being "at home“. BIB is the first member of the ISBD group implementing the new layout standard based on these principles in two of its branches.

Branches offer a completely new customer experience, through their layout and atmosphere.

The first digital signage was introduced in two branches in 2016, in line with leading global trends, contributing significantly to improved communication with customers and advertising, as well as building the reputation as a bank that follows latest global technology achievements.

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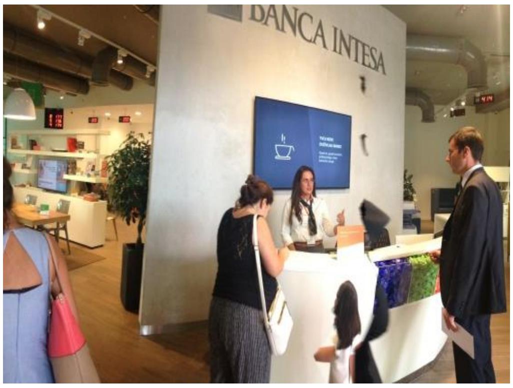

Beside the implementation of the latest standard, **additional 24 locations were refurbished or relocated and refurbished**, in order to improve both the environment for the customers and working conditions for the employees.

Queue Management System (QMS) was expanded to 11 additional branches, thus covering 55% of the business network, servicing almost 70% of active clients. Moreover, it was implemented Employee Capacity Recording and Monitoring in Business Network application that shall enable tracking and adequate resource planning in order to reach optimal daily service capacity in branches.

In order to ensure optimal transaction functioning, Bank has initiated an overhaul of regulation of inner cash management process in branches, aiming to facilitate long-term improvements of operating efficiency.

Year 2016 saw the continuation of ongoing activities of business network operation planning and organisation. Accordingly, the reallocation and redistribution of resources continued in accordance with needs and commercial potential of micro-locations. This approach, complemented by innovative offer and employee expertise, enabled Banca Intesa to remain recognizable for its highest standard of service.

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Small Business and Agriculture

Amidst the slow recovery of operations with legal persons and considerable increase in cooperation with registered farms (AGRO) and entrepreneurs in the whole banking sector, Banca Intesa implemented a number of projects and activities in order to retain the existing and attract new customers. As a result, the Bank maintained its leading position in terms of the number of clients in both segments, with a market share of one third, and growth in the number of credit clients by 14% in the area of small businesses (SB) and an increase of 20% in the agriculture segment. Despite a decrease in the average lending interest rates, a growth of new loan production was recorded in both segments – by 47% and 38%, respectively, leading to an increase in the loan portfolio – by 35% in SB and 20% in agriculture. In addition, Banca Intesa increased the share of dinar loans in total loans to these segments to 38.4%, primarily due to the dynamic promotion of local currency loans through special Bank offers.

The Bank's market share in entrepreneurs segment increased by as many as 3.5 percentage points - outpacing the growth of the segment by 4 times.

Operating in accordance with this commitment to continuously improve its products and services, during 2016 Banca Intesa introduced two unique products in the local market. Beginning of the year was marked by the launch of the innovative Agroprotekt loan intended for registered farmers, with the support of the German development bank Kreditanstalt für Wiederaufbau (KfW), and in cooperation with insurer Generali, which includes an insurance policy for arable crops against basic risks. In addition to the favourable conditions available to the clients, the product also contains an important social component that is reflected in raising awareness about the importance of insurance of agricultural production. The end of the year was marked by the launch of the EU COSME Programme aimed at strengthening the competitiveness of entrepreneurs and small and medium-sized enterprises in Serbia. As the first bank in the domestic market which started with the implementation of this program in cooperation with the European Investment Fund, Banca Intesa facilitated the clients' access to financing through COSME working capital loans, offering a favourable interest rate, extended maturity for the intended purpose of the loan, as well as relaxed collateral requirements.

During 2016 successful and active cooperation with prominent international and national institutions was continued. A programme supporting the purchase of equipment was implemented in cooperation with the Ministry of Economy of the Republic of Serbia, while project financing women entrepreneurs, as well as providing access to long-term loans for the purchase of agricultural land and equipment to farmers from Vojvodina was implemented in cooperation with the Guarantee Fund of Vojvodina. Also, a subsidized loan programme was continued in cooperation with the Ministry of Agriculture of the Republic of Serbia, while the local governments and corporate clients were granted favourable loans for the purchase of current and fixed assets based on subsidised interest and co-financing.

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Specially designed campaigns and upgraded processes contributed to the realisation of commercial plans. The Bank continued with the implementation of the campaign of pre-approved loans for all SB customers and introduced specific campaigns with the aim of satisfying the needs of existing credit customers for additional resources. Through improved processes in the small business segment and AGRO, the clients are provided a response and loan disbursement in a more efficient and faster manner through specific campaigns (pre-approved loans for existing and new customers, etc.).

At the same time, considerable efforts were invested in improving the method of communication and adjusting it to the profile and needs of our clients. With the aim of standardising the communication approach to different categories of customers, the Bank improved its service model and, based on the complexity of client needs, defined a new price policy and service model, which should also lead to a higher level of customer satisfaction.

Conducting business in challenging market conditions implies constant investment in the most important resource of any company - its employees. In the small business segment, this approach is put in practice through the concept of Small Business Academy as a platform for profiling new SB advisors and developing skills of the existing ones. The Academy is designed to cover a wide range of knowledge and skills that are needed in everyday work, such as sales, communication skills and conflict resolution, financial analysis, time management, and the use of available tools. In addition, a SFE (Sales Force Excellence) project was launched in order to implement good practice in the SB network in terms of improving the skills and capacities at all levels and positions, standardising the sales process, as well as clearly defining strategic and operational goals.

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7. Corporate Banking

During 2016 domestic business climate was more favourable than in the previous years, as illustrated by the solid GDP growth in the domestic economy, rising interest of foreign investors, as well as significant improvement in export activities of domestic companies. With the support of the Government of the Republic of Serbia, a lot of efforts were also invested in entrepreneurship promotion, focusing on SMEs and their business needs, with the aim of strengthening the private sector that is a driver of economic growth in all developed economies worldwide.

In 2016 the banking sector still struggled with the issue of non-performing loans, credit activity recovered slightly relative to the previous year, while interest rates hit the historic low which provided companies with access to new financing under very favourable commercial terms. Unfortunately, credit supply exceeded high quality demand for new financing by far, so assets recorded only marginal growth especially in operations with large corporate clients.

A significant growth of credit activity was recorded in the SME segment, which was not only in line with the business policy and strategy of Banca Intesa, but also with the government strategy related to the promotion and development of competitive economy on which all successful modern global economies are based. As in the previous period, Banca Intesa continued in 2016 with the long-standing tradition of providing support to the public sector, with special attention also dedicated to business relations with multinational companies which had already started or planned to start their business in Serbia. One of the strategic initiatives at the Intesa Sanpaolo Group level is the New Silk Road initiative, aiming to provide financial support to the Western Balkan countries whose SMEs will participate in projects initiated by Chinese investors, with Banca Intesa playing an important role of the regional coordinator.

Following market trends and needs, Banca Intesa established a separate organisational unit (EU Desk), which will provide technical assistance to the Bank's clients in finding attractive projects and financing from EU funds.

As in the previous years, Banca Intesa dedicated special attention to its clients, aiming to use the Customer Satisfaction Survey, this year expanded to include large corporate and multinational clients, to improve its offer and provide each client with added value. 2016 was another year of success for the corporate banking segment, owing to the maintenance of the high level of quality of services provided to the existing clients, as well as the acquisition of new ones, in particular multinational companies. Bank's focus is portfolio expansion and client base strengthening – both the multinationals already active in our market and the new ones that are expected to arrive. With our attractive and well-designed offer we managed to establish cooperation with some of the significant clients.

In the banking sector, 2016 was marked in corporate banking by a slight increase in credit activity, approximately by 0.7%, which was primarily a result of upturn in liquidity and investment loans. Mild recovery of lending activity was primarily a result of continued decline in interest rates since the beginning of the year. By following this upward trend of corporate loans, Banca Intesa Belgrade kept its leading market position in this segment as well.

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Chart 16 – Corporate loans (RSD million)

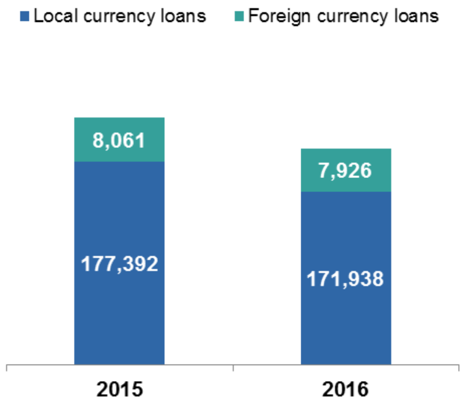
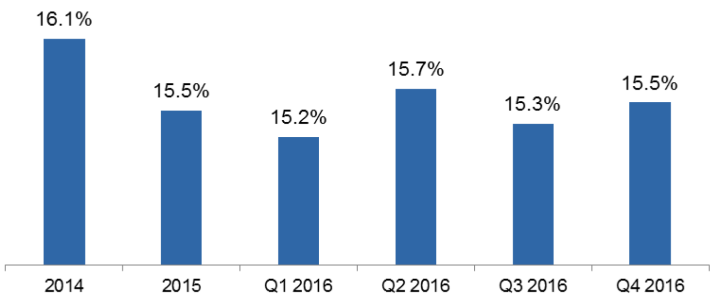


Chart 17 – Market share of the Bank in corporate loans



In deposits, despite additional decrease in deposit interest rates compared to 2015, there was no reduction in deposit volumes, which is a confirmation that clients prioritise stability, safety, quality of cooperation and possibility of using other banking products and services with their commercial bank over the price.

Chart 18 – Corporate deposits (RSD million)

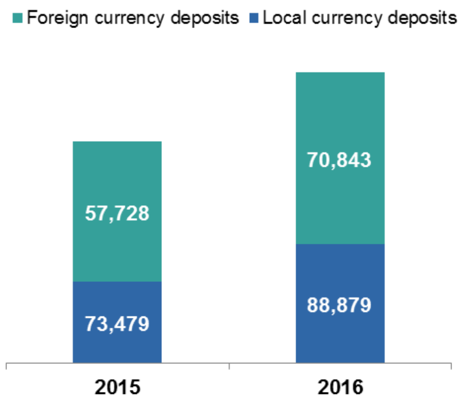


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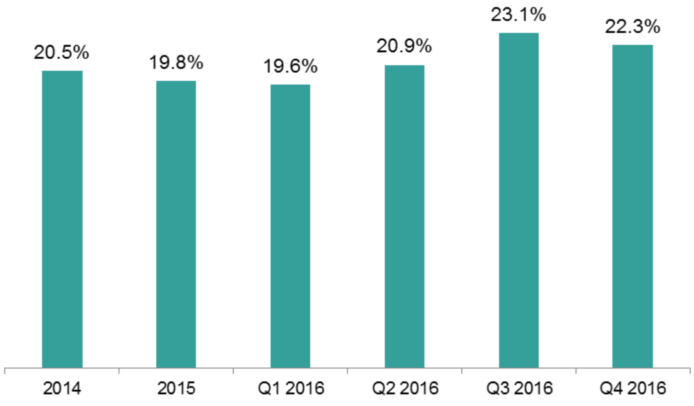
Chart 19 – Market share of the Bank in corporate deposits



TREASURY AND CAPITAL MARKET PRODUCTS AND SERVICES

Development and sales support of the said group of products and services was defined in 2016 with the following three pillars of development:

1. Risk Mitigation Solutions (interest rate and exchange rate)
2. Liquidity Management Alternatives
3. Debt and Equity Capital Markets

In order to provide suitable products for each client segment, this group of products enables us to offer a full range of services to corporate clients in the domestic market which is still developing.

EU DESK

Recognizing the needs of the clients who require information on the possibilities of accessing EU pre-accession funds, and specific assistance in applying for these funds, a specialized EU Desk was established.

The EU desk provides information on EU pre-accession funds and the possibilities of accessing them and public procurement procedures. The goal of these services is to expand the Bank's range of products and services to financing and bridge financing (EU funds are awarded upon the completion of the project) and assistance in EU project implementation (issuing bank guarantees, letters of intent, bank account statements needed to prove that the funds for project financing have been provided, advice on public procurement, etc.)

TRANSACTION BANKING

Against the backdrop of tightened competition in the (global) market, primarily from non-banking technologically advanced, as well as additional and complex legislative changes, transaction banking services still present an important source of income with further development possibilities.

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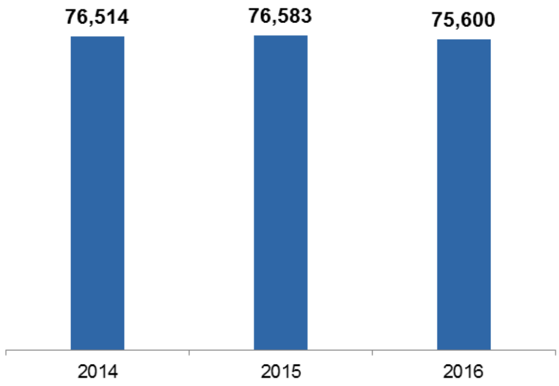
In order to maintain its leading position and increase its market share, the Bank identified priorities for further development, focusing on the clients that are doing their business in the international environment. As a member of one of the largest European banking groups, in cooperation with the parent company, in the following period the Bank will even more forcefully build its position offering the whole range of banking services to all client segments, with adequate and necessary expert support.

Chart 20 – Guarantees and other commitments (RSD million)



STRUCTURED FINANCE

In the segment of structured finance, the Bank adopted a set of secondary legislations, in the second half of the year, thus providing better conditions for investing in renewable energy sources (RES), as well as better bankability of local RES projects. A more favourable climate for developing and financing RES projects enables the Bank to define a strategy of more intensive financing of RES projects, thus providing further support to environmental protection. In this respect, in its operation Banka Intesa follows the Equator principles, which ensure adequate risk management in financing RES transactions.

FACTORING

Volume of business activities based on factoring transactions was affected in 2016 by the overall situation in the economy and, above all, by high liquidity and reduced requirements for short term financing, so in the course of the year receivables amounting to RSD 4.3 billion were purchased, with the overall transaction volume of approximately RSD 7.4 billion.

In the second half of the year, factoring activities intensified via following the chain of financing large and multinational clients. The focus on this strategy will also be the basis for a further development of factoring activities in the following year with an emphasis on support to sales and further improvement and development of technical solutions.

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8. Asset Management and Investment Banking

In 2016 Banca Intesa retained its leadership position in foreign exchange trading operations, with a market share of 14.83%. In addition to the standard product offer, there was continued promotion and education of customers about modern products that facilitate their financial risk management, primarily referring to foreign exchange risk.

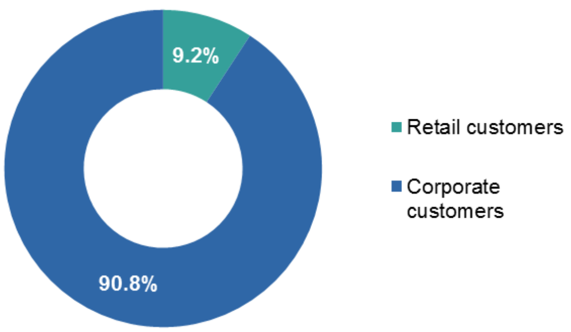
Within its offer, Bank provides its clients opportunity to use EUR-NET foreign exchange rate, the most favourable market rate which follows trends in the interbank foreign exchange market in real time.

EUR-NET Exchange Rate was developed in November 2015 to be applied in foreign exchange trading transactions through e-banking and Intesa Mobi application. During 2016 the volume of transactions increased by as much as 61%. EUR-NET

Table 1 – Foreign exchange trading (EUR million)

	2011	2012	2013	2014	2015	2016
Corporates	4,217	3,066	3,058	2,772	2,915	3,171
Private individuals	355	299	242	229	226	321
Other banks	2,659	2,789	1,510	899	1,313	1,100
NBS	10	117	73	157	94	99

Chart 21 – Retail and corporate share in foreign exchange trading



In 2016 Banca Intesa was again the leading bank regarding the offer of financial instruments for dinar and foreign currency liquidity management (currency swap contracts), primarily intended for investors in RSD denominated bonds of the Republic of Serbia who wish to completely or partially hedge foreign exchange risk.

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During 2016, Banca Intesa continually participated in primary and secondary auctions of government securities of the Republic of Serbia for bank portfolio management purposes as well as in order to execute client orders. Thus, it actively supported the development of this key segment of the bond market and government fiscal policy. Against the backdrop of interest rate reduction in the entire banking sector, domestic and institutional clients demonstrated increased interest in investing in securities as an alternative to bank deposits. In this regard, Banca Intesa had a proactive approach to informing clients about options of investing in government bonds and offered its brokerage and custody services to all interested institutional and individual investors. As a result of promoting these services, corporate clients actively invested in debt securities of the Republic of Serbia, posting a positive trend in 2016 as well.

In the second half of the year, the Bank executed the first REPO transaction with a corporate client in Serbia. A precondition for further development and improvement of this financial market segment, in particular related to legal security and unhindered execution of participants' obligations is the adoption of the Law on Financial Security.

Banca Intesa has a diversified bond portfolio. In addition to debt securities issued in the domestic market in the Republic of Serbia, the portfolio includes bonds from the international market, such as Italian bonds denominated in EUR and Serbian Eurobonds maturing in 2017 and 2018 denominated in USD.

In December 2016 the ownership structure was changed by the sale of Intesa Sanpaolo S.p.A. stake, which presents 15.21% of the share capital of Intesa Sanpaolo Holding International S.A., so as of the last day of 2016 Banca Intesa is 100% owned by Intesa Sanpaolo Holding International S.A.

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9. Corporate Social Responsibility

Taking into consideration the responsibility derived from a leading market position, in 2016 Banca Intesa sought to achieve business success with full respect of the corporate social responsibility principles. In line with this commitment, the Bank applied the concept of management based on a balance of economic, social and environmental objectives, monitoring and responding to the recognized needs of all stakeholders – its employees, customers, shareholders, supply chain and the local community, while striving to minimize the negative impact on the environment.

As in previous years, the Bank's concept of corporate social responsibility was applied in practice, inter alia, by providing support to the community by strengthening the corporate volunteering culture and implementation of specific volunteer campaigns, but also by direct financial assistance to health institutions, projects in the field of culture and preservation of cultural heritage, as well as to numerous social and humanitarian initiatives. Other areas of corporate social responsibility traditionally based both on professional and personal development of employees were not neglected either, with a continuous improvement of supportive working environment and equal opportunities for promotion.

Recognizing the needs of clients, during 2016 the Bank continued with the improvement of existing and introduction of new products, with constant emphasis on financial inclusion of specific social groups and continuous care about the satisfaction of customers from all market segments. Bearing in mind direct and indirect environmental impacts, as well as potential risks to business sustainability caused by disruption of the global ecological balance, in 2016 Banca Intesa continued with activities aimed at the mitigation of negative impacts on the environment through the reduction of resource consumption, as well as the sale of financial products intended for energy efficiency improvements of all categories of clients.

In accordance with the strategic orientation of the Intesa Sanpaolo parent group to incorporate sustainability in all business functions and business philosophy, as well as with the global trends that are moving toward mandatory social and environmental reporting, during 2016 Banca Intesa sought to improve its sustainability reporting practice.

COMMUNITY

Corporate Volunteering

Since 2013, when it was formally launched under this name, the goal of corporate volunteering program Intesa from the Heart has been to enable employees to provide an important contribution to positive social change, by donating their time, talent and knowledge. In line with this commitment, during 2016 Banca Intesa continued to incorporate new activities in the corporate volunteering program Intesa from the Heart.

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This year's edition of the Volunteer Day project brought together as many as 120 volunteers from different parts of the country who invested about 480 volunteer hours in total and worked together to give a personal contribution to improving the quality of service in four different institutions for social and medical care of children in Kragujevac, Niš, Novi Sad and Belgrade. Compared to the previous year, this year's project was improved in terms of providing an opportunity to the employees to select the location and specific children's institutions which they wanted to visit and support by volunteering engagement.

The Bank’s most extensive volunteering initiative Wrap a Gift, Make a Child Smile was also improved by the introduction of a new concept. From 2016 funds used to provide support and direct assistance to children throughout Serbia are collected by "selling" tickets / badges for the performances of the newly formed BIB Band. The first concert of BIB Band brought together more than 800 employees who purchased about 1,100 badges / tickets for the opening performance and raised more than half a million dinars in total for purchasing 560 New Year's gifts for children with disabilities, Roma children and children without parental care accommodated in 5 social and health care institutions in Belgrade. The BIB Band consists of the Bank's employees who will volunteer their time, expertise and talent, supporting the implementation of the Bank's CSR initiatives and provision of continuous assistance to the community by giving concerts also in other regional centres of the Bank - Niš, Novi Sad and Kragujevac.

For the sixth consecutive year, in 2016 Banca Intesa employees were part of the largest national volunteer initiative Our Belgrade, participating in arranging and painting the yard of the Our Fairy Tale kindergarten. The volunteer campaign Our Belgrade, which was in 2016 organized for the eighth time in a row, has so far included more than 30 companies and more than 2,700 employees doing something good for their city and had a direct impact on improving the quality of life for more than 9,000 people and children in total.

During 2016 the Bank also encouraged its employees to support social initiatives as individual volunteers. The employees of Banca Intesa continued to support the Banking Officer project organized by the local branch of the United Nations Global Compact, aiming to educate students and teachers in secondary schools on various topics from banking practice. In addition, the Bank's employees participated as instructors at three seminars and workshops on financial management dedicated to women entrepreneurs. In addition, representatives of three organizational units of the Bank supported as instructors this year's edition of AmChamps Summer School organised by the American Chamber of Commerce in Serbia, while a dozen colleagues volunteered during the ISBD children's Olympics organized in Belgrade and Stara Pazova, reaching in total of more than 100 volunteering hours during business hours.

Corporate Philanthropy

As the leading bank in the domestic market, Banca Intesa is aware of its additional responsibility to contribute to resolving social issues. As in the previous years, in 2016 Banca Intesa tried to meet the needs of the wider community in different ways, through activities in the field of corporate philanthropy, by fostering social and financial inclusion or developing its own CSR projects.

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Constantly monitoring the needs of the community in which it operates, in 2016 the Bank allocated over RSD 9 million as aid for philanthropic purposes and used it to support health institutions, projects in the field of culture and preservation of cultural heritage, as well as for numerous social and humanitarian initiatives.

In accordance with the strategic direction and socially responsible practices, during 2016 Banca Intesa continued to contribute to the development of local communities through a large donation of computer equipment to non-profit organisations, civic associations and institutions across the country. In order to encourage long-term cooperation between the civil and business sector in Serbia, a donation of 490 computers and 150 printers used printers was completed during October and November in cooperation with our partner NGO Smart Kolektiv. By donating functional computer equipment, the Bank made an important contribution to improving the sustainability and working conditions for 74 organizations that deal with important social issues and activities aimed at upgrading the quality of life of citizens at the local level.

Furthermore, as part of its corporate philanthropy program, the Bank financially supported a new season of a charity TV format called With Tamara in Action, which aims to raise public awareness about the problems faced by socially vulnerable citizens in our country. As a bank that is actively involved in projects supporting the community and addressing current social issues, Banca Intesa, in collaboration with Mastercard, will help each of the families in the new season with RSD 100,000 and thus contribute to improving their quality of life.

Sustainability Reporting

In 2016, for the first time, the Bank’s annual Sustainability Report for 2015 was prepared in accordance with the advanced G4 reporting guidelines in line with the international GRI methodology, providing a comprehensive insight into economic, social and environmental performance of the Bank through responses to 32 indicators, compared with 29 covered in the previous report.

Considering the process of sustainability reporting as an important platform for constant promotion of dialogue with all stakeholders, allowing better understanding of their needs and expectations, Banca Intesa presented its 2015 Sustainability Report for the first time at a special public event organized in September. As part of the presentation, the Bank also organised an expert panel discussion with the participation of representatives of the key Bank's stakeholders – the National Bank of Serbia (NBS), the European Bank for Reconstruction and Development (EBRD), the Social Inclusion and Poverty Reduction Unit of the Government of the Republic of Serbia, the Travel Boutique company, as well as the Responsible Business Forum, aiming to establish dialogue with relevant social factors on the important topic of the financial sector's impact on society's sustainability, with a special focus on financial inclusion and responsible financing.

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As a confirmation of validity of its activities related to the implementation of the CSR principles in its operations, at the end of 2016 Banca Intesa received a special award for the results achieved in the first national CSR indexing process, joining the list of companies that met high criteria in the application of CSR standards in its business model. The CSR index is the only national methodology that allows an objective comparison and evaluation of the performance of companies operating in Serbia in the context of the market application of CSR standards.

RESEARCH AND DEVELOPMENT ACTIVITIES

Customer Satisfaction Management

For Banca Intesa, the customer satisfaction approach, defined by the Listening 100% program, presents a continuous process of listening to customers' needs through feedback we receive from them, whether it comes in the form of questions, complaints, suggestions or compliments and finally, through customer satisfaction surveys. However, this feedback presents only the beginning of a continuous improvement process – feedback is thoroughly analysed so that customers' needs are adequately interpreted. This way, customers practically become initiators of improvement activities and, judging by customer satisfaction surveys' results, they are successfully included in the development and improvement of products and services, definition of communication strategies, business network development, as well as employee education and training. For the evaluation of customer satisfaction, a scientifically tested and affirmed approach based on the European Customer Satisfaction Index (ECSI) was used. The application of this model enables a comparison of Banca Intesa with other locally operating banks as well as with other banks of ISBD (International Subsidiary Bank Division of Intesa Sanpaolo). During 2016, the surveys were conducted in the Individuals, Small Business and SME segments and for the first time in the segments of Large Corporate and Multinational Clients.

Benchmarking survey – alongside internal customer satisfaction surveys, where exclusively the customers of Banca Intesa were interviewed, the Bank conducted, in the Individuals segment, a benchmarking survey, which enables comparisons with local competitors not only by the levels of customer satisfaction and loyalty but also by each individual indicator level, such as the image, service value, relationship with personnel, organization efficiency, after-sale support, complaint handling, internet banking services, etc. The 2016 results clearly point to the leadership position of Banca Intesa in the fields of customer satisfaction and loyalty. It is worth pointing out that Banca Intesa, as the survey showed, had the highest percentage of customers which are willing to recommend its services to people close to them – the so-called Net Promoter Score (NPS).

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Chart 22 - Customer Satisfaction Index (ECSI)

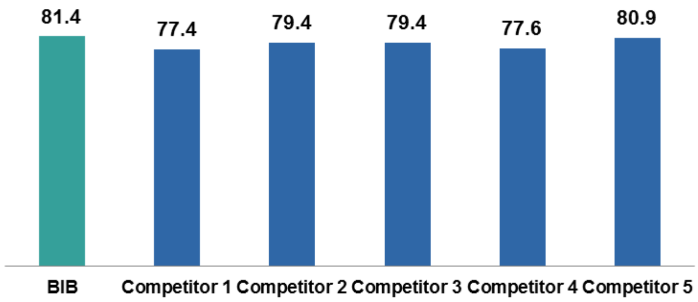


Chart 23 – Loyalty Index

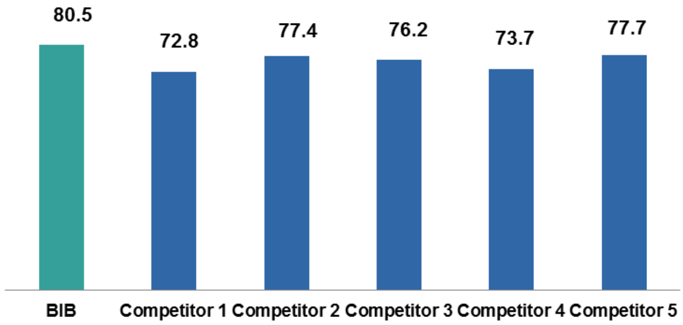
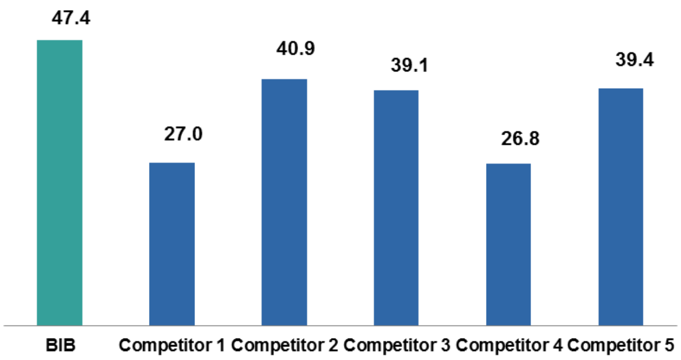


Chart 24 – Net Promoter Score



During 2016, with a goal of improving service quality in the business network, a Mystery Shopper survey was initiated. This particular survey methodology, among other things, provides an overview of each branch as a separate entity, making it possible to initiate and conduct activities aimed at improving service quality, directly influencing customer experience and satisfaction on the branch level. The task set during 2016 within the scope of the Listening 100% program was also to develop instant feedback tools which will, in the period to come, enable faster and simpler interaction with customers in the field of feedback collection through e-mail channel, the Bank's web site, IVR, or at the very touchpoint, i.e. in the branch.

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Development of Products and Services

In 2016 the Bank's development activities were focused on a detailed analysis of core banking applications and their improvement, and the integration of new regulatory requests. The aim of this activity is improving information infrastructure on a long run, making sure it will be able to support further development of products and services and ensure Bank’s leading position in the market.

Following the global trend of increased mobile device usage, Banca Intesa was the first bank in the Serbian market to introduce new contactless mobile payments at POS terminals for Visa Inspire and Visa Electron cards.

In order to increase its business process efficiency, the Bank continued with improvements of payment cards operations, focusing on processes related to payment card issuance. The first phase of new user application for processing loan applications for individuals was completed, as well as the optimisation of credit data processing and credit data exchange with the Credit Bureau. A market analysis focused on the use of smart devices for cash management was conducted with the aim of optimising cash operations.

During the previous year the Contact Centre operations were improved, so apart from the enhancement of the service itself, in order to increase customer satisfaction, the Bank also developed a "new" sales channel using contacts with clients as sales opportunities.

In order to improve e-commerce services, in August 2016 Banca Intesa introduced Nest Pay, a new e-commerce platform. This system enables secure on-line purchases by payment cards in online shops. In comparison to the old solution, Nest Pay offers additional functionalities, the most important being instalment payments and possibility of mobile phone bill payment.

At the end of December 2016, Banca Intesa introduced the sale of cash loans through Internet banking application. The process enables the creation of loan offer, loan application submission and processing, creation of documents and issuance of a loan decision via an online service. In this way, the process of loan application is significantly easier for the client requiring only one visit to the Bank for the loan to be disbursed.

Additionally, Banca Intesa was the first bank in Serbia that conducted securities REPO transactions with corporate clients. This type of service provides a new way of liquidity management for our clients and confirms the Bank's strategic orientation towards constant improvement of financial service quality in the domestic market.

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MARKET

Financial Inclusion

Continuous improvement of availability of financial products and services presents for Banca Intesa an opportunity for long-term development along with the community in which it operates. By innovating its portfolio of financial products and services, the Bank strives to meet specific needs that clients have in different phases of their life, and by developing specific inclusive products the Bank seeks to facilitate access to financial services to the widest possible range of existing and new clients.

In addition to the continuous placement of low-profit, inclusive products such is Senior Cash loans which helps financial empowerment of the elderly population and its integration into society or Intermezzo Cash loan, characterised by a possibility to pause the repayment of the loan, in 2016 the Bank was the first bank in the market to present mortgage loans indexed to the euro with a fixed monthly instalment throughout the period of repayment up to 20 years and further improved its offer of housing loans indexed to the euro, approved from October at an even lower interest rate.

With the implementation of the program supporting female entrepreneurship entitled Women in Business, in 2016 Banca Intesa continued to grant favourable loans from the EBRD credit line for financing investments and working capital to small and medium-sized enterprises run by women. In addition to financial support, the Bank continued with the educational aspect of the program within which additional seminars for female entrepreneurs were organised on finance management and bank support in further development of their businesses. For communication in integrated campaigns, the project supporting women's entrepreneurship received a prestigious annual award in the field of market communications PRiznanje 2016 from the Serbian Society for Public Relations (DSOJ).

Aware of the importance of women's entrepreneurship for further growth of the domestic economy, Banca Intesa also continued with the program of credit support to unemployed women and women entrepreneurs in Vojvodina, in the form of loans for equipment purchase and start-up loans.

Combining its market interest with innovation and the principles of social and financial inclusion, and in order to help the long-term sustainable development of Paralympic sport in Serbia, in 2016 the Bank continued with the implementation of a stable and independent financial mechanism supporting the Paralympic Committee of Serbia. Renouncing a portion of the fees for monthly memberships and transactions performed by Visa Classic Paralympic card, the Bank contributed critically to the operational sustainability of the Paralympic Committee of Serbia in the Olympic year, which is a unique example among sports organizations in the country and abroad. With the implementation of this financing model, in 2016 the Paralympic Committee of Serbia was supported by the Bank with more than RSD 5.5 million. In addition to financial support, during 2016 the Bank also conducted a communication campaign to raise the citizens' awareness about the achievements and needs of athletes with disabilities for which, as the largest corporate donor, it received a special recognition of the Paralympic Committee of Serbia for its contribution to the development and promotion of Paralympic sport in the country.

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Continuing with the implementation of the program of strategic support to the country's economic development, at the end of 2016 Banca Intesa signed with the European Investment Fund (EIF) the first contract in Serbia within the European Commission's COSME program for SMEs. Owing to the financial backing of the European Commission, the EIF is providing a direct guarantee that will enable Banca Intesa to support 3,000 SMEs in Serbia over the next two years with EUR 60 million in loans on favourable terms - with increased maturities and without any hard collateral. COSME is an EU programme for the competitiveness of enterprises and SMEs running from 2014 to 2020 with a total budget of EUR 2.3 billion. The COSME Loan Guarantee Facility supports guarantees and counter-guarantees to financial institutions to help them provide more loans and lease finance to SMEs.

Support to Agriculture

In order to support the long-term sustainable development of local agriculture and contribute to reducing the risk of certain natural perils, during 2016 Banca Intesa, in cooperation with Generali Osiguranje Srbija and KfW German development bank, developed and offered a unique credit facility for financing agricultural production with an integrated crop insurance policy called Agroprotekt. Agroprotekt loans can be used for financing the purchase of current assets and raw materials for the production of field crops - wheat, barley, corn, sugar beet, sunflower and soybean, and include a crop insurance policy against basic risks including hail, fire and a lightning strike. The loan is intended for registered farms belonging to individuals, as well as for legal entities and entrepreneurs engaging in crop farming, who are registered in the territory of AP Vojvodina.

As regards support to agricultural production, in 2016 Banca Intesa organised the fourth cycle of Intesa Farmer, the annual competition for the best agricultural producers in Serbia. The best producers in the categories of vegetable growing, crop farming, fruit growing and livestock farming, as well as the best small agricultural producer in the Intesa Slow Food category which was introduced in 2016 in partnership with the Slow Food Serbia association, were rewarded by the Bank with a trip to the Slow Food Fair of Good Flavours in Stuttgart, as well as vouchers worth RSD 100,000 for purchasing raw materials. More than 550 farmers applied to the fourth cycle of the Intesa Farmer competition, and the jury was guided by general criteria that involved annual results in agricultural production, owning a storage facility, involvement of family members in the production process, as well as established cooperation with Banca Intesa.

Environmental Impact

Environmental protection is one of the key strategic areas of the Bank's activities in the field of sustainability. For this reason, the Bank implements its activities in this area in two main aspects, through the process of responsible resource management as well as the concept of responsible financing.

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With responsible resource management, the Bank invests continuous efforts in reducing the consumption of key resources in all aspects of daily operations, with the aim of reducing direct negative environmental impacts. As a result, around 130 tons of paper waste was handed over for recycling. In 2016 the Bank continued its application of the automatic remote shutdown of computers after working hours, which led to savings in electricity consumption of 30.87% or 217,773.04 Kwh.

Bank's commitment to contributing to environmental protection is demonstrated by its developed portfolio of financial products aimed at improving energy efficiency and renewable energy source usage. For these purposes during 2016 Banca Intesa granted loans from the GGF (Green for Growth Fund) credit line for energy efficiency of households, while with the support of the EBRD and KfW, the Bank approved energy efficiency and environmental protection loans to small and medium-sized enterprises, public sector and the agricultural sector.

Working Environment

Being the market leader requires willingness to change and improve constantly. In order to help its employees find out how they cooperate and approach work and what they could change in order to improve themselves, at the end of 2015 Banca Intesa launched a project studying its corporate culture. The goal of the project was to study the Bank's identity, identify both its strengths and weaknesses and in that way determine new possibilities for further development and affirmation of recognized values. The measurement results pointed to the direction Banca Intesa strives for in everyday work in order to improve its business operation and further organisational development in the forthcoming years. Activities conceived and implemented in the course of 2016 with a view to further professional and personal development of staff were a result of listening to their needs.

Banca Intesa team consists of committed, professional and well-educated people who improve the Bank’s business operation with their knowledge, experience and ideas. In its everyday business activities Banca Intesa respects diligence, loyalty, commitment, orientation to results and achievement of goals, but it is primarily focused on people and care for its employees. Guided by the principle of transparency, the Bank guarantees to its employees equal opportunities by applying the criteria of objectivity and transparency with regard to appraisal and remuneration. The Bank monitors achievements of its employees, recognizes merits and in that manner strengthens motivation and rewards performance.

Year 2016 was characterized by upgrading and expanding the knowledge of the Bank's employees. Each employee spent over 7 days in training on average. Each employee attended 3 programs on e-learning platform on average. There were almost 2,700 training days in the classroom, as well as around 5,600 days of mentorship. Education through the e-learning system was conducted through 28 different e-learning programs.

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Several employee development projects were implemented. The InCorporated programme was continued for the benefit of the colleagues in the Corporate Business Network, as well as a series of trainings entitled Credit Risk Management Academy for the employees in the Credit Management Department. The innovative program SBAcademy was successfully developed for colleagues that work or will work on the small business segment in the Bank. This programme will continue to be a part of training for Small Business Client Advisors and consists of three modules, a test and a certificate for colleagues who successfully complete the programme. In 2016 the monitoring and support process for all new employees was fully developed. It consists of active communication with mentors and support in the form of handbooks and meetings with new employees. This program was launched at end of 2015 for all new colleagues from the Business Network. Since the end of 2016 all new colleagues in the Head Office have also been included in it.

Being a member of Intesa Sanpaolo Group, during 2016 the Bank continued to encourage international career development and attainment of new professional knowledge through the exchange of experiences with the colleagues from the Group and those from other banks in Intesa Sanpaolo Group.

Projects for Children of Employees

In 2016, for the twelfth consecutive year, Banca Intesa provided the children of its employees with an opportunity to spend a two-week summer holiday in a small town of Follonica, Tuscany. This was also an opportunity for the children from Serbia to meet their peers from Italy and Egypt, spend time with them and build their independence. In August, 71 children of the Bank’s employees visited this part of Italy.

Through cooperation with the Intercultura Foundation for International Educational Exchange, Banca Intesa supported the program of one-year schooling abroad in 2016 as well. The programme is intended for secondary school students aged 15 to 18 years, who are easily adaptable to changes, curious and open to cultural and other diversity. Two children of Banca Intesa employees completed the previous school year in Italy and used the opportunity to learn Italian, live in a different cultural environment and gain new experiences.

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Qualification, Age and Gender Structure

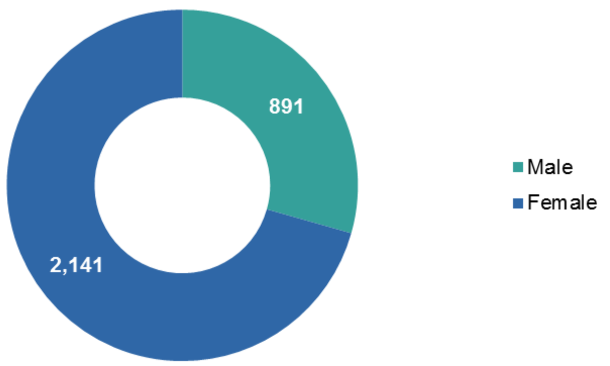
Employees of Banca Intesa combine the enthusiasm and energy of newly-employed young colleagues, on the one side, and the experience and stability in the work of older colleagues, on the other. This synergy is the cornerstone of the Bank's business success.

Table 2 – Employee qualifications

December 2016

Qualification level	up to 30 years	30-40 years	40-50 years	50-60 years	over 60 years	TOTAL
I	-	-	-	1	-	1
II	-	-	-	1	-	1
III	-	14	13	5	-	32
IV	40	240	245	228	10	763
V	-	2	3	2	-	7
VI	55	356	145	78	3	637
VII/1	208	880	343	133	6	1,570
VII/2	-	8	8	1	1	18
VIII	-	1	1	1	-	3
Total	**303**	**1,501**	**758**	**450**	**20**	**3,032**

Chart 25 – Gender structure



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10. Risk Management System

Banca Intesa identifies, assesses, monitors and controls risks to which it is exposed in its business operation and manages such risks in compliance with the Law on Banks and by-laws of the National Bank of Serbia, as well as with international standards and the best banking practice (Basel III, IFRS and EU regulations). The Bank's Board of Directors established by its enactments an appropriate risk management system and an internal control system in the Bank, which also includes supervision of that system by the competent bodies of the Bank – the Board of Directors, the Executive Board, the Audit Committee, the Problem Asset Committee (PAC) and Credit Risk Governance Committee (CRGC) and the Assets and Liabilities Committee (the ALCO). The functioning of the above system is regulated by the policies and procedures adopted individually for each materially important risk type.

Basic principles in the domain of risk management imply a risk management function independent from the risk-taking centres. Moreover, the information used to support the process of decision-making and monitoring must be generated in a timely manner, while the methodology of assessment and the criteria used to measure and manage risks must ensure transparency.

Main objectives in the risk management process are related to the protection of the capital of the Bank and to the increase in economic value for shareholders, optimisation of the process of capital allocation, as well as identification of limits and the authorisation system in line with the levels of responsibility. Additionally, the risk management system ensures that all the assumed and potential risks are identified, measured, controlled and reported on a timely basis to the appropriate bodies, in compliance with the domestic and international regulations and guidelines of the Parent Group.

The most important risks to which the Bank is exposed in its business operation include credit risk, counterparty risk and concentration risk, as well as foreign exchange risk, interest rate risk, liquidity risk and operational risk.

In the course of 2016, the Bank continued to improve its risk management system. Policies and procedures were revised and updated for the purpose of their harmonisation with the amended guidelines and policies of the Parent Bank, as well as with the amendments of the domestic and international (EU) regulations, recommendations of the Internal Audit and findings of the National Bank of Serbia Supervision Department. Work on the project that aims at implementation of the advanced approach to credit risk measurement was continued. The Bank also improved the organisation and methodology of the Increased Credit Risk Early Warning System. A separate organisational part was established with the aim of proactively identifying and managing customers with increased risk (Proactive Exposure Management). The goal is to identify potentially problematic debtors and implement pre-emptive activities in order to reduce credit risk in a timely manner. In relation to interest rate risk management, the Group Guidelines were updated to take into account the latest regulations issued by the European Banking Authority (EBA) – Guidelines for the Management of Risk, Interest Rate Risk Arising from Activities Other than Trading, May 2015 and by the Basel Committee on Banking Supervision (BCBS) – Standards - the Interest Rate

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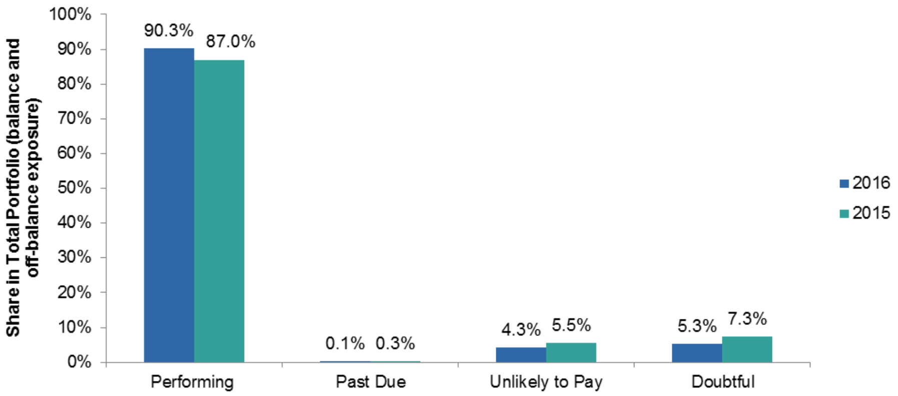
Risk in the Banking Book, April 2016. The Bank will implement a new methodology for interest rate risk monitoring and apply new scenarios prescribed in these documents at the beginning of the 2017. By the set of limits related to capital adequacy, liquidity and credit risk, the Bank formally defined the Risk Appetite Framework and established a regular system of reporting to its management and the Parent Bank on compliance with such limits.

Credit Risks

Credit risk is monitored on a number of levels: by assessing customers' creditworthiness prior to loan approval, monitoring regular settlement of their liabilities and creditworthiness during the whole credit lifecycle, as well as by collecting and managing overdue receivables.

During 2016, the Bank was focused on improving the credit portfolio quality from both directions, decreasing inflow of new non-performing loans (NPL) and resolving clients already recognized as NPLs. Early Warning System and Proactive Exposure Management gave results in identifying potentially problematic debtors and implementing pre-emptive activities in order to reduce credit risk in a timely manner. Full utilization of rating models in the approval process and building pre-approved offers to investment grade clients contributed to a better credit quality structure of the portfolio and decreased NPL inflow. Also, the Delinquency Management Department stepped up the activities aimed at NPL reduction. The most effective activities included selling NPL positions, improved collection and transfer of fully provisioned positions to off-balance sheet. The Bank continued to pursue a conservative classification and provisioning policy by increasing loan loss provisioning levels in order to cover adequately the credit risk of NPL customers. Starting from April 2016 the Bank is using the PD (Probability of Default) rating model values to determine the provisioning levels for performing corporate clients. Provisions based on PDs ensure better provisioning allocation, aligned with the client risk level.

Chart 26 – Credit portfolio quality by classes (balance and off-balance exposure)



*In the course of 2015 a new Unlikely to Pay category was introduced and includes Substandard and Restructured categories.

Large companies and SMEs dominated the credit portfolio of the Bank, accounting for around two thirds of the total credit portfolio. On the other hand, loans given to private individuals and small businesses account for about a third of the total credit portfolio.

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Chart 27 – Portfolio distribution by segments

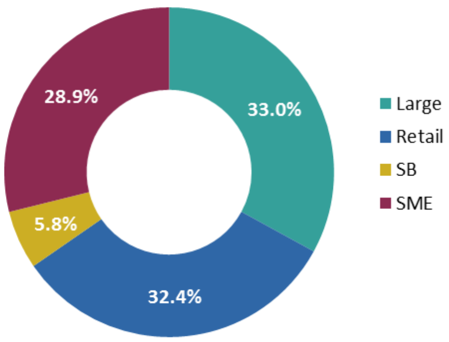
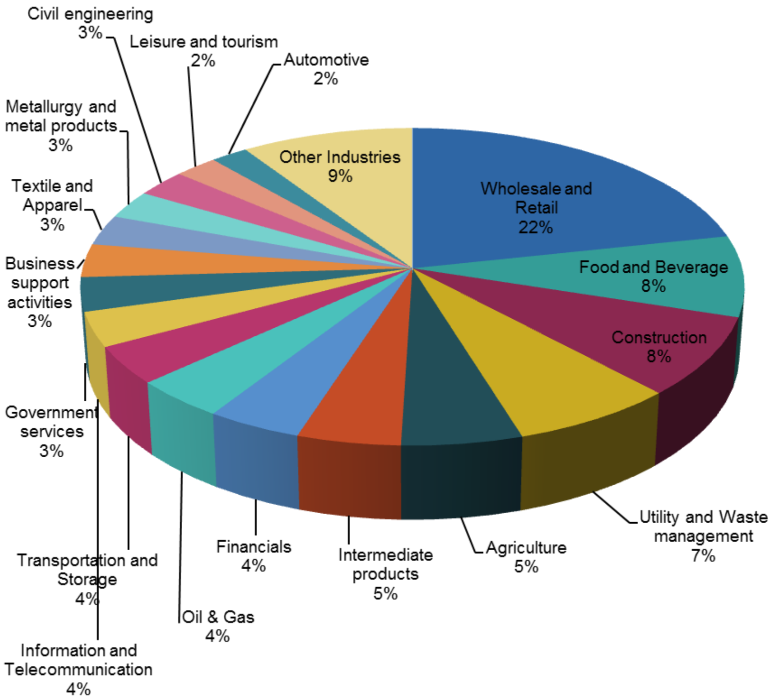


Chart 28 – Portfolio distribution by industry



Credit portfolio distribution by industry points to relatively good portfolio diversification. The government, trade accounts for the largest portion of the credit portfolio, followed by construction and food industry.

In 2016 the Bank continued developing its internal credit rating models for the purpose of converging to the standards of advanced approaches to credit risk measurement. While in the previous years the Bank developed PD models (estimation of the Probability of Default risk parameter) for majority of business segment customers, 2016 saw the new model for the specialized lending segment (SL 2015), while the implementation of the new SME and LC model has been in progress. In order to improve the rating assignment quality, the Bank introduced two new organisational units: the Internal Validation Office (validation of internal rating models) and the Rating Desk (with the exclusive right to do rating overrides).

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As regards the PD model for the private individual segment, it was validated by the local Internal Validation Office in December 2016, with the final assessment from the Head Office's Internal Validation Department pending. In addition, in 2016 the Bank continued working on its LGD models (estimation of Loss Given Default risk parameter) for legal entities.

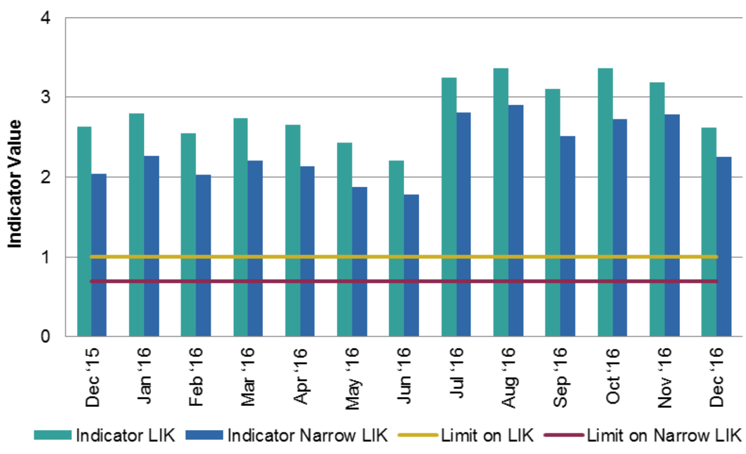
In the first half of the year, the Bank implemented the Internal Capital Adequacy Assessment Process (ICAAP) and through the ICAAP reporting (the ICAAP book) presented the results of the assessment to the regulator and to the Parent Bank. The ICAAP was implemented according to the methodology of the Parent Bank and the internally developed procedure.

Market Risks

Liquidity risk, interest rate risk, foreign exchange risk and counterparty risk are monitored on a daily basis in compliance with the best practice and standards of the National Bank of Serbia, the Basel Committee, EBA and the Intesa Sanpaolo Group. The Risk Management Department measures market risks and counterparty risk on a daily basis, monitors compliance with the set limits and reports to the relevant management bodies and organisational units of the Bank on the level of the assumed risk. On a monthly level and more frequently, as required, the Assets and Liabilities Committee (the ALCO) monitors the levels of liquidity risk, foreign exchange risk and interest rate risk and provides guidelines for current activities focused on the management of such risks, as well as on the overall management of the balance sheet structure of the Bank.

In the course of 2016, the liquidity level of the Bank was significantly above the minimum threshold. The Bank invested its excess liquidity in debt securities of the Republic of Serbia and the Republic of Italy. All the liquidity indicators, regulatory ones and those defined by the Group, were within the set limits at all times.

Chart 29 – Trend of regulatory liquidity indicators



The open foreign exchange position, in compliance with the strategy of the Bank, was on a level significantly below the ceiling prescribed by the regulator.

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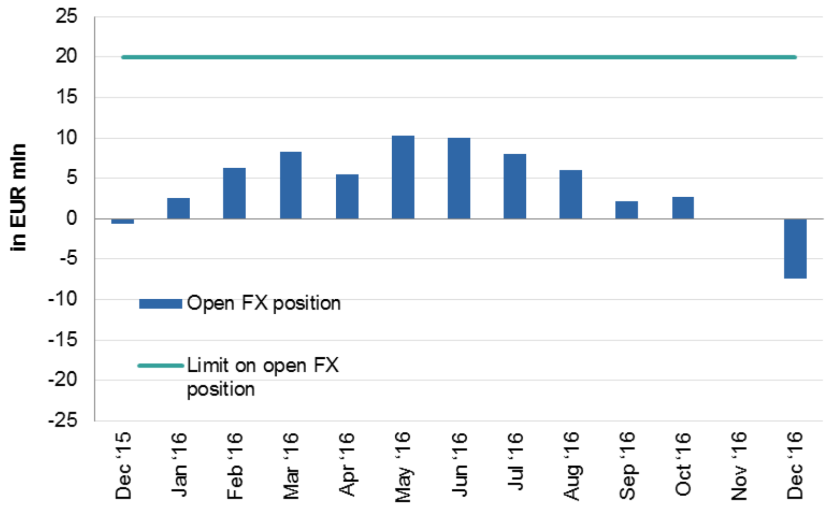
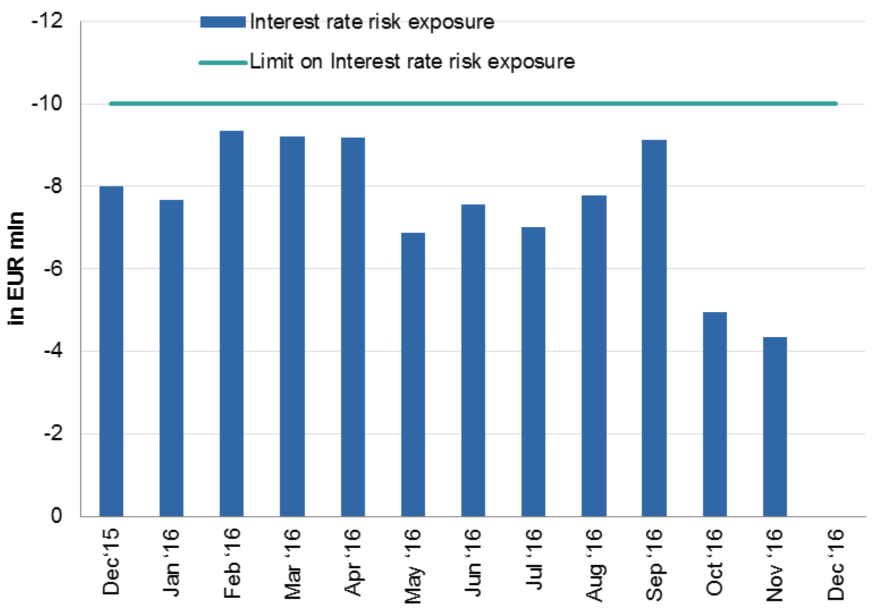
Chart 30 –Trend of foreign exchange risk exposure



The interest rate risk level, in terms of sensitivity of net income and economic capital to variations of market rates of return, was also in compliance with the defined limits.

Chart 31 – Trend of interest rate risk exposure



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Operational Risks

Operational risk management is conducted in compliance with the methodology of the Parent Bank, according to the model supported by adequate IT solutions, which enables regular monitoring, assessment and reporting on operational risks.

Operational risk identification, assessment and monitoring is undertaken through the process of collection of data on operational risks/losses and the process of assessment of exposure to operational risk. Data on operational risks/losses are analysed on a monthly basis, while the process of assessment of exposure to operational risk is undertaken once a year, including a subjective assessment of operational risks for the period of 12 months. Various operational risk scenarios are analysed and the possibility and frequency of occurrence of operational risk are assessed, as well as the average and the worst possible loss in case of occurrence of each scenario. The process of operational risk exposure assessment also includes the assessment of the business environment through an analysis of the importance of different operational risk factors, as well as an internal control quality assessment and the method of established risk factor management.

Based on the database on operational risks/losses and results of such assessment, the Parent Bank calculates, by applying an advanced measurement model, the level of expected and unexpected operational losses, i.e. the level of capital required to cover operational risks.

The Bank applies a standardised approach to the measurement of capital requirement for operational risk. The Risk Management Department regularly reports to the Executive Board, the Board of Directors and the Parent Bank on operational risks and measures for their mitigation.

The level of operational risks in 2016 was somewhat lower than in the previous year. The biggest operational risks appear as a result of errors in the processes of execution and management, but also due to external fraud and abuse. In the assessment of exposure to operational risk for 2017, it was determined that the expected and unexpected losses from operational risks are somewhat higher compared to the previous year, but still in line with the Bank size and its business model type.

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11. Subsequent Events

There have been no significant events subsequent to the balance sheet date, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2016.

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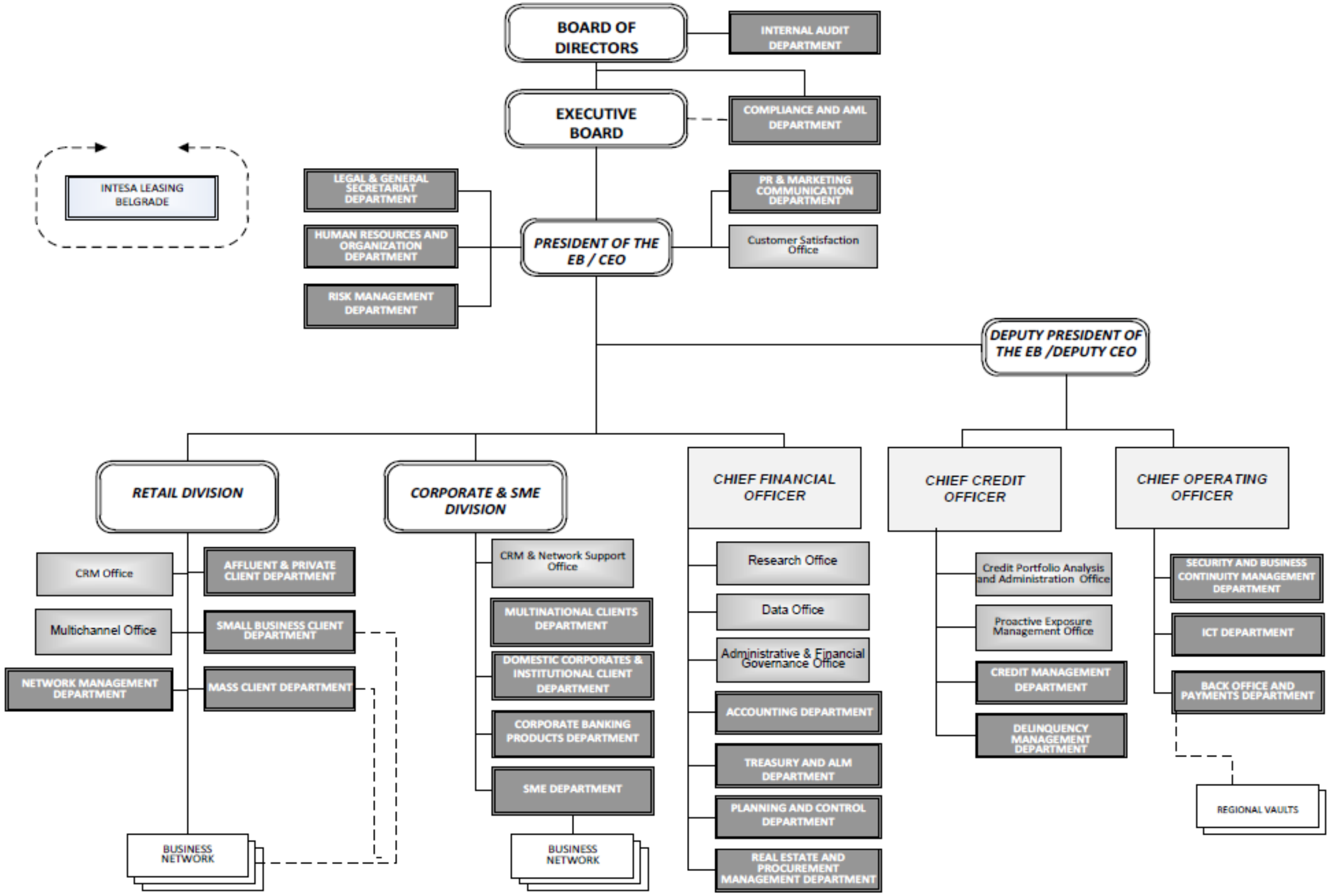
12. Organisational Chart



*In its business operations so far, the Bank has neither established nor has been engaged in business activities through affiliates

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13. Branch Network

Location	Name of the branch office	Regional centre	Address
Ada	Ada, Vuka Karadžića 18	Novi Sad	Vuka Karadžića 18
Aleksandrovac	Aleksandrovac, 29. Novembra bb	Niš	29. Novembra bb
Aleksinac	Aleksinac, Knjaza Miloša 115	Niš	Knjaza Miloša 115
Apatin	Apatin, Petefi Šandora 2	Novi Sad	Petefi Šandora 2
Aranđelovac	Aranđelovac, Knjaza Miloša 192	Kragujevac	Knjaza Miloša 192
Arilje	Arilje, Stevana Čolovića 2	Kragujevac	Stevana Čolovića 2
Bačka Palanka	Bačka Palanka, Žarka Zrenjanina 80	Novi Sad	Žarka Zrenjanina 80
Bačka Topola	Bačka Topola, Glavna 29	Novi Sad	Glavna 29
Bački Petrovac	Bački Petrovac, Maršala Tita 4	Novi Sad	Maršala Tita 4
Batajnica	Zemun, Batajnica, Majke Jugovića 1	Belgrade	Majke Jugovića 1
Bajina Bašta	Bajina Bašta, Kneza Milana Obrenovića 22	Kragujevac	Kneza Milana Obrenovića 22
Bečej	Bečej, Novosadska 2	Novi Sad	Novosadska 2
Beočin	Beočin, Trg Cara Lazara 8	Novi Sad	Trg Cara Lazara 8
Belgrade	Novi Beograd, Otona Župančića 1	Belgrade	Otona Župančića 1
Belgrade	Čukarica, Požeška 128	Belgrade	Požeška 128
Belgrade	Čukarica, Požeška 45	Belgrade	Požeška 45
Belgrade	Novi Beograd, Milutina Milankovića 134g	Belgrade	Milutina Milankovića 134g
Belgrade	Novi Beograd, Milentija Popovića 7b	Belgrade	Milentija Popovića 7b
Belgrade	Novi Beograd, Nedeljka Gvozdenovića 24a	Belgrade	Nedeljka Gvozdenovića 24a
Belgrade	Novi Beograd, Milentija Popovića 7v	Belgrade	Milentija Popovića 7v
Belgrade	Zvezdara, Bulevar Kralja Aleksandra 240	Belgrade	Bulevar Kralja Aleksandra 240
Belgrade	Palilula, Marjane Gregoran 60	Belgrade	Marjane Gregoran 60
Belgrade	Voždovac, Ustanička 69	Belgrade	Ustanička 69
Belgrade	Zvezdara, Mirijevski venac 23	Belgrade	Mirijevski venac 23
Belgrade	Voždovac, Kumodraška 174	Belgrade	Kumodraška 174
Belgrade	Zvezdara, Bulevar Kralja Aleksandra 156	Belgrade	Bulevar Kralja Aleksandra 156
Belgrade	Vračar, Resavska 1-3	Belgrade	Resavska 1-3
Belgrade	Stari Grad, Knez Mihailova 30	Belgrade	Knez Mihailova 30
Belgrade	Stari Grad, Kolarčeva 5	Belgrade	Kolarčeva 5
Belgrade	Stari Grad, Studentski trg 7	Belgrade	Studentski trg 7
Belgrade	Stari Grad, Karađorđeva 67	Belgrade	Karađorđeva 67
Belgrade	Vračar, Bulevar oslobođenja 3	Belgrade	Bulevar oslobođenja 3
Belgrade	Voždovac, Vojvode Stepe 77	Belgrade	Vojvode Stepe 77
Belgrade	Vračar, Cara Nikolaja 82-84	Belgrade	Cara Nikolaja 82-84
Belgrade	Palilula, Ruzveltova 8	Belgrade	Ruzveltova 8
Belgrade	Rakovica, Vukasovićeva 50a	Belgrade	Vukasovićeva 50a
Belgrade	Savski Venac, Sarajevska 31	Belgrade	Sarajevska 31
Belgrade	Savski Venac, Vase Pelagića 48b	Belgrade	Vase Pelagića 48b
Belgrade	Rakovica, Vidikovački venac 80b	Belgrade	Vidikovački venac 80b
Belgrade	Novi Beograd, Goce Delčeva 34	Belgrade	Goce Delčeva 34
Belgrade	Novi Beograd, Partizanske avijacije 14	Belgrade	Partizanske avijacije 14
Belgrade	Novi Beograd, Omladinskih brigada 90	Belgrade	Omladinskih brigada 90
Belgrade	Palilula, 27. marta 23	Belgrade	27. marta 23
Belgrade	Stari Grad, Džordža Vašingtona 8	Belgrade	Džordža Vašingtona 8
Belgrade	Voždovac, Braće Jerković 137b	Belgrade	Braće Jerković 137b

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Belgrade	Čukarica, Trgovačka 15	Belgrade	Trgovačka 15
Belgrade	Savski Venac, Nemanjina 4	Belgrade	Nemanjina 4
Belgrade	Surčin, Vojvođanska 85	Belgrade	Vojvođanska 85
Belgrade	Novi Beograd, Jurija Gagarina 36b	Belgrade	Jurija Gagarina 36b
Belgrade	Palilula, Borča, Ivana Milutinovića 73	Belgrade	Ivana Milutinovića 73
Belgrade	Stari Grad, Cara Dušana 50	Belgrade	Cara Dušana 50
Belgrade	Vračar, Kneza Miloša 23	Belgrade	Kneza Miloša 23
Belgrade	Voždovac, Banjica, Crnotravska 7-9	Belgrade	Crnotravska 7-9
Belgrade	Rakovica, Miška Kranjca br. 12	Belgrade	Miška Kranjca br. 12
Belgrade	Novi Beograd, Jurija Gagarina 14	Belgrade	Jurija Gagarina 14
Belgrade	Vračar, Južni Bulevar 84	Belgrade	Južni Bulevar 84
Belgrade	Vračar, Kursulina 41	Belgrade	Kursulina 41
Belgrade	Kancelarija za stambene kredite, Goce Delčeva 34	Belgrade	Goce Delčeva 34
Belgrade	Centar za stambene kredite, Resavska 1-3	Belgrade	Resavska 1-3
Belgrade	Kancelarija za stambene kredite, Požeška 128	Belgrade	Požeška 128
Belgrade	Kancelarija za stambene kredite, Knez Mihajlova 30	Belgrade	Knez Mihailova 30
Belgrade	Kancelarija za stambene kredite, Studentski Trg 7	Belgrade	Studentski trg 7
Bor	Bor, Đorđa Vajferta 3	Niš	Đorđa Vajferta 3
Bogatić	Bogatić, Vojvode Stepe 35	Kragujevac	Vojvode Stepe 35
Brus	Brus, Kralja Petra I bb	Niš	Kralja Petra I bb
Bujanovac	Bujanovac, Karađorđa Petrovića 111	Niš	Karađorđa Petrovića 111
Čačak	Čačak, Kuželjeva 1	Kragujevac	Kuželjeva 1
Ćićevac	Ćićevac, Karađorđeva bb	Niš	Karađorđeva bb
Ćuprija	Ćuprija, Karađorđeva 36	Niš	Karađorđeva 36
Despotovac	Despotovac, Despota Stefana Lazarevića 2	Niš	Despota Stefana Lazarevića 2
Gornji Milanovac	Gornji Milanovac, Vojvode Milana 1	Kragujevac	Vojvode Milana 1
Inđija	Inđija, Novosadska 21	Novi Sad	Novosadska 21
Ivanjica	Ivanjica, Majora Ilića 1	Kragujevac	Majora Ilića 1
Jagodina	Jagodina, Maksima Gorkog 2	Niš	Maksima Gorkog 2
Kanjiža	Kanjiža, Glavna 3	Novi Sad	Glavna 3
Kikinda	Kikinda, Braće Tatića 16	Novi Sad	Braće Tatića 16
Kladovo	Kladovo, 22. septembra 9	Niš	22.septembra 9
Kostolac	Kostolac, Nikole Tesle 5-7	Niš	Nikole Tesle 5-7
Kovačica	Kovačica, Maršala Tita 31a	Novi Sad	Maršala Tita 31a
Kovin	Kovin, Cara Lazara 73	Novi Sad	Cara Lazara 73
Kragujevac	Kragujevac, Save Kovačevića 12 b	Kragujevac	Save Kovačevića 12 b
Kragujevac	Kragujevac, Kralja Petra I 19	Kragujevac	Kralja Petra I 19
Kragujevac	Kragujevac, Kralja Aleksandra I Karađorđevića 120	Kragujevac	Kralja Aleksandra I Karađorđevića 120
Kraljevo	Kraljevo, Trg Jovana Sarića 8	Kragujevac	Trg Jovana Sarića 8
Kruševac	Kruševac, Mirka Tomića 4	Kragujevac	Mirka Tomića 4
Kruševac	Kruševac, Vece Korčagina 18	Kragujevac	Vece Korčagina 18
Kučevo	Kučevo, Trg Veljka Dugoševića 2	Niš	Trg Veljka Dugoševića 2
Kula	Kula, Maršala Tita 242	Novi Sad	Maršala Tita 242
Lajkovac	Lajkovac, Vojvode Mišića 84	Kragujevac	Vojvode Mišića 84
Lazarevac	Lazarevac, Karađorđeva 41	Kragujevac	Karađorđeva 41
Leskovac	Leskovac, Trg Revolucije 7	Niš	Trg Revolucije 7
Leskovac	Leskovac, Bulevar oslobođenja 170	Niš	Bulevar Oslobođenja 170
Loznica	Loznica, Trg Vuka Karadžića bb	Kragujevac	Trg Vuka Karadžića bb
Ljig	Ljig, Vojvode Mišića 12	Kragujevac	Vojvode Mišića 12

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Ljubovija	Ljubovija, Vojvode Mišića 44	Kragujevac	Vojvode Mišića 44
Mionica	Mionica, Dr. Jove Aleksića bb	Kragujevac	Dr. Jove Aleksića bb
Mladenovac	Mladenovac, Kralja Petra I 217	Kragujevac	Kralja Petra I 217
Negotin	Negotin, Trg Đorđa Stanojevića 70/II	Niš	Trg Đorđa Stanojevića 70/II
Niš	Centar za stambene kredite, Niš, Milojka Lešjanina 1	Niš	Milojka Lešjanina 1
Niš	Niš, Sinđelićev trg 18	Niš	Sinđelićev trg 18
Niš	Niš, Vizantijski bulevar 78	Niš	Vizantijski bulevar 78
Niš	Niš, Obrenovićeva 82 (Fontana)	Niš	Obrenovićeva 82 (Fontana)
Niš	Niš, Milojka Lešjanina 1	Niš	Niš, Milojka Lešjanina 1
Niš	Niš, Bulevar Nemanjića 28-32	Niš	Bulevar Nemanjića 28-32
Novi Kneževac	Novi Kneževac, Kralja Petra I Karađorđevića 29	Novi Sad	Kralja Petra I Karađorđevića 29
Novi Bečej	Novi Bečej, Trg Oslobođenja 5	Novi Sad	Trg Oslobođenja 5
Novi Pazar	Novi Pazar, AVNOJ-a 6	Kragujevac	AVNOJ-a 6
Novi Sad	Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihaila Pupina 4
Novi Sad	Novi Sad, Bulevar Oslobođenja 32	Novi Sad	Bulevar Oslobođenja 32
Novi Sad	Novi Sad, Bulevar Jovana Dučića 1	Novi Sad	Bulevar Jovana Dučića 1
Novi Sad	Novi Sad, Bulevar Cara Lazara 79a	Novi Sad	Bulevar cara Lazara 79a
Novi Sad	Novi Sad, Bulevar Oslobođenja 76a	Novi Sad	Bulevar Oslobođenja 76a
Novi Sad	Novi Sad, Fruškogorska 10	Novi Sad	Fruškogorska 10
Novi Sad	Novi Sad, Rumenačka 33	Novi Sad	Rumenačka 33
Novi Sad	Novi Sad, Zmaj Jovina 15	Novi Sad	Zmaj Jovina 15
Novi Sad	Novi Sad, Narodnog fronta 34	Novi Sad	Narodnog fronta 34
Novi Sad	Novi Sad, Franje Štefanovića 1	Novi Sad	Franje Štefanovića 1
Novi Sad	Novi Sad, Bulevar Oslobođenja 8	Novi Sad	Buleva Oslobođenja 8
Novi Sad	Centar za stambene kredite,Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihajla Pupina 4
Obrenovac	Obrenovac, Miloša Obrenovića 133-135	Kragujevac	Miloša Obrenovića 133-135
Pančevo	Pančevo, Štrosmajerova 1	Novi Sad	Štrosmajerova 1
Pančevo	Pančevo, Karađorđeva 2-4	Novi Sad	Karađorđeva 2-4
Pančevo	Kancelarija za stambene kredite, Pančevo, Štrosmajerova 1	Novi Sad	Štrosmajerova 1
Paraćin	Paraćin, Kralja Petra I 4	Niš	Kralja Petra I 4
Petrovac na Mlavi	Petrovac na Mlavi, Bate Bulića 37	Niš	Bate Bulića 37
Plandište	Plandište, Hajduk Veljka 16a	Novi Sad	Hajduk Veljka 16a
Pirot	Pirot, Branka Radičevića 18	Niš	Branka Radičevića 18
Požarevac	Požarevac, Trg Radomira Vujovića 8	Niš	Trg Radomira Vujovića 8
Požega	Požega, Knjaza Miloša 6	Kragujevac	Knjaza Miloša 6
Priboj	Priboj, Nemanjina 48-50	Kragujevac	Nemanjina 48-50
Prijepolje	Prijepolje, Sandžačkih brigada 39	Kragujevac	Sandžačkih brigada 39
Prokuplje	Prokuplje, 9. oktobra 6	Niš	9. oktobra 6
Raška	Raška, Miluna Ivanovića 8	Kragujevac	Miluna Ivanovića 8
Ruma	Ruma, Glavna 170	Novi Sad	Glavna 170
Ruma	Ruma, 15. maja 143	Novi Sad	15. maja 143
Sjenica	Sjenica, Milorada Jovanovića bb	Kragujevac	Milorada Jovanovića bb
Smederevo	Smederevo, Cvijićeva 3	Niš	Cvijićeva 3
Smederevska Palanka	Smederevska Palanka, Svetog Save 19	Kragujevac	Svetog Save 19
Sombor	Sombor, Venac Stepe Stepanovića 32	Novi Sad	Venac Stepe Stepanovića 32
Sremska Mitrovica	Sremska Mitrovica, Kralja Petra I 6	Novi Sad	Kralja Petra I 6
Sremska Mitrovica	Sremska Mitrovica, Svetog Dimitrija 2	Novi Sad	Svetog Dimitrija 2
Srbobran	Srbobran, Zmaj Jovina 18	Novi Sad	Zmaj Jovina 18

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Senta	Senta, Zlatne grede 6	Novi Sad	Zladne grede 6
Stara Pazova	Stara Pazova, Ćirila i Metodija 2	Novi Sad	Ćirila i Metodija 2
Subotica	Subotica, Dimitrija Tucovića 2	Novi Sad	Dimitrija Tucovića 2
Subotica	Subotica, Štrosmajerova 6	Novi Sad	Štrosmajerova 6
Surdulica	Surdulica, Ulica Kralja Petra I bb	Niš	Kralja Petra I bb
Svilajnac	Svilajnac, Svetog Save 52	Niš	Svetog Save 52
Šabac	Šabac, Gospodar Jevremova 44	Kragujevac	Gospodar Jevremova 44
Šid	Šid, Karađorđeva 11-13	Novi Sad	Karađorđeva 11-13
Temerin	Temerin, Novosadska 403	Novi Sad	Novosadska 403
Titel	Titel, Mihajla Krestića 8a	Novi Sad	Mihaila Krestića 8a
Topola	Topola, Tomislava Karađorđevića 3	Kragujevac	Tomislava Karađorđevića 3
Trstenik	Trstenik, Cara Dušana bb	Kragujevac	Cara Dušana bb
Ub	Ub, Kralja Petra I 44	Kragujevac	Kralja Petra I 44
Užice	Užice, Dimitrija Tucovića 129	Kragujevac	Dimitrija Tucovića 129
Valjevo	Valjevo, Karađorđeva 71	Kragujevac	Karađorđeva 71
Valjevo	Valjevo, Železnička 7	Kragujevac	Železnička 7
Velika Plana	Velika Plana, Momira Gajića br 2	Kragujevac	Momira Gajića br 2
Veliko Gradište	Veliko Gradište, Kneza Lazara 35	Niš	Kneza Lazara 35
Veternik	Veternik, Kralja Petra I 7a	Novi Sad	Kralja Petra I 7a
Vladičin Han	Vladičin Han, Svetosavska 16a	Niš	Svetosavska 16a
Vlasotince	Vlasotince, Nemanjina 2	Niš	Nemanjina 2
Vranje	Vranje, Lenjinova bb	Niš	Lenjinova bb
Vrbas	Vrbas, Maršala Tita 66	Novi Sad	Maršala Tita 66
Vrnjačka Banja	Vrnjačka Banja, Kruševačka 1	Kragujevac	Kruševačka 1
Vršac	Vršac, Sterijina 19a	Novi Sad	Sterijina 19a
Zaječar	Zaječar, Nikole Pašića 70	Niš	Nikole Pašića 70
Zemun	Zemun, Glavna 30	Belgrade	Glavna 30
Zemun	Zemun, Gornjogradska 38	Belgrade	Gornjogradska 38
Zlatibor	Zlatibor, Kraljev trg bb	Kragujevac	Kraljev trg bb
Zrenjanin	Zrenjanin, Kralja Aleksandra I Karađorđevića bb	Novi Sad	Kralja Aleksandra I Karađorđevića bb
Zrenjanin	Zrenjanin, Bulevar Veljka Vlahovića bb	Novi Sad	Bul. Veljka Vlahovića bb, TC "Bagljaš" lok.12
Žabalj	Žabalj, Nikole Tesle 47	Novi Sad	Nikole Tesle 47

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