Addiko Bank

Annual Report 2016

Addiko Bank

Key Data

Addiko Bank a.d. Beograd RSD mil

	2016	2015
Profit and Loss Account	**1/1-31/1**	**1/1-31/12**
Net interest income	2,979.7	3,388.9
Net fee and commission income	818.8	775.0
Impairment or reversal of impairment on loans and receivables	-1,561.7	-7,617.0
Operating expenses	-4,531.5	-4,601.1
Operating result - prior to risk provisions on loans and receivables	284.5	-182.9
Operating result - after risk provisions on loans and receivables	-1,277.2	-7,799.9
The result of the period after taxation	-1,278.5	-7,932.2
Balance Sheet		
Loans and Receivables to customers	65,053.2	55,907.7
Customer deposits	71,046.1	62,262.8
Equity	20,713.7	22,150.8
Total Assets	97,354.7	101,521.3
Risk weighted assets (Banking book)	62,088.2	55,171.0
Key figures	**1/1-31/12**	**1/1-31/12**
Cost – income ratio (CIR)	91.6%	
Net interests income/	4.8%	
	31/12	**31/12**
Own capital	14,299.4	11,536.5
Own funds requirement	7,450.6	6,620.5
Surplus capital	6,848.8	4,916.0
Core capital (Tier1)	11,492.1	7,794.4
Indicator of core capital adequacy	18.5%	14.1%
Indicator of total capital adequacy	23.0%	20.9%
	31/12	**31/12**
Employees at closing date	639	753
Number of locations	41	50

Dear Shareholders,

Business of Addiko Bank a.d Belgrade in 2016 was challenging and, above all, marked by a return to the market and re-branding of name. Both actions were accompanied by a series of activities in the field of digitalisation, acceleration of credit activity, restructuring, cleaning-up the balance, optimising space and changing the way of functioning of the bank headquarter. All the above is a perfect base for 2017 in which it is expected the return of bank operations to profitability zone. Specifically, in 2016 the bank invested nearly one hundred million of euros more than in the year before. In the same way, customer deposits had a similar trend of growth.

During 2016, the restructuring plan has been brought to an end, which began by taking over the bank in mid 2015. In these conditions, after the completion of cleaning-up process of balance sheet, the full effect in terms of results will be seen from 2017 with entering in the profitability zone namely in 2018 when the achievement of significant profit is expected.

A new brand Addiko started to live from July 2016 with all the values of straightforward - practical banking that it brings. The changes that have been implemented and which are yet be carried out are aimed to solve our clients' needs in the simplest way taking into account efficiency. Basically, we want to focus on what matters, and to continue to implement those activities that distinguish us as excellent, rather than to dedicate to a large number of activities in which we are average.

Mobile application and new e-banking platform are just some of the activities aimed at digitalisation of bank's operations, and we continue with complete simplification of the process of opening an account.

At the end of 2016, we have organised "In your shoes" activity which have brought closer the employees in the branches and in the headquarter. Both groups have had the opportunity to see the everyday problems and situations their colleagues encounter. This is an activity that we are especially proud of, because the good practice we have started in Serbia has been recognised and accepted by all subsidiaries within the Group. It is this exchange of experiences among the colleagues that represents the basis for the project of implementation of the new operational model "One bank – six countries" to achieve its full recognition and become our advantage over the competition on the extremely demanding banking market. We can freely say that this project is the biggest challenge that is before us and colleagues across the Group considering that our goal is providing better services to our customers.

In the year to come we expect even faster realisation of work on the concept straightforward, practical banking which puts the clients and their needs in the centre of our attention and brings the bank the fulfilment of objectives and achievement of profitability.

Truly Yours,

Management Board, Addiko Bank a.d. Beograd

Members of the Executive Board

Ivan Radojčić, Chairman of the Executive Board

Mirko Španović, Deputy Chairman of the Executive Board

Rade Vojnović, Member of the Executive Board

Vladimir Stanisavljević, Member of the Executive Board

Annual Business Report Addiko Bank a.d. Beograd

Introduction

This document contains details of the Bank's operations in 2016. At the beginning we gave a brief overview of the most important events and business results. Details of the Bank's activities can be found in the audited Financial Report and Bank's Annual Report which are attached hereto.

1. Overview of Addiko Bank

Addiko Bank a.d. Beograd (hereinafter Addiko bank) is a part of an international bank group headquartered in Vienna, Austria. Addiko Group is operating in six countries: Serbia, Croatia, Slovenia, Bosnia and Herzegovina and Montenegro, providing daily banking services for over 1.1 million clients.

Being clearly focused on markets and clients in the SEE region, Addiko Bank puts the users of services at the core of its strategy: preparing and promoting products and services relevant to this region and its economic environment, faster processes and decisions, and simple and understandable communication.

The holding company Al Lake (Luxembourg) S. à r.l. is the owner of the Addiko Group and is indirectly owned by funds advised by Advent International, a global active private equity investor and the European Bank for Reconstruction and Development (EBRD).

Addiko Bank has operated under this name since July 11, 2016 following the successful rebranding of the Group.

a) Rebranding

Following the 2015 privatization, with the new ownership structure in place and in line with the new business strategy, Addiko Group decided to start future business operations under the new Addiko Bank brand and new visual identity.

Rebranding was one of the key strategic projects in Serbia and for the Group in 2016. It was a clear and strong signal that the Group has changed and will continue to change into the right direction: the Group not only changed its name and logo but made a comprehensive change for the better by implementing new, higher business standards and introducing more efficient banking operations.

The rebranding of the Group was conducted in two phases, with the new brand launched on July 11 in Austria, Croatia, Slovenia, Serbia, and Montenegro, while the process was concluded with the rebranding of subsidiary banks in Bosnia and Herzegovina on October 31. The goal of the rebranding was to create a credible, relevant and distinctive new brand that encompasses the Group's corporate and business values. The Addiko Bank brand at the same time symbolizes the Group's efforts in building a new, modern bank, with the aim of providing straightforward banking to its clients. Focusing on essential, delivering on efficiency and communicating simplicity are the foundations on which the Group's operations are now based.

b) Changes to the Executive Board

The main change that occurred in 2016 was the change in the position of the Chairman of the Executive Board of the Bank. On September 1, 2016 Mr Ivan Radojčić took the office of the Chairman of the Executive Board of the Addiko Bank in Serbia from Zoran Vojnović. Ivan Radojičić comes to the position of the Chairman of the Executive Board in a very dynamic moment when the Bank with a new name and great energy is developing a new business model.

The great experience of the new Chairman of the Executive Board in Retail operations, work with corporate clients and SME was valuable in the development of the concept of practical banking that the Addiko bank has introduced to the market, especially after taking over the operations related to these business segments as of December 31, 2016 and after Oliver Klesinger continued his career outside the Addiko Group.

c) Reorganisation of headquarter

After rebranding and change of the business strategy, started the reorganisation of headquarter in Belgrade. The process of implementation of the open space concept has been successfully implemented therefore reducing the space in the Business Centre Ušće from four to three floors. In addition, the parts of the bank's headquarter were moved to Goce Delčeva and Trgovačka facilities. This model of space organisation has accelerated the internal processes and accessibility of information to all employees. In addition, the state-of-the-art technology has been implemented to connect meeting rooms with meeting rooms in all the countries in which the Group operates, as well as with the headquarter in Vienna which led not only to additional savings through reduced travel costs, but also to easier linking of all employees leading to accelerate decision-making and implementation of the business strategy.

d) Restructuring & Reorganisation

During 2016, the process of restructuring and reorganisation continued, and gave significant savings. Addiko bank in Serbia finished 2016 with 650 employees and 41 branch offices. The characteristic of the entire process at the group level is that the centres have been established and will provide services and help to the whole Group from one country. The goal is to take over the functions in certain local banks and to support Group's operations. This is the first time in the region that a banking group is organised in such a way. Addiko Bank, Serbia has the largest number of these centres which have a share of functions within the group. One of the most important is the centre for the development of digital banking.

e) Launch of Digital Strategy

Addiko Bank established its group Digital Competence Centre for development of digital banking with headquarters in Belgrade. This centre has been designed with the aim to transform this segment of group's operations and all countries. The Centre, together with the renowned companies from Fintech sector, its partners on the projects, has developed platforms for e-banking and m-banking bearing in mind primarily the needs of clients. After the implementation of new solutions, immediately after the bank's rebranding in 2016, the number of e-banking and m-banking users is, only in Serbia, six times higher. Since these solutions have been implemented in most of the countries in the segment of retail business, the bank has started to implement improved solutions for corporate customers.

In 2016, the bank has developed and implemented application on the basic system which accelerated the opening of current accounts for natural persons so that the process was shortened to less than five minutes.

2. Business Operations of the Key Segments of the Bank

Department of funds and balance management

During 2016, Addiko Bank a.d. Belgrade has maintained a stable position in the Serbian financial and interbank market.

The movement of currency pair EUR/RSD in 2016 was characterised by stability in relation to the movement of values of other regional currencies in free floating exchange rate regime.

Chart 1 Movement of foreign exchange rates of currencies in the region of Central and Eastern Europe, index (31.12.2015=100)

To relative stability of the dinar in 2016 contributed, all in all, the continuing narrowing of the balance of payments deficit, adequate capital inflows, significant fiscal balancing achieved over the past year, as well as NBS interventions on the interbank market.

At the same, the volume of trade on the interbank market was considerably smaller than in the previous years, so in the period January – November 2016 amounted about 5.5 billion EUR which was about 20% less than in the same period in 2015.

During 2016, Addiko Bank a.d. Belgrade made a gradual increase in the market share in the foreign exchange market, with the achieved 3.88% (with 3.22% at the end of 2015).

In line with low inflation, and narrowing the payments balance and fiscal imbalances, NBS eased monetary policy in 2016 through a total reduction of the reference interest rate by 0.5 percentage points to 4.0%. Moreover, the Serbian Central Bank decided at the end of 2016 to reduce targeted inflation starting from 1.1.2017 to 3±1.5% (from 4±1.5%).

During 2016, the volume of emissions on the primary market of government securities of the Republic of Serbia was reduced compared to the previous year. On the other hand, the effect of reducing the volume of trading on the primary market has been somewhat mitigated by the growth of trading on the secondary market compared to the previous year. Under these conditions, the growth of the treasury bills and bonds of about 400 million euros was achieved in comparison to the growth of 1 billion euros achieved in 2015.

Retail banking and micro clients

During 2016, the Bank played an important role in the retail landing market through non-purpose cash loans. In addition, clients were given the opportunities to obtain loans with accelerated loan processes that included loan payment within 24 hours. The Bank created a full range of credit products in line with the needs of clients which included Fast Cash Loans with a fixed rate and repayment time limit of up to 60 months, a loan to consolidate all liabilities for up to 144 months and non-purpose cash loans “2 in 1”. The combination of good products and accelerated processes enabled the Bank to participate with 4% in the total financing of the Top 10 banks on the market.

The largest volume of term deposits was realised in November and December during the regular “Savings Week” campaign when 54 million EUR deposits were deposited at prices that were significantly competitive and, on the other hand, profitable for the bank. Observing the needs of clients and with slightly less interest of the market for time deposits, the Bank created a new attractive product – Avista Savings whose interests rates were approximate to savings in that currency for a year. Thus the Bank kept its deposits at a time when the population was distrustful and unmotivated for saving.

Radical changes, starting from rationalisation of the network of branches with strengthening of other channels, ATM network, e-bank and m-bank services, rebranding of the name of the Bank, a large number of projects aimed at simplifying the service in accordance with the basic values of the new Addiko brand that imply simplicity, efficiency and directness and change of management have ensured that Addiko Bank realises its plans, providing loyalty and trust to its clients.

After rebranding, Addiko Bank began to present itself to clients as a new bank in the market that is developing “straightforward” concept of work. The first step in that concept was to launch E-bank and M-bank solutions. The next step was the advancement and improvement of application support and necessary documentation. In addition, the Bank has simplified the range of its products and services by focusing on simple and useful products for the client.

In accordance with the plans and ambitions of new owners, Addiko Bank and Sales Management Division will be in future based on a modern concept of banking that implies new e/m banking solutions that will enable most of the banking services to be performed quickly and easily wherever and whenever the clients wish, the development of a network of sales agents, the development of the Bank@work concepts of sales, the acquisition of new clients through digital communication and presentation channels, consumer crediting and debt consolidation loans, creating strong, long-term and stable partnerships with its clients.

The micro business clients Service will continue to work on simplification of the process and products for clients of this segment.

Before the new client segmentation was adopted, all Micro clients had been within the SME segment.

Under this new policy the micro segment consists of: legal entities, entrepreneurs and agro clients who have annual business income at the level of affiliated persons up to 500,000 EUR annually and who have the exposure at the level of a group of affiliated persons up to 150,000 EUR remained within the Retail and Micro Sector Clients and other clients were transferred to the competence of the business sector with legal entities and the public sector.

Over 95% of all business entities in Serbia belong to the Micro segment and their estimated credit capacity is more the 1 billion EUR.

In accordance with the segmentation, a new sales model has been created that provides for a micro-client to be serviced by a universal seller. The aim is to automate the process of opening accounts, depositing, creating credit application and to open new channels of communications such as E-Bank or M-Bank and new sales channels in the form of promoters, agents and franchises.

Corporate and Public Sector

The Corporate and Public Sector successfully operated in 2016 and achieved results that were in line with the planned goals although the Bank has undergone a specific transition period of strategy and brand change.

In line with the new „straightforward“ approach, the main focus of the Addiko bank team is to maintain strong partnerships with clients through the provision of high quality services.

In spite of the very competitive business environment accompanied by excess liquidity and low interest rates, the business segment with the companies contributed to the increase in the credit portfolio, strengthened the Bank's deposit position as well as the growth in volume in transaction banking.

In addition, the Bank continued to implement a responsible risk strategy, further activities in the domain of organisational and process optimisation, and control of operating costs what maintained the concept of proactive approach to planning and sales management.

New projects have been launched to explore additional opportunities to increase the efficiency and effectiveness of sales in order to further accelerate the process of automation of the credit process and qualitative targeting of clients.

3. Future Development of the Bank

One of the most important projects in the future will be developing new operational model of business called „One bank - six countries“. Through this project we want to implement the best regional banking practices in each of the countries in which Addiko operates. Group shared services provide operational support to subsidies by knowledge and expertise, in which are located Local execution. Central steering functions provide strategic guidance, monitoring and support to all activities and can be either in the central office in Vienna or in selected countries – Serbia, Croatia and Slovenia.

In the forthcoming period, it is planned to further intensify measures to encourage sales. This is primarily reflected through: development of alternative sales channels and agents, digitalisation, deposit base optimisation, productivity improvements, all in line with better quality of risk management processes, so that the growth in profitability is expected in 2017 and 2018.

Increase profitability would also be driven by the improvement of net income from interest and fees, but also by further cost reduction, in line with the intensification of credit activity which is stimulated primarily by the activity in the retail banking

Ivan Radojčić	Mirko Španović	Rade Vojnović	Rade Vojnović

These financial statements were adopted by
the Executive Board of Addiko Bank A.D. Beograd on March 20, 2017.

Signed on behalf of Addiko Bank A.D. Beograd by:

Đorđe Lazović
Head of Accounting and
Reporting Department
(appointed on March 1, 2017)

Rade Vojnović
Executive Board Member

Ivan Radojčić
Executive Board Chairperson

Content

Independent Auditors' Report

To the Shareholders of Addiko Bank A.D., Beograd

We have audited the accompanying financial statements of Addiko Bank A.D., Beograd (hereinafter: the "Bank") enclosed on pages 2 to 96, which comprise the statement of the financial position as of December 31, 2016 and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, as well as for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with the Law on Audit and standards on auditing applicable in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Addiko Bank A.D., Beograd as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Management of the Bank is responsible for the preparation of the annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia. In accordance with the Law on Audit of the Republic of Serbia and Decision on Amendments and Supplements to the Decision on External Audit of Banks, it is our responsibility to express an opinion on the compliance of the Bank's annual business report for the year 2016 with its audited financial statements for the same financial year. In our opinion, the financial information disclosed in the annual business report for 2016 is consistent with the Bank's audited financial statements for the year ended December 31, 2016.

Other Matter

The Bank's financial statements as of and for the year ended December 31, 2015 were audited by another auditor, whose report dated April 21, 2016 expressed an unqualified opinion.

Belgrade, March 23, 2017

Nataša Milojević
Certified Auditor

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IZVEŠTAJ NEZAVISNOG REVIZORA

Akcionarima Addiko Bank A.D., Beograd

Izvršili smo reviziju finansijskih izveštaja Addiko Bank A.D., Beograd (u daljem tekstu "Banka") priloženih na stranama 2 do 97, koji obuhvataju bilans stanja na dan 31. decembra 2016. godine i odgovarajući bilans uspeha, izveštaj o ostalom rezultatu, izveštaj o promenama na kapitalu i izveštaj o tokovima gotovine za godinu koja se završava na taj dan, kao i pregled značajnih računovodstvenih politika i druge napomene uz finansijske izveštaje.

Odgovornost rukovodstva za finansijske izveštaje

Rukovodstvo je odgovorno za sastavljanje i fer prezentaciju ovih finansijskih izveštaja u skladu sa Međunarodnim standardima finansijskog izveštavanja, kao i za interne kontrole koje rukovodstvo smatra neophodnim za sastavljanje finansijskih izveštaja koji ne sadrže pogrešne informacije od materijalnog značaja, nastale usled kriminalne radnje ili greške.

Odgovornost revizora

Naša odgovornost je da izrazimo mišljenje o priloženim finansijskim izveštajima na osnovu obavljene revizije. Reviziju smo obavili u skladu sa Zakonom o reviziji i standardima revizije primenljivim u Republici Srbiji. Ovi standardi nalažu usaglašenost sa etičkim principima kao i da reviziju planiramo i obavimo na način koji omogućava da se, u razumnoj meri, uverimo da finansijski izveštaji ne sadrže pogrešne informacije od materijalnog značaja.

Revizija uključuje sprovođenje postupaka u cilju pribavljanja revizorskih dokaza o iznosima i obelodanjivanjima u finansijskim izveštajima. Izbor postupaka zavisi od prosuđivanja revizora, uključujući procenu rizika materijalno značajnih grešaka sadržanih u finansijskim izveštajima, nastalih usled kriminalne radnje ili greške. Prilikom procene ovih rizika, revizor razmatra interne kontrole koje su relevantne za sastavljanje i fer prezentaciju finansijskih izveštaja, u cilju osmišljavanja najboljih mogućih revizorskih procedura, ali ne u cilju izražavanja mišljenja o efikasnosti sistema internih kontrola pravnog lica. Revizija, takođe, uključuje ocenu primenjenih računovodstvenih politika i vrednovanje značajnih procena koje je izvršilo rukovodstvo, kao i ocenu opšte prezentacije finansijskih izveštaja.

Smatramo da su revizorski dokazi koje smo pribavili dovoljni i odgovarajući i da obezbeđuju solidnu osnovu za izražavanje našeg mišljenja.

Mišljenje

Prema našem mišljenju, finansijski izveštaji prikazuju istinito i objektivno, po svim materijalno značajnim pitanjima, finansijski položaj Addiko Bank A.D., Beograd na dan 31. decembra 2016. godine, kao i rezultate njenog poslovanja i tokove gotovine za godinu koja se završava na taj dan, u skladu sa Međunarodnim standardima finansijskog izveštavanja.

Izveštaj o drugim zakonskim i regulatornim uslovima

Rukovodstvo Banke je odgovorno za sastavljanje godišnjeg izveštaja o poslovanju u skladu sa zahtevima Zakona o računovodstvu Republike Srbije. U skladu sa Zakonom o reviziji Republike Srbije i Odlukom o izmenama i dopunama odluke o spoljnoj reviziji banaka, naša odgovornost je da izrazimo mišljenje o usklađenosti priloženog godišnjeg izveštaja o poslovanju za 2016. godinu sa finansijskim izveštajima za tu poslovnu godinu. Prema našem mišljenju, finansijske informacije obelodanjene u godišnjem izveštaju o poslovanju za 2016. godinu usaglašene su sa revidiranim finansijskim izveštajima za godinu koja se završava 31. decembra 2016. godine

Ostala pitanja

Finansijski izveštaji Banke na dan i za godinu koja se završava na dan 31. decembra 2015. godine, bili su predmet revizije drugog revizora koji je u svom izveštaju od 21. aprila 2016. godine izrazio mišljenje bez rezerve.

Beograd, 23. mart 2017. godine

Deloitte d.o.o. BEOGRAD IV

Nataša Milojević

Nataša Milojević
Ovlašćeni revizor

Income statement

Interest income

Year Ended December 31, 2016 Thousands of RSD

	Note	2016	2015
Interest income	4	4,047,443	5,108,008
Interest expenses	4	(1,067,772)	(1,719,092)
Net interest income		**2,979,671**	**3,388,916**
Fee and commission income	5	934,579	904,525
Fee and commission expenses	5	(115,828)	(129,527)
Net fee and commission income		**818,751**	**774,998**
Net gains on the financial assets held for trading	6	590,140	901,488
Net gains on the financial assets available for sale	6	56,667	4,382
Net foreign exchange gains and positive currency clause effects	7	202,096	287,261
Other operating income	8	168,731	61,261
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet assets	9	(1,561,744)	(7,617,087)
Total operating income, net		**3,254,312**	**(2,198,781)**
Staff costs	10	(1,527,511)	(1,589,579)
Amortization and depreciation charge	11	(231,027)	(324,958)
Other expenses	12	(2,772,999)	(3,686,548)
Loss before taxes		**(1,277,225)**	**(7,799,866)**
Current income tax expense	13	(1,283)	
Deferred tax expenses	13		(132,380)
Loss for the year, net of taxes		**(1,278,508)**	**(7,932,246)**

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

Statement of other comprehensive income

Year Ended December 31, 2016 Thousands of RSD

	Note	2016	2015
Loss for the year		**(1,278,508)**	**(7,932,246)**
Other comprehensive income			
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive effects of changes in fair value of financial assets available for sale			232,032
Unrealized losses on securities available for sale		(186,942)	
Gains/(losses) on deferred taxes relating to the other comprehensive income for the year		28,041	(34,805)
Total other comprehensive income for the year	**28**	**(158,901)**	**197,227**
Total negative comprehensive income for the year		**(1,437,409)**	**(7,735,019)**

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

Statement of financial position

As of December 31, 2016 Thousands of RSD

	Note	2016	2015
Assets			
Cash and balances held with the central bank	14	12,290,116	14,725,283
Pledged financial assets	18		6,278,311
Financial assets at fair value through profit and loss, held for trading	15	1,208,490	564
Financial assets available for sale	16	16,781,879	22,411,529
Loans and receivables due from banks and other financial institutions	17	4,625,091	782,131
Loans and receivables due from customers	18	60,428,102	55,125,545
Intangible assets	19	545,150	443,261
Property, plant and equipment	20	776,702	813,295
Current tax assets	13	78,242	170,730
Non-current assets held for sale and assets from discontinued operations	21	149,267	337,905
Other assets	22	471,669	432,722
Total assets		**97,354,708**	**101,521,276**
Liabilities and equity			
Financial assets at fair value through profit and loss, held for trading	15	16,716	66,169
Deposits and other liabilities due to banks, other financial institutions and the central bank	23	3,514,208	9,644,229
Deposits and other liabilities due to customers	24	67,531,881	52,618,560
Subordinated liabilities	25	4,322,188	15,709,622
Provisions	26	604,830	638,918
Deferred tax liabilities	13	29,661	57,702
Other liabilities	27	621,853	635,296
Total liabilities		**76,641,337**	**79,370,496**
Issued (share) capital	28	21,823,802	27,275,922
Loss	28	(1,278,508)	(6,345,269)
Reserves	28	168,077	1,220,127
Total equity		**20,713,371**	**22,150,780**
Total liabilities and equity		**97,354,708**	**101,521,276**

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

Statement of changes in equity

Year Ended December 31, 2016 Thousands of RSD

	Share Capital	Share Premium	Reserves from Profit	Fair Value Rev. Reserves	Loss	Total
Opening balance at January 1, 2015	**14,319,484**	**9,758,438**	**2,692,931**	**129,751**	**(212,805)**	**26,687,799**
Share issue	3,198,000					3,198,000
Loss for the year					(7,932,246)	(7,932,246)
Positive effects of fair value adjustments of financial assets available for sale				232,032		232,032
Deferred tax expenses				(34,805)		(34,805)
Loss absorption			(1,799,782)		1,799,782	
Balance at December 31, 2015	**17,517,484**	**9,758,438**	**893,149**	**326,978**	**(6,345,269)**	**22,150,780**
Opening balance at January 1, 2016	**17,517,484**	**9,758,438**	**893,149**	**326,978**	**(6,345,269)**	**22,150,780**
Loss for the year					(1,278,508)	(1,278,508)
Negative effects of fair value adjustments of financial assets available for sale				(186,942)		(186,942)
Deferred tax benefits				28,041		28,041
Loss absorption		(5,452,120)	(893,149)		6,345,269	
Balance at December 31, 2016	**17,517,484**	**4,306,318**		**168,077**	**(1,278,508)**	**20,713,371**

Statement of cash flows

Year Ended December 31, 2016 Thousands of RSD

	2016	2015
Cash flows from operating activities		
Cash inflows from operating activities	**5,538,258**	**5,804,030**
Interest receipts	4,440,966	4,278,809
Fee and commission receipts	890,746	922,604
Receipts of other operating income	206,546	602,617
Cash outflows from operating activities	**(5,331,072)**	**(5,710,882)**
Interest payments	(1,042,943)	(1,616,976)
Fee and commission payments	(116,239)	(129,162)
Payments to, and on behalf of employees	(1,525,147)	(1,537,192)
Taxes, contributions and other duties paid	(165,160)	(199,262)
Payments for other operating expenses	(2,481,583)	(2,228,290)
Net cash inflows from operating activities prior to increases/decreases in loans and deposits and other liabilities	**207,186**	**93,148**
Decrease in loans and increase in deposits received and other liabilities	**18,515,653**	**8,808,575**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers		7,907,087
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	4,727,684	
Decrease in receivables per financial derivatives used as hedges against risks and changes in fair value of hedged items	569,199	901,488
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	13,218,770	
Increase in loans and decrease in deposits received and other liabilities	**(3,887,116)**	**(8,508,756)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(3,887,116)	
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments		(2,409,172)
Decrease in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		(6,099,584)
Net cash generated by operating activities before income taxes	**14,835,723**	**392,967**
Income tax paid	(1,283)	
Net cash generated by operating activities	**14,834,440**	**392,967**
Cash flows from investing activities		
Proceeds from the sales of intangible assets, property, plant and equipment	6,404	425
Cash used for the purchases of intangible assets, property, plant and equipment	(350,528)	(306,299)
Net cash used in investing activities	**(344,124)**	**(305,874)**
Cash flows from financing activities		
Cash outflows from financing activities	(17,302,432)	(5,808,346)
Cash used for subordinated liabilities	(11,600,387)	
Cash used in the repayment of borrowings	(5,702,045)	(5,808,346)
Net cash used in financing activities	**(17,302,432)**	**(5,808,346)**
Total cash inflows	24,060,315	14,613,030
Total cash outflows	(26,872,431)	(20,334,283)
Net cash decrease	**(2,812,116)**	**(5,721,253)**
Cash and cash equivalents, beginning of year	9,161,094	14,900,719
Foreign exchange gains	755,733	2,687,026
Foreign exchange losses	(691,548)	(2,705,398)
Cash and cash equivalents, end of year	**6,413,163**	**9,161,094**

Notes to the financial statements

1. General information about the bank

Based on license issued by the National Bank of Yugoslavia no. O 38 dated February 27, 1991 and Decision on Establishment of Depozitno-kreditna banka d.d. Beograd no. 1/5 dated May 14, 1991, Depozitno-kreditna banka a.d. Beograd, Novi Beograd, Goce Delčeva 44, was registered with the District Commercial Court of Belgrade, under Decision no. Fi-5709/91 dated May 22, 1991 (registry card no. 1-18332-00).

For harmonization of the Bank's bylaws and enactments with the Law on Banks and Other Financial Organizations (Official Gazette of SRY no. 32/93) the founders of Depozitno-kreditna banka a.d. Beograd executed Articles of Association of Depozitno - kreditna banka a.d. Beograd no. 563 dated April 20, 1995.

Under Decision of the Commercial Court in Belgrade no. XII-Fi. 10865/02 dated September 27, 2002, based on the share sale and purchase transaction performed with the existing shareholders of Depozitno-kreditna banka a.d. Beograd, the majority ownership of Hypo Alpe-Adria-Bank AG Klagenfurt over the Bank was registered, while the Bank's name was changed to Hypo Alpe-Adria-Bank a.d. Beograd and the change registered under the same court's Decision no IX Fi. 12210/02 dated October 28, 2002.

Upon takeover of shares of Hypo Alpe-Adria-Bank a.d. Beograd by Hypo Alpe-Adria-Bank International AG Klagenfurt approved under the Decision of the Securities Commission no. 4/0-32-3303/4-10 dated July 14, 2010, and realization of the procedure of enforced sale of shares, fully in line with the Law, Hypo Alpe-Adria-Bank a.d. Beograd had two shareholders: Hypo Alpe-Adria-Bank International AG Klagenfurt and Industrija kotrljajućih ležaja a.d. Beograd (subsequently: Industrija kotrljajućih ležaja a.d. Beograd – in bankruptcy).

At its session held on March 24, 2011, the Shareholder Assembly of Hypo Alpe-Adria-Bank a.d. Beograd enacted Decision on Amendments and Supplements to the Articles of Association of Hypo Alpe-Adria-Bank a.d. Beograd no. 08461/11, whereby the Bank changed its organizational form and became a closed shareholding company and the Bank's submitted request was adopted under Decision no. BD 39396/11 dated April 5, 2011 of the Serbian Business Registers Agency, whereby Hypo Alpe-Adria-Bank a.d. Beograd changed its legal form and was registered as a closed shareholding company.

Pursuant to the National Bank of Serbia's Decision no. 10407 dated November 22, 2013 on the issue of prior approval to the acquirer Hypo SEE Holding AG for the acquisition of direct ownership, vesting it with 99.999% of voting rights in Hypo Alpe-Adria-Bank a.d. Beograd, on March 27, 2014, in the Central Securities Depository and Clearing House, the shares of the issuer Hypo Alpe-Adria-Bank a.d. Beograd were transferred from the account of Hypo Alpe-Adria-Bank International AG Klagenfurt to the account of the acquirer Hypo SEE Holding AG Klagenfurt, corporate ID no. FN 350921, Alpen-Adria-Platz 1, Klagenfurt.

On October 30, 2014 Hypo SEE Holding AG changed its name to Hypo Group Alpe Adria AG. The sole (100%) owner of Hypo Group Alpe Adria AG Klagenfurt is Al Lake Luxembourg S.A.R.L. registered with the Commercial Entity Register of Luxembourg under no. B191802, at the address of 47 Grand Rue, L-1661 Luxembourg.

Al Lake Luxembourg S.A.R.L. is owned by Al Lake Management S.A.R.L. Luxembourg. Owners of Al Lake Management S.A.R.L. Luxembourg are funds managed by Advent International Corporation domiciled in the United States of America and by the European Bank for Reconstruction and Development (EBRD).

On July 8, 2016, under Decision of the Commercial Court in Vienna, Hypo Group Alpe Adria AG (HGAA) changed its legal name to Addiko Bank AG (ABH), headquartered at the address of Wipplingerstrasse 34/4 Vienna, Austria.

On July 8, 2016, under Decision of the Serbian Business Registers Agency no. BD 55080/2016 Hypo Alpe-Adria-Bank a.d. Beograd changed its legal name to Addiko Bank a.d. Beograd.

Addiko Bank AG publishes its consolidated financial statements on web page www.addiko.com

During 2016 the Bank operated through its Head Office and 41 branch offices.

The Bank performs the following activities:

1. deposit activities,
2. credit (lending) activities,
3. foreign exchange operations and exchange transactions,
4. payment transactions,
5. payment card issuance,
6. activities involving securities in accordance with the effective regulations,
7. issuance of guarantees, acceptances and other types of sureties (guarantee operations),
8. purchase, sale and collection of receivables (factoring and forfeiting),
9. insurance agency activities upon obtaining approval of the National Bank of Serbia,
10. technical and financial control of construction and reconstruction of facilities relating project financing,
11. valuation of real estate by certified appraisers for the purposes of the Bank and its clients related to the loans extended, and
12. provision of services to other members of the Group and other entities in the areas related to the Bank's business activities.

The Bank's organizational units are not legal entities and have no independent transaction accounts but operate via the Bank's unique account. They are entitled to execution of contracts within their scope of operations and within authorizations granted to them by the Bank's relevant bylaws.

As of December 31, 2016 the Bank had 639 employees (December 31, 2015: 753 employees).

The Bank's activity code is 6419 – other monetary intermediation.

The Bank's corporate ID number is 07726716.

The Bank's tax ID number is 100228215.

2. Basis of preparation and presentation of the financial statements and summary of significant accounting policies

2.1. Basis of Preparation and Presentation of Financial Statements

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

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

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

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

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

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

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs are unobservable inputs for the asset or liability.

The Bank's financial statements are stated in thousands of dinars unless it is otherwise stated. Dinar (RSD) represents the Bank's functional and presentation currency. All transactions denominated in other than functional currencies are treated as foreign currency transactions.

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

Standards and interpretations issued that came into effect in the current period, as well as the standards and interpretations in issue but not yet in effect are disclosed hereinafter in Note 2.

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

In the current year the Bank applied the following amendments and revisions to IFRS issued by the International Accounting Standards Board ("IASB") mandatorily effective for the accounting periods beginning on or after January 1, 2016:

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016).
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IFRS 10, IFRS 12 and IFRS 28 "Investment Entities: Applying the Consolidation Exception". These amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value. (These amendments shall be applied retrospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted.)
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016).

Standards and Interpretations in Issue not yet in Effect

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

- IFRS 9 "Financial Instruments" and subsequent amendments, supplanting the requirements of IAS 39 "Financial Instruments: Recognition and Measurement," with regard to classification and measurement of financial assets. This standard eliminates the categories existing under IAS 39 – assets held to maturity, assets available for sale and loans and receivables. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  In accordance with IFRS 9, financial assets shall be classified in one of the following two categories upon initial recognition: financial assets at amortized cost or financial assets at fair value. A financial asset shall be measured at amortized cost if the following two criteria are met: financial assets relate to the business model whose objective is to collect the contractual cash flows and the contractual terms provide the basis for collection at certain future dates of cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets shall be measured at fair value. Gains and losses on the fair value measurement of financial assets shall be recognized in the profit and loss statement, except for investments in equity instruments which are not traded, where IFRS 9 allows at initial recognition a subsequently irreversible choice to recognize changes in fair value within other gains and losses in the statement of comprehensive income. An amount recognized in such a manner within the statement of comprehensive income cannot subsequently be recognized in profit and loss.
- IFRS 15 "Revenue from Contracts with Customers," defining the framework for revenue recognition. IFRS 15 supplants IAS 18 "Revenue," IAS 11 "Construction Contracts," IFRIC 13 "Customer Loyalty Programs," IFRIC 15 "Agreements for the Construction of Real Estate" and IFRIC 18 "Transfers of Assets from Customers." IFRS 15 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- IFRS 16 "Leases" provides a comprehensive model for identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As from its effective date, January 1, 2019, this standard shall supplant the following lease standards and interpretations: IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease," SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease."

- Amendments to IFRS 2 "Share-Based Payment" - Classification and Measurement of Share-Based Payment Transactions, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ought to have been effective for annual periods beginning on or after January 1, 2016; however, in December 2015 IASB deferred the effective date indefinitely, with early adoption permitted.
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative require and entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Amendments to IAS 7 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses, shall be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

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

The Key requirements of IFRS 9 are:

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

In 2016 the Bank initiated the project of IFRS 9 introduction through engagement of external consultants. The Project entails the following phases:

- a series of training sessions to introduce IFRS 9 and its requirements to the Bank's employees;
- gap analysis of the current status and IFRS 9 requirements in the area of classification and measurement:
  - definition of business models, and
  - definition of characteristics of the contracted cash flows;
- gap analysis of the current status and IFRS 9 requirements in the area of impairment;
- analysis of the quantitative impact of IFRS 9 implementation on the financial statements;
- preparation of functional specifications for an appropriate application solution, i.e. introduction of adequate software;
- development of the impairment methodology according to the Bank's business models – development of the model for determining parameters for calculation of the expected credit losses under IFRS 9.

Within the classification and measurement context, the Bank has been considering possibilities for definition of business models and other requirements of IFRS 9 in order to classify financial assets that will subsequently be measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

In the area of measurement, the Bank is working on developing a methodology for calculation of expected credit losses and modelling of risk parameters, which include all the parameters required for projection of future effects.

The quantitative effects will be determined in 2017. Impact on impairment will depend on the defined methodology for calculation of the expected credit loss and application of different parameters based on the expected credit losses.

IFRS 15 "Revenue from Contracts with Customers"

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

  The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:
  - Step 1: Identify the contract(s) with a customer,
  - Step 2: Identify the performance obligations in the contract,
  - Step 3: Determine the transaction price,
  - Step 4: Allocate the transaction price to the performance obligations in the contract, and
  - Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

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

Management of the Bank is currently considering the impact of the above listed standards and interpretation in the Bank's financial statements as well as their effective dates.

The accounting policies and estimates used in preparation of these financial statements are consistent with the those applied upon preparation of the Bank's annual financial statements for 2015, except for newly adopted IFRS, their amendments and interpretations, the application of which had no effect on the Bank's financial position or performance.

Preparation of the financial statements in accordance with IFRS requires the Bank's management to make certain key accounting estimates. It also requires management to use their judgement in applying the Bank's accounting policies. The areas demanding greater extent of or more complex judgements, i.e. areas where assumptions and estimates are material to the financial statements are disclosed in Note 2.2.

Use of Estimates

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

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

What follows are key estimates and assumptions with inherent risk of material adjustments to the carrying amounts of assets and liabilities in the following fiscal year.

2.1.1. Going Concern

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

Until the end of March 2014, the majority owner of Hypo Alpe-Adria-Bank a.d. Beograd was Hypo Alpe-Adria-Bank International AG Klagenfurt.

On March 27, 2014, in the Central Securities Depository and Clearing House, the shares of the issuer Hypo Alpe-Adria-Bank a.d. Beograd were transferred from the account of Hypo Alpe-Adria-Bank International AG Klagenfurt to the account of the acquirer Hypo SEE Holding AG Klagenfurt, corporate ID no. FN 350921, Alpen-Adria-Platz 1, Klagenfurt.

On October 30, 2014 Hypo SEE Holding AG changed its name to Hypo Group Alpe Adria AG ("HGAA").

Hypo Alpe-Adria-Bank International AG was divided into a holding organization of Hypo banks operating in Southeastern Europe and a unit under the name of Heta Asset Resolution, which was not intended for sale.

On October 30, 2014 a decision was made to sell the network of Hypo Alpe Adria banks operating in the territory of Southeastern Europe to the US-based Advent International Fund in partnership with the European Bank for Reconstruction and Development (EBRD).

On December 22, 2014, Advent International and EBRD executed an agreement on taking over Hypo Group Alpe Adria AG. The decision on the new owner was made in accordance with the Resolution of the European Commission adopted in September 2013.

On July 17, 2015 the sale transaction was closed and all terms set forth in the Sale and Purchase Agreement dated December 22, 2014 were fulfilled.

On July 08, 2016, under Decision of the Commercial Court in Vienna no. FN 350921k Hypo Group Alpe Adria AG (HGAA) changed its legal name into Addiko Bank AG (ABH), with the registered address at Wipplingerstrasse 34/4 Vienna, Austria.

Given these changes and plans for the development of Addiko Group, the financial statements of Addiko Bank a.d. Beograd have been prepared on a going concern basis, which entails that the Bank will continue to operate in the foreseeable future.

In line with the economic recovery in the region of Southeastern Europe and continuous efforts put into restructuring and privatization in 2015, Addiko Group is now well on the way to achieve profitability in 2017. Its progress will be supported by continued implementation of the new strategy and restructuring, particularly in the following areas:

- further growth of consumer loans in reliance on the development from 2016;
- making use of additional market potentials through adapted product mix offered to the micro business segment;
- further increase in operations with corporate and SME customers, based on consolidation of client relations and entirely new offers;
- additional cut-down on costs of IT services and introduction of efficiency measures through "six countries – one bank" approach;
- development and improvement of distribution channels and process digitalization.

Addiko Bank is planning on total loan growth in 2017 and decrease in NPLs resulting from the sales of loans and receivables made to the previous owner during the past few years.

2.1.2. Impairment of Financial Assets

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

When it comes to assessment of losses due to impairment of loans, the Bank analyses the loan portfolio so as to assess the impairment of receivables on a monthly basis. In the process of determining whether an impairment loss needs to be accounted for within the income statement, the Bank assesses whether there is reliable evidence showing a measurable decrease in the estimated future cash flows from the credit portfolio before the impairment that can be identified in individual loans in the portfolio.

The evidence may include available data indicating unfavorable changes of the status of debtors with regard to payment of liabilities due to the Bank, or national or local circumstances related to negative influences on the Bank's assets.

The Bank's management makes assessment based on its experience with losses incurred on loans from prior periods for all assets susceptible to credit risk and showing evidence of impairment similar to the one that existed in the credit portfolio at the time of planning future cash flows.

The methodology and assumptions used in the assessment of amounts and time of future cash flows are subject to regular reviews with the aim to decrease differences between the estimated and actually incurred losses.

Additional information is disclosed in Notes 2.6 and 3.1.1 to the financial statements.

2.1.3. Useful Life of Intangible Assets, Property, Plant and Equipment

Determining the useful life of intangible assets, property and equipment ("fixed assets") is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors. Adequacy of useful life is reviewed annually or whenever there are indications of significant changes in factors underlying the estimate of useful lives

Due to the significance of the fixed assets within the Bank's total assets, any change to the aforesaid assumptions may have a significant effect on the Bank's financial position and its performance.

2.1.4 Deferred Tax Assets

Deferred income taxes are provided under the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the Bank's financial statements. The currently effective tax rate at the reporting date equals 15% (2015: 15%).

2.1.5. Current Taxes

The Bank is subject to income taxation in the Republic of Serbia. Tax liability calculation requires application of certain estimates. The Bank is under obligation to pay income tax in the form of monthly advance payments during the year, the amount of which is determined based on the income tax return submitted for the previous year. The final taxable income to which the prescribed corporate income tax rate of 15% is applied (2015: 15%), is arrived in at through preparation of the Bank's tax statement. In the event that the final tax liability differs from the initially recognized tax liability, the difference between the two will affect the tax liability of the period in which the difference was identified.

2.1.6. Retirement Benefits and Other Employee Termination Benefits

The cost of defined post-employment benefits to employees and/or retirement benefits upon fulfillment of all legally prescribed criteria, are determined in an actuarial assessment. An actuarial assessment includes the assessment of a discount rate, future movements in salaries, mortality rates and employee turnover. Due to a long-term nature of these plans, significant uncertainties influence these assessments. Additional information in this respect are disclosed in Note 26 to the financial statements.

2.1.7. Fair Value of Financial Assets and Liabilities

The fair value of financial instruments traded on an active market at the reporting date are based on the quoted market bid (financial assets) and ask prices (financial liabilities). If the market for a financial asset is not active, the Bank determines the asset's fair value using valuation techniques. These include comparison with most recent similar transactions performed at arms' length, analysis of discounted cash flows and other valuation techniques used by the market participants. Models of estimates reflect the current market situation at the date of assessment and do not have to correspond to the market terms before or after the measurement date. At the reporting date, the Bank's management reviewed the models in order to ensure that they adequately reflect the current market conditions, including relative market liquidity and interest margins. Additional information in this respect are disclosed in Note 3.3 to the financial statements.

2.2. Comparative Information

Comparative information comprises the Bank's annual financial statements for 2015, which were audited by the auditing company KPMG d.o.o. Beograd.

The Bank has not restated the opening balance of retained earnings for 2015 since there were no adjustments arising from the Independent Auditors' Report for 2015. Comparative financial information, i.e. opening balances, represent the Bank's financial statements as of December 31, 2015.

Accounting policies and estimates regarding recognition and measurement of assets and liabilities used upon preparation of these financial statements are consistent to those applied in preparation of the Bank's financial statements for FY 2016.

2.3. Recognition of Income and Expenses

The Bank recognizes income when the it can be measured reliably, when it is probable the future economic benefits will flow to the Bank and when special criteria for each of the Bank's activities are met, as set out below.

2.3.1. Interest Income and Expenses

The Bank earns interest income and incurs interest expenses in operations with the National Bank of Serbia, domestic and foreign banks and customers – legal entities and individuals.

Interest income and expenses, including penalty interest and other income and other expenses from interest bearing assets, i.e. liabilities are recognized as per "matching principle" (on an accrual basis) under obligatory terms defined by a contract executed between the Bank and a customer. Interest income and expenses are determined on an accrual basis using the effective interest rate, which is defined upon initial recognition of a financial asset/liability.

For all interest-bearing instruments other than those classified as available for sale or designated at fair value through profit or loss, interest income and expenses are recognized within the income statement using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows, taking into consideration all contractual terms related to the financial instrument (e.g. advance payments) but not considering future credit losses. The calculation includes all fees and commissions paid or received, which are a constituent part of the effective interest rate, transaction costs and all other premiums and discounts. Interest is recognized as it accrues on a time proportion basis, implying that interest amount depends on the time elapsed.

In case of impairment of a financial asset, the Bank impairs the receivable carrying amount up to the recoverable amount, representing the estimated future cash flow discounted at the original effective interest rate of the financial instrument, and continues with unwinding the discount as interest income.

From the moment of impairment of a financial asset, the contracted interest is not recognized in the statement of financial position (balance sheet) and income statement. Interest income from impaired loans and receivables is recognized using the effective interest rate method on the amortized cost of a financial asset. The only interest income recognized for all impaired clients is thus the effect arising out of future cash flows discounting – the so-called unwinding effect.

The legal framework allows for the banks to opt for the manner of recognizing the contracted gross interest on impaired loans, so they are allowed to recognize it through other off-balance sheet items or in the supporting books for internal requirements and for the needs of statistical monitoring of these amounts. The Bank has decided that for impaired loans it shall, within its accounting policy, recognize the contracted gross interest calculated according to repayment schedule in other off-balance sheet items.

The Bank also realizes income and expenses from fees for servicing approved (received) loans.

Such fee income is deferred by applying the effective interest rate throughout the loan period and it is recognized within the interest income.

2.3.2. Fee and Commission Income and Expenses

Fee and commission income and expenses are recognized on an accrual basis, when the underlying services are rendered. The Bank earns fee and commission income by providing services of domestic and foreign payment transfers, card operations, issuance of guarantees and letters of credit, foreign exchange operations and other services rendered to or on behalf of clients.

2.3.3. Dividend Income

Dividend income is recognized when the Bank's entitlement to receive dividend is established.

2.4. Foreign Exchange Translation

Items included in the Bank's financial statements are measured using the currency of the primary economic environment within which the Bank operates (functional currency). As stated in Note 2.1, the Bank's financial statements are stated in thousands of dinars (RSD). Dinar is the Bank's functional and presentation currency.

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates determined at the interbank foreign exchange market and effective at the date of each transaction or the measurement date, if the items are remeasured.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at the official middle exchange rates determined at the interbank foreign exchange market prevailing as of that date (Note 33).

Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses (Note 7).

Gains or losses realized/incurred upon translation of financial assets and liabilities with a currency clause index are recorded within the income statements as foreign exchange gains or losses and positive or negative currency clause effects (Note 7).

2.5. Financial Instruments

Recognition

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

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

Derecognition of Financial Assets and Liabilities

Financial Assets

he Bank derecognizes a financial asset (or part of an asset or a group of financial assets) if:

- the contractual rights to the cash flows from the financial asset have expired; or
- the Bank has transferred the right to the cash flows from the financial asset or assumed an obligation to make the payment of the cash received in respect of the assets in full amount, without materially significant delay in payment to a third party under the executed contract on such transfer; and
- the Bank has either transferred all the risks and rewards associated with the asset or has neither transferred nor retained substantially all the risks and rewards of ownership over the asset but has transferred control over the asset.

When the Bank transfers the contractual rights to the cash flows from a financial asset or executes a contract on such transfer, and thereby the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset, the asset is recognized to the extent of the Bank's involvement in respect of the asset. Any further involvement of the Bank in the transferred asset, in the form of a guarantee for the asset transferred, is measured at the lower of the asset's original carrying value and the maximum amount of the consideration the Bank will need to pay.

Financial Liabilities

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

Classification of Financial Instruments

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

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. The Bank's liabilities are classified into the following categories: financial liabilities at fair value through profit or loss, financial liabilities held to maturity (deposits due to banks and customers and subordinated liabilities).

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

2.5.1. (a) Financial Assets at Fair Value through Profit and Loss

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

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

Financial assets held for trading also include financial derivatives.

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

The Bank is in possession financial derivatives that do not meet the criteria for hedge accounting. At year-end the Bank had receivables and liabilities per short-term foreign currency swaps (FX-swaps).

Derivatives, including FX contracts, FX swaps and other derived financial instruments, are initially recognized at fair value within the off-balance sheet items on the contract execution date and are subsequently remeasured at fair value.

Derivatives are initially recognized at the moment when derivative contract has been agreed with the counterparty (date of agreement). The notional amount of principal to which the respective derivative is agreed is recorded as an off-balance sheet item, while the initial positive or negative fair value of the derivative is carried within assets or liabilities. The initial recognition of fair value is executed only if the market price of the same or similar derivative can be found in the organized derivatives market, and if it differs from the price at which that derivative has been agreed by the Bank.

Information on the fair value is acquired at the market and includes information on recent market transactions or it is determined by the method of discounted cash flows.

All derivatives are recognized as assets when fair value is positive, i.e. as liabilities when negative. The best source of estimation of the fair value of derivatives on initial recognition is transaction price (i.e. fair value of commission given or received).

2.5.2. (b) Loans and Receivables

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

Loans approved by the Bank to other banks and customers are recorded within the statement of financial position from the moment of loan funds disbursement to the borrower. All loans and receivables are initially recognized at fair value. As of the reporting date loans are stated at amortized cost using the contractually defined interest rate net of impairment allowance and any amounts written off.

Interest income and receivables in respect of these instruments are recognized under interest income. Fees which are part of effective yield on these instruments are deferred and credited to the income statement as interest income over the life of a financial instrument.

The Bank incorporates currency clause index in the loan contracts executed with customers. RSD loans with contracted risk hedges by indexing the loans to RSD to EUR, CHF or USD exchange rates are revalued in accordance with the particular contract executed for each loan facility. The difference between the carrying amount of the outstanding principal and the amount calculated by applying the foreign currency clause is included within loans and receivables. The currency clause represents an embedded derivative that is not accounted for separately from the host contract, since the economic characteristics and risks of the embedded derivative are closely related to those of the host contract. Gains or losses arising from the currency clause application are recorded in the income statement as positive or negative currency clause effects.

The Bank's loans and receivables comprise the following statement of financial position items: "loans and receivables due from banks and other financial institutions" and "loans and receivables due from customers."

2.5.3. (c) Financial Assets Held to Maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be reclassified to assets available for sale.

After initial recognition, financial assets held-to-maturity are 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 investments 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 effective interest rate.

2.5.4 (d) 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 financial assets".

Available-for-sale financial assets refer to Treasury bills of the Republic of Serbia.

Upon initial recognition, available-for-sale financial assets are shown at fair value. The fair value of Treasury bills is calculated based on discounted nominal value of notes by the interest rate published on the website of the Treasury Department of the Ministry of Finance.

In case of available-for-sale financial instruments, the Bank assesses on an individual basis whether there is objective evidence of impairment, based on the same criteria as those applied to the financial assets carried at amortized cost. 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.

Impairment of Financial Assets and Risk Provisions
In accordance with its internally adopted accounting policy, at each reporting date the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears in liability settlement or economic conditions that correlate with defaults.

In assessing impairment of loans and receivables due from banks and customers, the Bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the future cash flows (without taking into account expected credit losses not yet incurred). The asset's carrying value is reduced via the impairment allowance account and losses arising from impairment of loans and receivables and other financial assets are recorded within profit or loss as losses on impairment of financial assets and credit risk-weighted off-balance sheet items (Note 9).

Loans and the related impairment allowances are fully derecognized when there is no realistic prospect of future recovery and all collaterals have been realized or foreclosed by 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 has been recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement as gain on the reversal of impairment of financial assets and credit risk-weighted off-balance sheet items (Note 9).

The present value of expected future cash flows is arrived at by discounting the cash flows at the financial asset's original effective interest rate. If a loan has a variable interest rate, the current variable portion of the interest rate is applied. 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 collateral foreclosure less costs of collateral sale irrespective of the probability of collateral realization.

For the purpose of group (collective) impairment assessment, financial assets are grouped on the basis of the Bank's internal classification system that takes into account credit risk characteristics. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of expert opinion supported by historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist at the reporting date. The Bank reviews the methodology and assumptions used for estimating future cash flows on an ongoing basis in order to reduce any differences between loss estimates and actual loss experience.

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. if impairment is recognized and documented. Write-off is made based on court ruling or the relevant decisions of the Bank's competent bodies.

2.5.5. (e) Rescheduled Loans
In each individual case, the Bank decides on the collection strategy for clients facing financial difficulties. Where possible, the Bank seeks to reschedule or restructure loans rather than foreclose collaterals. This may involve alteration of the initially agreed loan terms such as extending the payment terms, extending the grace period, replacing several loans with a single new loan with extended repayment period or any combination thereof. Once the terms have been renegotiated, the loan is no longer considered past due. The Bank's management continuously monitors rescheduled/restructured loans to ensure that all criteria are met, as well as that future payments are made. The Bank continues to assess loans for impairment on either an individual or a group level using the loan's original effective interest rate.

2.5.6. (f) Offsetting Financial Assets and Financial Liabilities

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

2.5.7. Assets Acquired in Lieu of Debt Collection

According to the Bank's policy, the Bank assesses whether an asset acquired in lieu of debt collection is suitable for the Bank's internal business operations or it is to be sold. Assets determined as appropriate for the Bank's own use are classified within the relevant asset line item and measured at the lower of the asset's cost and the carrying value of the underlying receivable.

2.5.8. Deposits due to Banks and Customers

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

2.5.9. Borrowings

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

2.5.10. Trade Payables

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

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

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

In assessing the credit risk, in accordance with the methodology, the Bank considers the borrower's financial position in terms of profit stability, maturity matching of certain asset and liability components, adequacy of cash flows, indebtedness, leverage, liquidity ratios, interest liability coverage and profitability.

In addition to the financial indicators, an important element of the assessment of the borrower's risk category is timeliness in material liability settlement toward the Bank for the past 12 months and at the reporting date. Material liability amount equals 1% of the individual receivable due form the borrower yet not below RSD 10,000 for corporate customers and RSD 1,000 for entrepreneurs, farmers and individuals.

The basic borrower classification is independent of the collateral obtained.

Due to the collateral quality assessment, a receivable due from the borrower may be classified in a category different from the basic borrower classification. According to their quality, collaterals may be first-class and adequate collaterals. First-class collaterals trigger category A classification of receivables, while adequate collaterals place receivables into a category more favorable (one up) than the category as per basic classification of borrowers.

The Bank classifies aggregate receivables due from a borrower into categories A, B, V, G and D based on the timeliness/delay in liability settlement criterion, as well as based on the assessment of the borrower's creditworthiness and collateral quality.

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

The Bank is obligated to determine the amount of the required reserve for estimated losses, which is calculated as the sum of all the positive differences between the reserve for estimated losses computed in accordance with NBS Decision and the determined impairment allowances for balance sheet assets and provisions per off-balance sheet items at the individual borrower level. The required reserve from profits for estimated losses represents a deductible item in calculation of the capital adequacy ratio.

2.7. Cash and Balances Held with the Central Bank

Cash and cash balances held with the central bank include cash funds in the local (RSD) and foreign currencies, i.e. cash balances on gyro and current accounts, vault cash and other cash funds in the local (RSD) and foreign currencies, gold and other precious metals, liquid asset surpluses deposited with the National Bank of Serbia and foreign currency required reserve funds held on the special accounts with the National Bank of Serbia. Cash and cash balances held with the central bank are carried at amortized cost in the statement of financial position. These funds are held for settlement of current cash liabilities rather than investment or other purposes.

The structure of cash and cash balances held with the central bank is provided in Note 14.

2.8. Repo Transactions

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

The corresponding cash given, including accrued interest, is recognized in the statement of financial position. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement.

2.9. Investments in Subsidiaries

Investments in subsidiaries are disclosed under the item of investments in associates and joint ventures. These investments were not made to be sold in the near term.

Subsidiaries represent legal entities where the reporting legal entity has a share in the ownership of over 50% or more than one half of voting rights or the right to manage financial, i.e. operating business policies of the subsidiary.

As of December 31, 2016 the Bank had no equity investments in subsidiaries.

2.10. Investments in Associates

In accordance with IAS 28 "Investments in Associates", investments in associates are investments in an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

As of December 31, 2016 the Bank had no equity investments in associates.

2.11. Intangible Assets, Property, Plant and Equipment and Investment Property

a) Intangible Assets

Intangible assets consist of software, licenses and investments in progress. Intangible assets are states at cost less accumulated amortization and aggregate impairment losses, if any.

Separately acquired trademarks and licenses are stated at historical cost. Trademarks and licenses have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate (write down) the cost of trademarks and licenses over their estimated useful lives.

Acquired software licenses are capitalized based on the costs incurred to acquire and put to their intended use the specific software. Intangible assets are written down on a straight-line basis and charged to operating expenses through the calculation of amortization over their estimated useful life – 7 years for the Bank's core information and 5 years for other software. The residual value and useful lives are reviewed, and adjusted when necessary, at each reporting date.

Expenditures relating to the development or maintenance of the software application are recognized as expenses as incurred.

Intangible assets include investments in software which are not amortized since they have not yet been put to use.

b) Property, Plant and Equipment

Property, plant and equipment stated at cost less accumulated depreciation and aggregate impairment losses, if any. Cost includes expenditure that is directly attributable to the acquired asset.

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. Carrying value of the replaced asset is derecognized. All other repairs and maintenance costs are charged to the income statement of the financial period in which they are incurred.

Derecognition of property, plant and equipment occurs when they are sold or when the Bank no longer expects future economic benefit from their use. All gains and losses that on derecognition of assets (calculated as the difference between net sales proceeds and the carrying value of the asset) are recognized in profit and loss for the year of derecognition.

Land is not depreciated. Depreciation of fixed assets is calculated using the straight-line method to write down the cost of assets to their residual values over their estimated useful lives, as follows:

Asset	Depreciation rate % in 2016	Depreciation rate % in 2015
Buildings	1.87% - 2.24%	1.87% - 2.50%
Computer equipment	25.00%	25.00%
Furniture	11.00%	11.00%
Vehicles	15.50%	15.50%
Other equipment	10% - 33.33%	10% - 33.33%

When determining the basis for depreciation, the cost i.e. estimated value is not decreased by the amount of the residual value since after useful life of a fixed asset it is assessed as equal to zero.

Calculation of depreciation of property, plant and equipment commences at the beginning of the month following the month of the asset's placement into use. Investments in progress are not depreciated. Depreciation charge is recognized within expenses for the period when incurred.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. If higher than its estimated recoverable amount, an asset's carrying amount is written down immediately to its recoverable value.

Gains and losses arising on disposal or sales of property and equipment are credited or charged to the income statement as a part of other operating income or other operating expenses.

Depreciation for tax purposes is calculated in accordance with the Corporate Income Tax Law of the Republic of Serbia and the Rules of the Manner of Classification of Fixed Assets into Groups and Manner of Determining Depreciation for Tax Purposes, resulting in deferred taxes (Note 13).

c) Investment Property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property is recognized at cost less accumulated depreciation. Calculation of depreciation of investment property commences at the beginning of the month following the month of the asset's placement into use. Depreciation charge is recognized within expenses for the period when incurred.

Investment property is depreciated at the rate of 2.5% p.a. using the straight-line depreciation method. The residual value and useful life are reviewed and adjusted if necessary, at each reporting date. There were no changes to depreciation rates applied in 2016.

Subsequent costs are capitalized only when it is probable that future economic benefits associated with them will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

d) Impairment of Non-Financial Assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested for impairment on an annual basis.

Assets that are subject to depreciation/amortization are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

In 2015 the Bank performed an internal review of the impairment assessment using the "value in use" concept in accordance with IAS 36. The results of the analysis showed that the recoverable amount of the cash-generating unit – CGU (at the Bank level) is significantly lower than the carrying amount of CGU. For that reason, the Bank applied the "fair value less costs to sell" concept at the level of individual assets and groups of assets. As of December 31, 2016 the Bank had an independent appraiser perform another assessment, which identified no additional impairment.

Fair value measurement and impairment of the Bank's intangible assets are disclosed in the Note 19.

2.12. Leases

a) Operating Lease – the Bank as Lessee

A lease where all the risks and rewards incidental to ownership are retained by the lessor, i.e. not transferred to the lessee, is classified as an operating lease.

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

In 2016 and 2015 the Bank leased (rented) business premises for performance of its business activity.

b) Finance Lease - the Bank as Lessee

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

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

In 2016 the Bank had no finance lease agreements

c) Operating Lease – the Bank as Lessor

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, or series of payments, the right to use an asset for an agreed period of time. When assets are leased out under operating leasing, the assets are shown in the statement of financial position depending on the type of asset. Lease income is recognized on a straight-line basis during the lease period.

The Bank leases parts of its business premises, and thus earns rental income, as stated in Note 8.

2.13. Non-Current Assets Held for Sale

Non-current assets (or disposal groups) held for sale are classified as assets held for sale when their carrying amount is recovered predominantly through a sale transaction and the sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continued use. This condition is considered fulfilled if the sale is highly probable and when such an asset (or a disposal group) is available for immediate sale in its current condition. Management must be committed to the action plan for the sale in order for the asset to fulfill the recognition criteria and the sale is expected to be completed within a year from the initial classification.

In the course of 2016 and 2015, the Bank acquired a certain number of buildings which were loan-securitizing collaterals through participation in the second out-of-court auction in the capacity of a buyer. By purchasing these properties the Bank closed portion of the customer's debts in the amount of the achieved sale/purchase prices for the said properties. The Bank's management then enacted a decision to sell these assets immediately upon takeover and all activities necessary to complete the sale were undertaken.

2.14. Provisions, Contingent Liabilities and Contingent Assets

Provision is a liability uncertain in terms of both maturity and amount. Provisions are recognized:

- when the Bank has a present obligation (legal or constructive) as a result of a past event;
- when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- when a reliable estimate can be made of the amount of the obligation.

The amount recognized as provision represents the best estimate of the expense needed to settle the present obligation at the reporting date.

Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized for.

Provisions are not recognized for future operating losses. In instances of a number of similar liabilities, probability that their settlement will require an outflow of resources is determined at the level of the liability category as a whole. Provisions are recognized even if the probability for any of the liabilities within the same category is remote.

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements (Note 32).

Contingent liabilities are assessed on an ongoing basis to determine the probability of an outflow of economic resources. Where a probable resource outflow will be required in the future for items previously recognized as contingent liabilities, provisions are recognized in the financial statements for the period in which a change occurred to the probability of event occurrence.

Provisions for commitments and contingent liabilities are separately calculated for:

- approved yet undrawn loans,
- payment and performance guarantees issued,
- unsecured letters of credit,
- other forms of sureties where payments may be required.

Credit risk exposure – exposure at default (EAD) for contingent liabilities is equal to the portion of the risk exposure that is expected to be used at the time of default.

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

2.15. Employee Benefits

(a) Employee Social Security Taxes and Contributions

Under the Republic of Serbia regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. The Bank has no legal obligation to pay further benefits to its employees that are due from the Pension Insurance Fund of the Republic of Serbia.

(b) Other Employee Benefits – Retirement Benefits

In accordance with the Labor Law and the Rules of Procedure, the Bank is under obligation to pay its vesting employees retirement benefits in the amount of two average monthly salaries of the vesting employee as at the payment date, but not below two average monthly salaries paid by the Bank as at the payment date or the two average monthly salaries paid in the Republic of Serbia according to the most recent data published by the Republic of Serbia Statistical Office, whichever arrangement is most favorable for the retiree.

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 accrued over the period of employment.

Provisions for retirement benefits are made based on the independent actuary’s report and stated at the present value of the expected future payments. Inputs for the calculation of these provisions are presented in Note 26.

(c) Provisions for Termination Benefits

Termination benefits are payable when employment is terminated before the regular retirement date, or whenever an employee accepts voluntary redundancy in exchange for those benefits. The Bank recognizes termination benefits when it is explicitly committed to either: terminating the employment of current employees according to an adopted plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy aimed at decreasing the number of employees.

Benefits falling due more than 12 months after balance sheet date are discounted to their present value.

d) Profit Sharing and Bonuses

The Bank recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to its shareholders after certain adjustments. The Bank recognizes a provision in instances of contractual or constructive obligations.

2.16. Equity

Equity consists of share capital (ordinary shares), share premium, reserves and retained earnings/accumulated losses.

Dividends on shares are recorded as liabilities in the period in which the relevant decision on their payment was rendered. Dividends approved for the year after the reporting date are disclosed in the note on the events after the reporting period.

2.16.1. Share Capital

Ordinary shares are classified as equity.

Where the Bank purchases its own share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity owners until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to equity owners. The Bank did not repurchase its own shares.

2.16.2. Other Forms of the Core Capital

The share premium is the difference between the par (nominal) value of shares and their selling price. The par value of share is the product of the par value per share and the total share count. Reserves from profit arise as a result of allocation of portions of profit net income taxes other than the profit paid in the form of dividend to the shareholders or employee profit sharing.

2.16.3. Subscribed Capital not Paid in

Subscribed capital not paid in represents the amount of subscribed shares not paid in. The carrying value of the subscribed capital not paid in is the difference between the total subscribed capital and capital paid in. Subscribed capital not paid in is stated in RSD at the nominal value. As of December 31, 2016, the Bank had no subscribed capital not paid in.

2.17. Taxes and Contributions

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, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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 reporting date.

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

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

Other Taxes
Indirect taxes and contributions include property taxes, value added tax, payroll contributions charged to the employer and various other taxes, contributions and duties payable under the republic and municipal tax regulations. These are included within other expenses (Note 12).

2.18. Earnings per Share

Basic earnings per share are calculated by dividing the Bank's net profit attributable to the shareholders, owners of the Bank's ordinary shares, by weighted average number of shares outstanding during the reporting period.

2.19. Internal Control System for Accounting Procedures

Addiko Bank has an internal control system (ICS) in place for accounting procedures, which define and allow realization of the processes throughout the organization. The governing bodies in each of the organizational units within the Group are responsible for implementation of the Group's rules and procedures. Compliance with the Group's policies is monitored as part of both external and internal audits.

ICS, as part of the Bank's risk management system, has the following general objectives:

- Protection and implementation of the business and risk strategies and Group's policies;
- Support to the compliance with all relevant legislation, rules and regulations;
- Effective and efficient use of all resources with a view to achieve the target commercial success; and
- Ensuring reliable financial reporting.

The specific objective with regard to the Group's accounting procedures is that ICS ensures that all business transactions are recorded accurately, timely and in a uniform manner for accounting purposes.

In addition, the system needs to ensure that no errors or intentional fraud affect adequate presentation of the Bank's financial position and performance.

This Is the case whenever the data provided In the financial statements and notes to the financial statements are essentially Inconsistent with the correct figures, i.e. whenever, alone or in the aggregate, they can affect decisions made by the users of the financial statements, as such a decision may incur serious damage, such as financial loss, the Imposition of sanctions by the banking supervisor or reputational harm.

The internal control system itself is not a static system but is continuously adapted to the changing environment. The implementation of the internal control system is fundamentally based on the integrity and ethical behavior of the employees. The Executive Board and the management team actively and consciously embrace their role of leading by example.

3. Risk management policies

3.1. Financial Risk Factors

Risk management policies of the Bank are aimed at minimization of risks the Bank is exposed to in its operations by following and applying the principles and procedures of risk management, ensuring that all aspects of the Bank's business are stable and as little as possible susceptible to negative internal and external factors and that the Bank's risk profile at all times meets the requirements of the prudent banking business.

The Bank bases its risk profile on the capital adequacy level that provides risk coverage required by statutory regulations. Moreover, the Bank monitors exposures to other risks arising from the Bank's operations and environment not required by statutory regulations on the capital adequacy ratio.

The Bank's risk management policies govern the management of all relevant risks (explained hereinafter) to which the Bank is exposed. The Bank's risk management policies and procedures are in compliance with statutory regulations of the National Bank of Serbia ("NBS"), and policies, procedures and other relevant documents of Addiko Group.

The approach to the management of individual Bank's risks is defined under effective regulations of the Republic of Serbia and internal regulations of the Bank. Targeted capital adequacy level is based on the principle that the Bank's capital adequacy ratio should be in line with the scope, type and complexity of the Bank's operations and, in addition to the risks contained within the NBS regulations, provide a buffer for other risks arising from the Bank's operations and environment to which the Bank is exposed. Risk management includes risk identification, risk measurement/assessment, undertaking of measures for mitigating risks and risk monitoring. Risk management is performed by:

1. the Bank's bodies and other committees stipulated by the Law – the Board of Directors, Executive Board, Audit Committee, Assets & Liabilities Committee (ALCO) and Credit Committees;
2. working groups and committees of the Bank's Executive Board – Risk Committee, Operations Committee and Operational Risk Committee;
3. the Bank's organizational units – Risk Control Department, Corporate Risk Management Division, Retail Risk Management and Collection, BSM & Treasury Department, Compliance Department and other units, as appropriate.

The Bank's Board of Directors defines the strategy and policies for risk management which are executed by the Executive Board. The Executive Board adopts procedures for risk identification, measurement, assessment and management, analyses efficiency of their application and reports to the Board of Directors about those activities.

The relevant risks the Bank is exposed to in its operations are the following.

a) Financial risks

- market risks (foreign exchange risk, interest rate risk, price risk),
- credit risk,
- liquidity risk.

b) Other risks

- country risk,
- compliance risk,
- operational risk.

3.1.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank. The Bank's credit risk depends on the creditworthiness of tis borrowers, their regularity and timeliness in liability settlement and quality of collaterals securitizing the Bank's loans and receivables.

The Credit Risk Control Team operating within the Risk Control Department identifies, measures, assesses, monitors and reports on the credit risk at the portfolio level, i.e. the level of the Bank on the whole. The Credit Risk Control Team monitors, measures and reports on credit risk at both the local and Group levels, preparing reports in accordance with the needs of the report end-users.

Reports on credit risk are prepared at least quarterly for the Executive Board, Board of Directors and Audit Committee, while regularity of reporting to the Group is adjusted to the Group's needs. The Credit Risk Control Team calculates provisions in compliance with NBS regulations and according to the methodology established by the Bank based on IFRS.

The Corporate Risk Management Division performs activities of credit risk assessment for performing customers, prevention of new non-performing loans and management of the existing non-performing loans. The customer segments under the remit of the Division include corporate, public sector and financial institutions.

The Corporate Underwriting within the Corporate Risk Management Division actively participates in the preparation of loan applications and credit risk assessment per individual client, which include an expert opinion or a "vote" on each particular loan application (in favor, against it or in favor with a precondition) as well as in ongoing monitoring of the customer creditworthiness in accordance with NBS and Group requirements.

The Corporate Distressed Asset Management Department within the Corporate Risk Management Division performs the following activities:

1) prevention of new non-performing loans through continuous analysis and monitoring of the changes in the loan portfolio within the Division's competence as well as activities on implementation of the system of early warning of credit risk increase and implementation and improvement of the corporate credit risk monitoring;
2) active participation in the loan restructuring process in order to allow customer recovery, in the enforced collection process and in other measures contributing to NPL collection and minimizing additional risk costs.

The Retail Risk Management and Collection Division assesses, measures and monitors credit risk and performance of the retail portfolio (private individuals, SME, entrepreneurs and agricultural producers). The Division consists of two departments and three independent functions. *The Retail Risk Non-Standard Underwriting and Restructuring Department* deals with credit risk assessment for new loan requests and for restructuring pursuant to the Retail Credit Policy. *The Retail Portfolio Management Department* deals with analyzing and reporting on the retail portfolio, including development of internal regulations for the entire segment, as well as proposing of the necessary amendments in line with the results of portfolio analysis. The three independent functions are the *Officer for Retail Fraud Management*, with the basic goal of fraud prevention in the process of loan approval and fraud identification in the existing portfolio; the *Retail Collection Function* cooperating closely with the *Risk Management and Collection Division* for strategic direction; and the *Retail Risk Review Function* in charge of verification that the internal bylaws and regulation are adhered to.

The Bank's Risk Committee monitors the Bank's exposure to the credit risk, exposure risk and risk of the borrower's country of origin and proposes to the Executive Board measures for managing these risks. Sessions of the Risk Committee are held at least quarterly and its work is governed by the Decision on the Competence and Method of Work of the Bank's Risk Committee enacted by the Bank's Executive Board.

In addition to the Risk Control Department, the Corporate Risk Management Division and the Retail Risk Management and Collection Division a member of the Executive Board responsible for the work of those divisions/departments, who is also the Chairperson of the Committee, Operations Division also participates in the work of the Risk Committee.

In line with its authorizations, the Risk Committee discusses in its sessions, in the area of credit risk, among other issues, the structure of the loan portfolio of the Bank according to certain indicators of credit risk at the level of the Bank's portfolio and at the level of portfolio sub-segments, in respect of the total credit risk exposure, aggregate impairment allowances of the balance sheet assets and provisions for losses per off-balance sheet items relative to the total portfolio, the aggregate exposure coverage by the aggregate collaterals obtained and per collateral classes, the Bank's exposure to the risk of the borrower country of origin, etc.

The Bank's *Watchlist Committee (WLC) and Junior Watchlist Circle (JWLC)* are responsible for monitoring customer portfolios under the remit of the *Corporate Finance Division* and *Public Finance Department*. WLC primarily considers customers with 1A to 4E ratings, belonging to groups of related entities and liabilities exceeding EUR 750 thousand. JWLC considers customers with 1A to 4E ratings, belonging to groups of related entities and liabilities below EUR 750 thousand. WLC and JWLC make decisions on classification of individual performing customers, propose and follow up on the measures for preventing increase in the credit risk.

3.1.1.1. Credit Risk Reporting

Reporting for Local Purposes

The Credit Risk Control reports the Executive Board and other Bank's bodies on the credit risk at the Bank's portfolio level at least quarterly through delivery of materials that are presented at the Risk Committee sessions.

Those materials, sent at least quarterly by the Credit Risk Control Department to the Secretary of the Risk Committee, provide analysis of the existing total credit portfolio and dynamics of its development in previous quarters on various bases, as well as review of risk of certain forms of exposure relevant for current operations and control of the total credit risk.

The underlying purpose of the analyses presented is to provide an overview of the Bank's exposure relating to its balance sheet and off-balance sheet items as at the last day of the month they have been prepared for, relating relevant positions and indicators (provisions, ratio of provisions and exposure, number of clients, etc.), as well as their dynamics and development in comparison to previous reporting periods.

At the quarterly level, the Board of Directors receives the risk management report, the format and contents of which are standardized. In the part related to credit risk, this report includes various overviews and aspects of measurement, assessment and monitoring of credit risk in the context of the credit risk exposure, portfolio quality per various criteria, as well as influence on capital of the Bank (having in mind the Group's ICAAP methodology).

Reporting to the Group

The Credit Risk Control reports to the Group on a monthly basis through delivery of the Key Risk Indicators – KRI Report, which represents the basis for preparation of material for the monthly conference call with the Group's CRO and CRO team members on the previous month's portfolio movements. The same report represents the source of information for monitoring the loan and reporting to the Bank's Risk Committee, Board of Directors and Audit Committee.

Customer Credit Rating System

The Bank performs credit risk assessment in compliance with uniform standards of Addiko Group, which is in line with both domestic statutory regulations and internal policies and procedures for customer rating. The criteria for classification and rating of the Bank's customers are fully in accordance with the effective NBS Decision on Classification.

The assessment includes qualitative and quantitative risk assessment, i.e. overall financial analysis, creditworthiness evaluation and credit rating of customers.

The quantitative analysis is based on an assessment of client's creditworthiness, which includes an analysis of the balance sheet structure, liquidity ratios, indebtedness, efficiency, profitability, cash flows, credit limits, and the assessment of client's future business in the upcoming period (for the duration of the loan term). The qualitative indicators are based on assessment of development of the industry and sector the client operates in, assessment of applied accounting policies and assessment of strategic and economic factors characteristic for the client within the relevant industry.

The assessment of customer creditworthiness is performed within internally developed tools/systems for specific categories of financing. (There are specific systems applied for corporate loans “CO”, small and medium-sized enterprises “SC”, private individuals “PI Scorecard” and “Retail Behavior Rating”, commercial real estate “RE“, local government units “MU”, countries “CT”, banks “BN”, insurance companies “IN” and project financing “PJ”.) Expert tool “EX: is used to rate clients that cannot be rated through any of the aforesaid tools due to certain specificities, as well as WebFER “WF” tool for automatic assignment of class 5 rating to the clients in default for over 90 days). The rating tools rely on “hard” and “soft” facts, and reflect both financial and non-financial data on the client.

The Bank’s clients are assigned ratings from classes 1 to 5 (and sub-classes A to E) so that ratings 1A to 3E represent standard ratings, while 4A to 4E represent sub-standard ratings. Clients assigned class 5 rating are default status clients.

1A - 1B	Best creditworthiness
1C - 1D	Excellent creditworthiness
1E	Very good creditworthiness
2A - 2B	Good creditworthiness
2C	Good to moderate creditworthiness
2D - 2E	Moderate creditworthiness
3A - 3B	Acceptable creditworthiness
3C - 3E	Insufficient creditworthiness
4A - 4E	Watch list
5A - 5E	Default

Commitments and contingent liabilities are interest-bearing and they are assessed in the same manner, by evaluating all the qualitative and quantitative performance indicators.

3.1.1.2. Credit Risk Measurement, Impairment and Provisioning Policy

A financial asset is deemed to be impaired if there is at least one identified piece of objective evidence that an asset has suffered impairment.

- default in settlement of material debt of over 90 days;
- significant doubt about the customer’s creditworthiness;
- restructuring due to deterioration in the customer’s financial situation (forbearance);
- partial or total write-off of receivables;
- sale of a portion of or full receivable due to deterioration in the customer’s financial situation; and
- insolvency/bankruptcy.

An impairment loss is the difference between the carrying value of the loan (exposure) stated in the Bank’s books and the present value of the expected future cash flows.

Loans and receivables are written off if determined to be irrecoverable under decisions of the Bank’s competent bodies in accordance with their scope of authority.

The process of impairment assessment is divided into two steps:

1. checking whether there is objective evidence of impairment, and
2. determining of the amount of impairment, if any.

Determining of impairment for loans demands separation of individually significant loans from those that are not individually significant.

The method of collective impairment assessment is used for:

- individually significant exposures where no loss event was identified individually (i.e. there was no increase in credit risk);
- receivables for which the amount of impairment allowance for balance sheet assets and provisions for losses on off-balance sheet items calculated at the individual level equals zero;
- all insignificant exposures (small values).

For the purpose of collective assessment of impairment, the Bank uses the model based on concepts of the actual losses incurred and loss identification period, where all the parameters for calculation of the required provision based on the historical data, determined by experts or derived from the customer rating model.

The most important criterion for determining the method to be used for assessment of individual risk provisions is whether the total amount of exposure is significant at the individual level or not. The Bank treats an exposure as individually significant if total gross exposure of a group of related entities at the Bank level exceeds EUR 150,000 without reduction for collateral value.

The Bank's policy for detection of the default status and default status exit sets out criteria that must be fulfilled as well as the period upon expiry of which the customer may be relieved from the default status. Most commonly the period in which customers must not be in delay in liability settlement lasts three months. Upon expiry of the three months, if the requirements for the recovery are met, the customer is reassigned the initial rating (rating assigned according to the most recent financial statements).

Special terms and requirements are prescribed for forborne customers where the initially agreed loan terms have been altered due to deterioration of the customer's financial situation.

The Bank's policy for credit risk provisioning defines the framework for this area, while the process and responsibilities for calculation of impairment are defined by provisioning procedure.

The Bank's policy also defines responsibilities for approving the changes in the amount of provisions for customers with determined default status where exposures are individually significant.

Regarding implementation of the Guidelines for Disclosure of Bank Data and Information Related to the Quality of Assets (the "Guidelines") issued by NBS, the required qualitative and quantitative information will be presented within disclosures required by the Decision on Disclosure of Data and Information by Banks (Official Gazette of RS, nos. 125/2014 and 4/2015).

Collaterals

The Bank uses the following types of collaterals:

1) mortgages over business and residential premises,
2) sureties of legal entities and individuals,
3) pledge liens over immovable and movable property,
4) pledges of securities,
5) bank and corporate guarantees,
6) earmarked deposits.

Factors affecting the collateral value appraisal:

a) collateral holding period,
b) the most recent appraised value of collateral (as per internal or external appraisal),
c) net realizable value of collateral (net of taxes, fees and commissions).

In order to assess impairment for future cash flow from collateral realization, the Bank assesses the value of collateral and time to collection. The haircut that the collateral value is reduced for represents the adjustment up to the amount recoverable in the process of collection from collateral foreclosure.

The Bank endeavors to reduce risk by obtaining collaterals, wherever possible. Different forms of financial and non-financial assets appear as collaterals, such as deposits, securities, guarantees, mortgages, pledged inventory and receivables. Collateral value is usually determined upon establishment as well as annually, based on statistical data or once every three years through appraisal performed by an independent appraiser in instances of immovable assets (real estate) or movable assets, while some collateral types such as deposits or securities are revalued on a monthly basis.

Through voluntary sale, court and out-of-court enforcement as well as bankruptcy procedures, the Bank sells collaterals serving as security for non-performing loans. The method of sale depends on the client cooperation, client legal status and collateral legal status.

Fair values per collateral types are provided in the following table:

Collaterals RSD '000

	December 31, 2016	December 31, 2015
Residential real estate	28,924,771	30,277,614
Commercial real estate	14,438,170	19,152,019
Financial assets	175,213	618,223
Guarantees	2,532,077	4,164,738
Other	1,155,208	1,912,164
Total	**47,225,439**	**56,124,758**

The financial effect of collaterals as at December 31, 2016 is provided in the following table:

Balance sheet assets RSD '000

December 31, 2016	Gross carrying amount	Allowance for impairment	Net carrying amount	Allowance for impairment without collateral	Net carrying amount without collateral
Maximum credit risk exposure					
Loans to other banks	4,633,911	(8,820)	4,625,091	(9,233)	4,624,678
Loans to state agencies and institutions	5,162,593	(133,424)	5,029,169	(140,561)	5,022,032
Loans to retail customers	38,170,963	(9,113,149)	29,057,814	(9,968,618)	28,202,345
Loans to corporate customers	28,916,579	(3,809,747)	25,106,832	(7,617,310)	21,299,269
SME loans	2,507,224	(1,272,937)	1,234,287	(1,355,042)	1,152,182
Total	**79,391,270**	**(14,338,077)**	**65,053,193**	**(19,090,764)**	**60,300,506**

The financial effect of collaterals as at December 31, 2015 is provided in the following table:

Balance sheet assets RSD '000

December 31, 2015	Gross carrying amount	Allowance for impairment	Net carrying amount	Allowance for impairment without collateral	Net carrying amount without collateral
Maximum credit risk exposure					
Loans to other banks	787,362	(5,231)	782,131	(20,674)	766,688
Loans to state agencies and institutions	6,925,953	(151,017)	6,774,936	(340,971)	6,584,982
Loans to retail customers	36,489,702	(7,232,088)	29,257,614	(11,003,557)	25,486,145
Loans to corporate customers	32,734,817	(10,101,116)	22,633,701	(19,208,223)	13,526,594
SME loans	3,855,169	(1,117,564)	2,737,605	(1,564,693)	2,290,476
Total	**80,793,003**	**(18,607,016)**	**62,185,987**	**(32,138,118)**	**48,654,885**

3.1.1.3. Quantitative and Qualitative Information about Credit Risk

a) Maximum Credit Risk Exposure

Risk concentration is monitored at the level of the individual client, geographic region and industry. As at December 31, 2016, the largest exposure to an individual client amounted RSD 3,688,869 thousand. The maximum credit risk exposure is presented in the table below:

Balance sheet assets RSD '000

December 31, 2016	Financial institutions	State agencies	Retail clients	Trade	Construction	Manufacturing and oil industry	Services	Total
Cash and balances held with the central bank (Note 14)	**12,290,116**							**12,290,116**
Loans and receivables due from banks and customers (Notes 17 & 18)								
Loans to other banks	4,625,091							4,625,091
Loans to state agencies and institutions		5,029,169						5,029,169
Loans to retail customers			29,057,814					29,057,814
Loans to corporate customers				7,159,704	1,264,641	9,097,751	7,584,736	25,106,832
SME loans				493,742	99,856	326,780	313,909	1,234,287
Financial instruments								
Held for trading (Note15)	38,658	1,169,832						1,208,490
Available for sale (Note 16)	1,336,921	15,444,958						16,781,879
Total financial instruments	**6,000,670**	**21,643,959**	**29,057,814**	**7,653,446**	**1,364,497**	**9,424,531**	**7,898,645**	**17,990,369**
Total balance sheet assets	**18,290,786**	**21,643,959**	**29,057,814**	**7,653,446**	**1,364,497**	**9,424,531**	**7,898,645**	**95,333,678**

The Bank enters into various arrangements resulting in revocable and irrevocable liabilities for undrawn loan funds, as well as other off-balance sheet items. Although such arrangements are not shown within the balance sheet items, they involve certain credit risk and make an integral part of the overall Bank's risk. The amounts presented in the following table are given on the net basis, i.e. less related provisions:

Off-balance sheet items RSD '000

December 31, 2016	Financial institutions	State agencies	Retail clients	Trade	Construction	Manufacturing and oil industry	Services	Total
Financial derivatives (Note 32)								
FX swaps	**28,963,577**							**28,963,577**
Commitments (Note 32)								
Guarantees and unsecured letters of credit		356,190		1,235,404	2,459,406	820,846	402,885	5,274,731
Undrawn loan funds and other irrevocable liabilities	4,000	904,131	722,462	1,544,014	625,929	2,444,569	2,293,578	8,538,683
Total guarantees and other commitments	**4,000**	**1,260,321**	**722,462**	**2,779,418**	**3,085,335**	**3,265,415**	**2,696,463**	**13,813,414**
Total off-balance sheet items	**28,967,577**	**1,260,321**	**722,462**	**2,779,418**	**3,085,335**	**3,265,415**	**2,696,463**	**42,776,991**

Risk concentration is monitored at the level of the individual client, geographic region and industry. As at December 31, 2015, the largest exposure to an individual client amounted to RSD 2,983,168 thousand. The maximum credit risk exposure is presented in the table below:

Balance sheet assets RSD '000

December 31, 2015	Financial institutions	State agencies	Retail clients	Trade	Construction	Manufacturing and oil industry	Services	Total
Cash and balances held with the central bank (Note 14)	**14,725,283**							**14,725,283**
Loans and receivables due from banks and customers (Notes 17 & 18)								
Loans to other banks	782,131							782,131
Loans to state agencies and institutions		6,774,936						6,774,936
Loans to retail customers			29,257,614					29,257,614
Loans to corporate customers				7,668,153	1,650,306	6,832,190	6,483,054	22,633,703
SME loans				849,180	235,517	1,001,226	651,680	2,737,603
	782,131	**6,774,936**	**29,257,614**	**8,517,333**	**1,885,823**	**7,833,416**	**7,134,734**	**62,185,987**
Financial instruments								
Held for trading (Note15)	564							564
Available for sale (Note 16)		22,411,529						22,411,529
Total financial instruments	**564**	**22,411,529**						**22,412,093**
Total balance sheet assets	**15,507,978**	**29,186,465**	**29,257,614**	**8,517,333**	**1,885,823**	**7,833,416**	**7,134,734**	**99,323,363**

The Bank enters into various arrangements resulting in revocable and irrevocable liabilities for undrawn loan funds, as well as other off-balance sheet items. Although such arrangements are not shown within the balance sheet items, they involve certain credit risk and make an integral part of the overall Bank's risk. The amounts presented in the following table are given on the net basis, i.e. less related provisions:

Off-balance sheet items RSD '000

December 31, 2015	Financial institutions	State agencies	Retail clients	Trade	Construction	Manufacturing and oil industry	Services	Total
Financial derivatives (Note 32)								
FX swaps	**19,317,632**							**19,317,632**
Commitments (Note 32)								
Guarantees and unsecured letters of credit		44,977	11,463	1,121,025	1,506,505	885,512	379,675	3,949,157
Undrawn loan funds and other irrevocable liabilities	4,000	1,489,840	771,624	854,273	364,564	2,652,184	2,501,144	8,637,629
Total guarantees and other commitments	**4,000**	**1,534,817**	**783,087**	**1,975,298**	**1,871,069**	**3,537,696**	**2,880,819**	**12,586,786**
Total off-balance sheet items	**19,321,632**	**1,534,817**	**783,087**	**1,975,298**	**1,871,069**	**3,537,696**	**2,880,819**	**31,904,418**

b) Maximum Credit Risk Exposure per Geographic Region

The Bank performs analysis, measurement and management of concentration risk by geographic region. Measurement and management of concentration risk is performed within the regular ICAAP calculation. Taking into consideration the differences in the growth and development of certain regions in Serbia, the Bank made the following classification of geographic regions: Belgrade, Vojvodina and the rest of Serbia. The concentration risk ratio of a specific geographic region represents the share of a region in the total credit portfolio.

The table below presents an overview of the exposure concentration by geographic region as at December 31, 2016:

’000 RSD

December 31, 2016	Cash and assets held with the central bank and Loans and receivables due from banks and other financial institutions	Loans and receivables due from customers	Financial assets at fair value through profit and loss held for trading and Financial assets available for sale	Guarantees and other commitments	Total
Serbia					
Belgrade	15,464,166	48,804,333	17,268,312	11,079,589	92,616,400
Vojvodina		14,712,448		1,156,967	15,869,415
Rest of Serbia		10,795,936		1,647,542	12,443,478
Other countries					
European Union	382,384	253,055	722,057		1,357,496
Rest of the world	1,077,477	191,587		75	1,269,139
Less: Allowance for impairment	(8,820)	(14,329,257)		(70,759)	(14,408,836)
Total	**16,915,207**	**60,428,102**	**17,990,369**	**13,813,414**	**109,147,092**

The table below presents an overview of the exposure concentration by geographic region as at December 31, 2015:

’000 RSD

December 31, 2015	Cash and assets held with the central bank and Loans and receivables due from banks and other financial institutions	Loans and receivables due from customers	Financial assets at fair value through profit and loss held for trading and Financial assets available for sale	Guarantees and other commitments	Total
Serbia					
Belgrade	15,278,704	57,303,020	22,411,529	9,964,415	104,957,668
Vojvodina		13,460,317		1,906,006	15,366,323
Rest of Serbia		8,777,517		829,774	9,607,291
Other countries					
European Union	229,208	257,722	564		487,494
Rest of the world	4,733	207,065		7,420	219,218
Less: Allowance for impairment	(5,231)	(18,601,785)		(120,829)	(18,727,845)
Total	**15,507,414**	**61,403,856**	**22,412,093**	**12,586,786**	**111,910,149**

c) Structure of Loans by Rating and Status

Client rating system is explained in the Note 3.1.1.2. Ratings 1A to 3E represent standard ratings, 4A to 4E are substandard client ratings, while individually assessed receivables include clients to which the Bank has significant exposure. These are receivables from debtors whose total debt (before reduction for the amount of impairment allowance of balance sheet assets and provisions for losses on off-balance sheet items) exceeds EUR 150,000 as at the calculation date.

The following table presents the quality of loan portfolio per loan type, based on the bank's system of classification, as of December 31, 2016:

RSD '000

	Neither past due nor impaired						
	Standard rating	Watch list	Past due receivables not impaired	Impaired receivables	Total gross	Allowance for impairment	Net exposure
Cash and balances held with the central bank (Note 14)	**12,290,116**				**12,290,116**		**12,290,116**
Loans and receivables due from banks and customers and loans held for sale (Notes 17 and 18)							
Loans to other banks	4,633,911				4,633,911	(8,820)	**4,625,091**
Loans to state agencies and institutions	4,990,369	19,599		152,625	5,162,593	(133,425)	**5,029,168**
Loans to retail customers	23,634,591	3,316,846	637,203	10,582,324	38,170,964	(9,113,149)	**29,057,815**
Loans to corporate customers	19,824,003	1,112,459	308,651	7,671,465	28,916,578	(3,809,746)	**25,106,832**
SME loans	932,664	85,766	51,189	1,437,605	2,507,224	(1,272,937)	**1,234,287**
Total loans	**54,015,538**	**4,534,670**	**997,043**	**19,844,019**	**79,391,270**	**(14,338,077)**	**65,053,193**
Less: Impairment allowance	(753,634)	(101,523)	(22,272)	(13,460,648)		(14,338,077)	
Net exposure	**65,552,020**	**4,433,147**	**974,771**	**6,383,371**			**77,343,309**

Client rating system is explained in the Note 3.1.1.2. Ratings 1A to 4B represent standard ratings, 4C to 4E are substandard client ratings, while individually assessed receivables include clients to which the Bank has significant exposure. These are receivables from debtors whose total debt (before reduction for the amount of impairment allowance of balance sheet assets and provisions for losses on off-balance sheet items) exceeds EUR 150,000 as at the calculation date.

The following table presents the quality of loan portfolio per loan type, based on the bank's system of classification, as of December 31, 2015:

RSD '000

	Neither past due nor impaired						
	Standard rating	Watch list	Past due receivables not impaired	Impaired receivables	Total gross	Allowance for impairment	Net exposure
Cash and balances held with the central bank (Note 14)	**14,725,283**				**14,725,283**		**14,725,283**
Loans and receivables due from banks and customers and loans held for sale (Notes 17 and 18)							
Loans to other banks	787,207	155			787,362	(5,231)	**782,131**
Loans to state agencies and institutions	6,695,299	178,998	51,656		6,925,953	(151,017)	**6,774,936**
Loans to retail customers	21,308,421	3,683,493	556,984	10,940,804	36,489,702	(7,232,088)	**29,257,614**
Loans to corporate customers	12,801,185	903,971	174,464	18,855,199	32,734,819	(10,101,116)	**22,633,703**
SME loans	1,746,985	522,741	74,772	1,510,669	3,855,167	(1,117,564)	**2,737,603**
Total loans	**43,339,097**	**5,289,358**	**857,876**	**31,306,672**	**80,793,003**	**(18,607,016)**	**62,185,987**
Less: Impairment allowance	(630,248)	(74,497)	(11,954)	(17,890,317)		(18,607,016)	
Net exposure	**57,434,132**	**5,214,861**	**845,922**	**13,416,355**			**76,911,270**

d) Past-Due Receivables, Not Impaired

As of December 31, 2016, past-due receivables not impaired (Note 18) amounted to:

Balance sheet items RSD '000

	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total gross
Loans to retail customers	299,868	220,156	117,180		637,204
Loans to corporate customers	298,241	10,409			308,650
SME loans	31,783	15,831	3,575		51,189
Total financial assets	**629,892**	**246,396**	**120,755**		**997,043**

As of December 31, 2015, past-due receivables not impaired (Note 18) amounted to:

Balance sheet items RSD '000

	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total gross
Loans to the public sector	51,656				51,656
Loans to retail customers	56,752	407,373	92,859		556,984
Loans to corporate customers	173,970	494			174,464
SME loans	38,439	36,333			74,772
Total financial assets	**320,817**	**444,200**	**92,859**		**857,876**

The Bank monitors clients in the default status. Loans to these clients are not impaired as long as they are less than 90 days past due, except in cases where the Bank has established impairment of loans based on a criterion other than number of days past due.

As of December 31, 2016, impaired receivables (Note 18) amounted to:

Balance sheet items RSD '000

	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total gross
Loans to the public sector	92,379			60,246	152,625
Loans to retail customers	478,851	71,071	17,891	10,014,511	10,582,324
Loans to corporate customers	4,770,282	355	6,239	2,894,589	7,671,465
SME loans	13,428	11,965		1,412,212	1,437,605
Total financial assets	**5,354,940**	**83,391**	**24,130**	**14,381,558**	**19,844,019**

As of December 31, 2015, impaired receivables (Note 18) amounted to:

Balance sheet items RSD '000

	Up to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total gross
Loans to retail customers	173,879	512,573	685,620	9,568,732	10,940,804
Loans to corporate customers	7,203,226	210,885	63,947	11,377,141	18,855,199
SME loans	120,305	29,199	7,508	1,353,657	1,510,669
Total financial assets	**7,497,410**	**752,657**	**757,075**	**22,299,530**	**31,306,672**

e) Restructured Loans

Breakdown of restructured loans is provided in the table below:

RSD '000

	2016	2015
Loans to the public sector	204,097	1,631,091
Loans to retail customers	2,512,955	2,951,038
Loans to corporate customers	5,629,673	12,356,388
SME loans	310,569	505,274
Total financial assets	**8,657,294**	**17,443,791**

Restructured loans all loans where the Bank allowed changes to the initially agreed loan terms due to deteriorating financial situation of the borrower. Such alteration of the initially contracted loan terms triggers default status assignment to the borrower.

3.1.2. Foreign Exchange Risk

Market risk management policies, procedures and work instructions of the Risk Control Department define the activities of foreign exchange risk control.

General activities pertaining to foreign exchange risk management include:

- foreign exchange risk identification,
- foreign exchange risk measurement,
- foreign exchange risk control,
- foreign exchange risk monitoring and
- reporting.

Foreign exchange risk is the risk from negative effects on the financial result and capital of the Bank due to changes in foreign exchange rate. The Bank is exposed to foreign exchange risk arising from both the banking book and trading book items.

The foreign exchange risk ratio is monitored as the total net open foreign exchange position relative to the Bank's capital. The foreign exchange risk ratio is calculated in accordance with the Decision of the National Bank of Serbia defining capital adequacy for banks. Currency matching of the Bank's assets and liabilities is maintained so that the Bank's total net open foreign exchange position at the end of each business day does not exceed the level prescribed by governing bylaws.

The Accounting and Reporting Department calculates on a daily basis the Bank's total net open foreign exchange position and f foreign exchange risk ratio in accordance with the Decision of the National Bank of Serbia defining capital adequacy for banks.

Based on thus determined net open position of the Bank, in coordination with Addiko Group and based on Addiko Group's methodology and tools, the Risk Control Department calculates on a daily basis VaR of the open foreign exchange position by J.P.Morgan - Geometric StDev. - Monte-Carlo method with the confidence interval of 99% and time horizon of one day, which must range within the internally prescribed limits.

In addition to the standardized Addiko Group's scenarios for changes in the value of EUR currency, stress testing is performed at least once a month in order to assess the potential effect of change in the value of the local currency of +/- 5% or +/- 10% to the income statement, i.e. the Bank's financial result before tax.

Had RSD depreciation/appreciation by 5%/10% against EUR, USD and CHF, and other currencies aggregately been recorded as at December 31, 2106 with the existing open foreign exchange position of the Bank (with all other variables unaltered), the effect on the Bank's income statement would be positive/negative by about RSD 9.6 million/RSD 19.3 million, mostly due to the foreign exchange gains/losses on translation of receivables and payables denominated in foreign currencies.

The following analysis calculates the result of reasonably expected exchange rate fluctuations against RSD with other variables held constant.

RSD '000

Currency	Exchange rate change 2016 (%)	Effect on P&L before tax 2016 in RSD '000	Exchange rate change 2015 (%)	Effect on P&L before tax 2015 in RSD '000
EUR	+5%	5,120	+5%	(114,961)
CHF	+5%	3,779	+5%	(50,983)
USD	+5%	0,386	+5%	1,514
Other currencies	+5%	0,351	+5%	1,191

RSD '000

Currency	Exchange rate change 2016 (%)	Effect on P&L before tax 2016 in RSD '000	Exchange rate change 2015 (%)	Effect on P&L before tax 2015 in RSD '000
EUR	-5%	(5,120)	-5%	114,961
CHF	-5%	(3,779)	-5%	50,983
USD	-5%	(0,386)	-5%	(1,514)
Other currencies	-5%	(0,351)	-5%	(1,191)

RSD ’000

Currency	Exchange rate change 2016 (%)	Effect on P&L before tax 2016 in RSD ’000	Exchange rate change 2015 (%)	Effect on P&L before tax 2015 in RSD ’000
EUR	+10%	10,239	+10%	(229,922)
CHF	+10%	7,558	+10%	(101,786)
USD	+10%	0,772	+10%	3,029
Other currencies	+10%	0,702	+10%	2,382

RSD ’000

Currency	Exchange rate change 2016 (%)	Effect on P&L before tax 2016 in RSD ’000	Exchange rate change 2015 (%)	Effect on P&L before tax 2015 in RSD ’000
EUR	-10%	(10,239)	-10%	229,922
CHF	-10%	(7,558)	-10%	101,786
USD	-10%	(0,772)	-10%	(3,029)
Other currencies	-10%	(0,702)	-10%	(2,382)

** The tables above show exchange rate change of +5%/+10% (RSD depreciation) and exchange rate change of -5%/-10% (RSD appreciation) and their effects on the income statement before tax.*

The Risk Control Department performs the said stress test on monthly basis and reports to the Assets and Liabilities Management Committee (ALCO) on results, in accordance with the schedule of the Committee’s sessions.

The effect of possible exchange rate fluctuations against RSD (with other variables held constant) on the capital from the perspective of the Bank’s foreign exchange risk ratio, which is determined pursuant to the Decision on Capital Adequacy of Banks, is provided in the following table*:

Exchange rate change 2016	Bank’s foreign exchange risk ratio as of December 31, 2016 after changes in exchange rates 2016 (%of capital)	Exchange rate change 2015	Bank’s foreign exchange risk ratio as of December 31, 2015 after changes in exchange rates 2015 (%of capital)
+5%	1.40	+5%	30.2
-5%	1.30	-5%	27.3
+10%	1.50	+10%	31.6
-10%	1.20	-10%	25.9

** U tabeli su prikazane promene u deviznom kursu od +5/+10% (depresijacija RSD) kao i -5%/-10% (apresijacija RSD) i njihov efekat na kapital kroz perspektivu pokazatelja deviznog rizika Banke koji se utvrđuje shodno Odluci o adekvatnosti kapitala.*

The assumptions used in calculation of the sensitivity analysis scenario in 2016 for the income statement before tax and capital are the same as the assumptions applied in sensitivity analysis scenario for 2015.

In order to protect itself against foreign exchange risk, the Bank executes derivative agreements and contracts loans with foreign currency clause index.

Currency structure of financial instruments as at December 31, 2016 is provided in the table below. Financial assets denominated in RSD with contracted currency clause index are presented within appropriate foreign currency position.

Financial assets RSD '000

	EUR	USD	CHF	GBP	Other currencies	RSD	Total
Cash and balances held with the central bank (Note 14)	6,472,002	42,811	88,754	22,172	29,538	5,634,839	12,290,116
Financial assets at fair value through profit and loss, held for trading (Note 15)	511,354	497,808				199,328	1,208,490
Financial assets available for sale (Note 16)	8,741,669	2,941,022				5,099,188	16,781,879
Loans and receivables due from banks and other financial institutions (Note 17)	1,388,675	27,834	6,267	17,186	46,204	3,138,925	4,625,091
Loans and receivables due from customers (Note 18)	35,685,249		13,145,801			11,597,052	60,428,102
Other assets (Note 22)	169,812	123	10	4	13,047	219,996	402,992
Total	**52,968,761**	**3,509,598**	**13,240,832**	**39,362**	**88,789**	**25,889,328**	**95,736,670**
Derivative instruments	13,816,180	47,778	468,524	140,693	42,989		14,516,164
Total	**66,784,941**	**3,557,376**	**13,709,356**	**180,055**	**131,778**	**25,889,328**	**110,252,834**

Financial liabilities RSD '000

	EUR	USD	CHF	GBP	Other currencies	RSD	Total
Financial assets at fair value through profit and loss, held for trading (Note 15)						16,716	16,716
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 23)	3,183,035	244	38			330,891	3,514,208
Deposits and other liabilities due to customers (Note 24)	42,556,644	3,193,205	761,389	161,025	103,919	20,755,699	67,531,881
Subordinated liabilities (Note 25)	4,322,188						4,322,188
Other liabilities (Note 27)	114,926	14,503	18,320	232	16	473,856	621,853
Total	**50,176,793**	**3,207,952**	**779,747**	**161,257**	**103,935**	**21,577,162**	**76,006,846**
Derivative instruments	16,505,777	341,707	12,854,031	17,159	22,459		29,741,133
Total	**66,682,570**	**3,549,659**	**13,633,778**	**178,416**	**126,394**	**21,577,162**	**105,747,979**
Long foreign exchange position	**102,371**	**7,717**	**75,578**	**1,639**	**5,384**		**192,689**

Currency structure of financial instruments as at December 31, 2015 is provided in the table below. Financial assets denominated in RSD with contracted currency clause index are presented within appropriate foreign currency position.

Financial assets RSD '000

	EUR	USD	CHF	GBP	Other currencies	RSD	Total
Cash and balances held with the central bank (Note 14)	6,815,740	209,163	642,430	85,013	179,472	6,793,465	14,725,283
Financial assets at fair value through profit and loss, held for trading (Note 15)						564	564
Financial assets available for sale (Note 16)	15,132,112	629,817				6,649,600	22,411,529
Loans and receivables due from banks and other financial institutions (Note 17)	742,803	5,793	6,148	1,394	20,799	5,194	782,131
Loans and receivables due from customers and pledged receivables due from customers (Notes 18 & 32)	39,775,642		16,699,914			4,928,300	61,403,856
Other assets (Note 22)	76,029	228	380	26,393	56,936	180,871	340,837
Total	**62,542,326**	**845,001**	**17,348,872**	**112,800**	**257,207**	**18,557,994**	**99,664,200**
Derivative instruments	1,012,781	1,707,341					2,720,122
Total	**63,555,107**	**2,552,342**	**17,348,872**	**112,800**	**257,207**	**18,557,994**	**102,384,322**

Financial liabilities RSD '000

	EUR	USD	CHF	GBP	Other currencies	RSD	Total
Financial assets at fair value through profit and loss, held for trading (Note 15)						66,169	66,169
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 23)	2,187,682	111,435	6,204,708			1,140,404	9,644,229
Deposits and other liabilities due to customers (Note 24)	39,037,357	2,304,379	854,012	83,603	103,705	10,235,504	52,618,560
Subordinated liabilities (Note 25)	13,459,064		2,250,558				15,709,622
Other liabilities (Note 27)	279,215	69,724	15,724	71	15	270,547	635,296
Total	**54,963,318**	**2,485,538**	**9,325,002**	**83,674**	**103,720**	**11,712,624**	**78,673,876**
Derivative instruments	10,891,009	36,518	9,041,732	23,742	135,052		20,128,053
Total	**65,854,327**	**2,522,056**	**18,366,734**	**107,416**	**238,772**	**11,712,624**	**98,801,929**
Long foreign exchange position		**30,286**		**5,384**	**18,435**		**54,105**
Short foreign exchange position	**(2,299,220)**		**(1,017,862)**				**(3,317,082)**

In accordance with the Decision on Capital Adequacy of Banks (Official Gazette of RS, nos. 46/2011, 6/2013, 51/2014 and 85/2016), the Bank is to maintain its foreign exchange risk ratio, i.e. currency matching of assets and liabilities, in such a manner that the Bank's total net open foreign exchange position, including absolute value of the net position in gold, does not exceed 20% of its capital at the end of each working day.

Throughout 2016 the Bank's foreign exchange risk ratio was in compliance with the regulations of the National Bank of Serbia. As at December 31, 2015, due to recording of allowance for impairment, the foreign exchange risk ratio exceeded the prescribed amount, but in the course of 2016 the Bank aligned its operations with the statutory regulations and the prescribed index was within the prescribed limits throughout the period.

As at December 31, 2016 and 2015, the Bank's foreign exchange risk ratio was as follows:

Foreign exchange risk ratio in %

	2016	2015
As at December 31*	1.35	28.75
Maximum for the period - December **	11.32	16.82
Minimum for the period - December **	0.25	1.23

** FX risk ratio after calculation of the Bank's capital and recording of all transaction*
*** Indicator was achieved for the current working days in December*

3.1.3. Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial result and capital of the Bank due to changes in interest rates. The Bank is exposed to this risk per items maintained in the banking book.

The Bank specifically analyses and manages exposure arising from the following types of interest risk:

a) maturity mismatching risk (for items with fixed interest rate) and repricing risk (for items with variable interest rate) for individual items in assets and liabilities, and for the Bank's off-balance sheet items;
b) yield curve risk exposure arising from change in the shape and inclination of the yield curve;
c) basis risk exposure arising from different reference interest rates with interest-sensitive items with similar characteristics in terms of maturity or repricing;
d) optionality risk exposure arising from contractual provisions related to interest-sensitive items (loans with the possibility of early repayment, deposits with the possibility of early withdrawal, etc.).

In line with the responsibilities and competences prescribed by NBS regulations and enactments, the Bank's Board of Directors defines the strategy and goals of the Bank to comply with the criteria for the risks and the result, whereas the Executive Board has overall competence for the Bank's operations and implementation of the strategy and policies for risk management and the strategy for capital management.

Other responsibilities related to interest rate risk are carried out through the following committees established by the Bank, in line with the law, regulations and enactments of the National Bank of Serbia:

- Audit Committee
- Assets and Liabilities Committee (ALCO).

The Risk Control Department is, in respect of interest risk management, among other things, responsible for overall interest rate analysis, measurement, assessment, monitoring, control and reporting as well as creation and implementation of an adequate limits system and early warning procedures in compliance with the ICAAP process (internal capital adequacy assessment process).

BSM & Treasury Department is, in respect of interest risk management, among other things, responsible for:

- managing interest-sensitive items of the assets and liabilities of the Bank in general and by each materially significant currency, so that the interest risk level is;
- submitting proposals to ALCO for interest rate risk mitigation, avoidance and hedging in cases of higher operating costs and exceeding of defined limits due to changes in interest rates;
- in cooperation with other market sectors, implementing the measures rendered by the Executive Board on reducing the interest rate risk exposure; and
- performing other operations defined by the applicable internal enactments of the Bank.

In accordance with NBS Decision on Risk Management by Banks and the Addiko Group methodology, via GAP analysis applied to balance sheet items of assets and liabilities of the Bank, as well as interest-sensitive off-balance sheet items from the banking book (Interest Sensitivity Gap Balance), the Risk Control Department measures, i.e. assesses, at the monthly level, negative effects of interest rate change on the financial result (income statement) and the economic value of the Bank.

Exposure to interest rate risk in the banking book and assessment of effects of this rate on the Bank's financial result (income statement) is determined in accordance with the Earning approach based on the Delta approach where the result shows solely delta (change) of interest income calculated by the predefined movement/change of interest rate. The calculation takes into consideration only interest-sensitive items from the banking book while interest sensitivity gap balance is the calculation basis. Likewise, there is no dynamic overview (the planned new operations are not included, the aspect of loan maturity date is not included, no transfer among risk categories - fixed, variable and UFN).

In order to assess potential consequences of interest rate changes on the net interest income, scenarios with predefined assumptions on interest rate movement are implemented as follows:

- three-month and six-month interest rate movement with Forward 3m/6m interest curve by currency available through Bloomberg;
- stress scenario for parallel interest rate movement by 200 bp*;
- three-month and six-month local projection of interest rate movement by currency.

The interest rate gap analysis is conducted by the Risk Control Department once a month, and the results are reported to the Executive Board and ALCO on a monthly basis, and to the Board of Directors and Audit Committee on a quarterly basis.

The table below shows sensitivity of the Bank's income statement to the aforesaid reasonably possible changes in interest rates for the period of up to one year as of the reporting date, with all other variables held constant.

Total interest income (ind+ufn+fix) RSD '000

	Total	EUR	USD	CHF	RSD	MISC
FWD 6M	(26,385)	(18,942)	(8,077)	(199)	919	(86)
FWD 3M	(17,337)	(12,063)	(5,588)	(119)	492	(60)
Projection GBSMT 3M	(901)	399	(779)	5	(786)	260
Parallel movement + 200 bps	(91,330)	(124,121)	(23,698)	(2,050)	59,053	(515)
Projection GBSMT 6M	(1,921)	(511)	(736)	5	(941)	262

** 1% = 100 baznih poena (bp)*

For measurement of the overall effect of the interest rate risk on the Bank's capital, taking into account only interest rate sensitive asset and liability items, the Bank measures the risk to equity ratio as the determined economic value of the Bank relative to the Bank's capital calculated in accordance with NBS Decision on Capital Adequacy of Banks. Under the stated assumptions, the risk to equity ratio shows the level of exposure of the Bank's capital to the interest rate risk.

As of December 31, 2016, the Bank's risk to equity ratio, as an indicator of a change in the economic value for items sensitive to interest rates relative to the Bank's capital as at December 31, 2016, calculated pursuant to the Decision on Capital Adequacy of Banks equaled 1.9% (2015: 6.3%), which was well below the internally set limit of 15% of the Bank's capital.

The models and assumptions used for calculation of sensitivity of the Bank's income statement to possible changes in interest rates, as well as for calculation of the risk to equity ratio for 2016 were altered in comparison to the assumptions applied to the sensitivity calculation for 2015 in part relating to the treatment of the liability items without contractually defined maturities (current accounts overdrafts and demand deposits), which alterations were made in accordance with the annual back-testing of these items for deciding on their adequate treatment for the purposes of liquidity risk measurement.

The table below shows the total amount of financial assets and liabilities at their carrying values, categorized by the earlier of the date of pricing (re-pricing date) and maturity date as at December 31, 2016:

Financial assets RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank (Note 14)	732,271	609,697	2,287,595	1,418,527	5,157	7,236,869	12,290,116
Financial assets at fair value through profit and loss, held for trading (Note 15)	38,658		164,034	991,101		14,697	1,208,490
Financial assets available for sale (Note 16)	1,774,681	1,731,743	3,654,065	8,804,825	816,565		16,781,879
Loans and receivables due from banks and other financial institutions (Note 17)	3,462,949	1,049,257	88,428			24,457	4,625,091
Loans and receivables due from customers (Note 18)	36,921,675	4,777,728	5,075,806	11,892,522	1,318,747	441,624	60,428,102
Other assets (Note 22)						402,992	402,992
Total	**42,930,234**	**8,168,425**	**11,269,928**	**23,106,975**	**2,140,469**	**8,120,639**	**95,736,670**

Financial liabilities RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets at fair value through profit and loss, held for trading (Note 15)						16,716	16,716
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 23)	2,940,448	308,681	246,658			18,421	3,514,208
Deposits and other liabilities due to customers (Note 24)	12,675,779	6,171,556	16,066,475	31,547,956	96,203	973,912	67,531,881
Subordinated liabilities (Note 25)				4,322,188			4,322,188
Other liabilities (Note 27)						621,853	621,853
Total	15,616,227	6,480,237	16,313,133	35,870,144	96,203	1,630,902	76,006,846
Difference	**27,314,007**	**1,688,188**	**(5,043,205)**	**(12,763,169)**	**2,044,266**	**6,489,737**	**19,729,824**

The table below shows the total amount of financial assets and liabilities at their carrying values, categorized by the earlier of the date of pricing (re-pricing date) and maturity date as at December 31, 2015:

Financial assets RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank (Note 14)	622,448	612,961	1,413,192	2,231,887	30,112	9,814,683	14,725,283
Financial assets at fair value through profit and loss, held for trading (Note 15)						564	564
Financial assets available for sale (Note 16)	2,107,851	1,032,973	10,333,814	8,936,891			22,411,529
Loans and receivables due from banks and other financial institutions (Note 17)	676,882		105,249				782,131
Loans and receivables due from customers and pledged receivables due from customers (Notes 18 & 32)	41,178,876	4,452,334	2,634,107	10,802,397	1,565,359	770,783	61,403,856
Other assets (Note 22)						340,837	340,837
Total	**44,586,057**	**6,098,268**	**14,486,362**	**21,971,175**	**1,595,471**	**10,926,867**	**99,664,200**

Financial liabilities RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial assets at fair value through profit and loss, held for trading (Note 15)						66.169	66.169
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 23)	8.758.537		729.757	134.721		21.214	9.644.229
Deposits and other liabilities due to customers (Note 24)	6.958.754	5.064.577	16.874.063	7.674.088	28.215	16.018.863	52.618.560
Subordinated liabilities (Note 25)	15.709.622						15.709.622
Other liabilities (Note 27)						635.296	635.296
Total	**31.426.913**	**5.064.577**	**17.603.820**	**7.808.809**	**28.215**	**16.741.542**	**78.673.876**
Difference	**13.159.144**	**1.033.691**	**(3.117.458)**	**14.162.366**	**1.567.256**	**(5.814.675)**	**20.990.324**

3.1.4. Equity Price Risk

The Bank is exposed to the risk of changes in the prices of equity securities, since the Bank's investments are classified in the statement of the financial position (balance sheet) as available for sale. At the proposal of the Executive Board, the Bank's Board of Directors adopts appropriate market risk management policies. In turn, at the proposal the Risk Control Department (and BSM and Treasury Department) the Executive Board adopts the related supporting procedures and manuals for identification, measurement/assessment, mitigation and monitoring of market risks. These policies, procedures and manuals are based on the principles of the Bank and Addiko Group pertaining to the market risk management and control and in compliance with the minimum standards and criteria prescribed by NBS.

Management of the price risk in debt and equity securities the Bank is exposed to is the responsibility of the Executive Board of the Bank. ALCO proposes to the Executive Board actions aimed at efficient and successful management of other market risks. For monitoring and control of the price and other market risks arising out of the banking book and trading book, once a year, the Bank defines a set of limits, as follows: volume/position limit, stop-loss limit p.a. and VaR limit (1-day, 99%). The limits for the trading book and banking book are defined at least once a year in coordination with Addiko Group, at the request/proposal of the BSM & Treasury Department, containing the business strategy of the BSM & Treasury Department within each of the aforesaid books. The request also contains the evaluation, i.e. the comments by the Risk Control Department regarding the proposed positions and limits, starting from the capital level and other parameters and ratios. The request for operating limits in the banking book and trading book is approved by the Bank's Executive Board and forwarded to Addiko Group. According to the standard of the Parent Bank, the positions and limits are defined in the same way for the Market Risk Steering Book, which in the case of the Bank contains the following: interest rate risk portfolio and FX portfolio whose positions and limits are used for strategic operations.

Within the Market Risk Steering Book, in 2016, the Bank operated and had limits established for the Interest rate risk portfolio and FX portfolio.

In 2016, in accordance with the Group and local strategy, procedures and approved limits, the Bank did not have equity investments in other legal entities based on share trading at the Belgrade Stock Exchange (directly), but throughout 2016 it has investment fund units carried in the banking book.

In 2016 the Bank continued to apply elements of additional credit risk protection in financial derivative trading process with Addiko Group through mutual collateralization (between the Bank and Addiko Group) in accordance with the executed Master Agreement for Financial Derivatives Transactions and Collateral Addendum to the aforesaid Master Agreement for Financial Derivatives Transactions," which are aligned with the ISDA standards (International Swaps and Derivatives Association).

In that respect the Bank continued applying the same internal process established in 2014, including the accompanying enactments that regulate the process in more detail, which were also adopted in 2014.

3.1.5. Liquidity Risk

Liquidity risk is the possibility of adverse effects on financial result and capital of the due to the Bank's inability to fulfil its liabilities when these fall due as a result of:

- withdrawal of existing sources of financing and/or inability of securing new sources of financing (funding liquidity risk), or
- difficulties in converting assets into liquid funds due to market disturbances (market liquidity risk).

The Banks' liquidity management implies maintaining sufficient amounts of assets for settling due liabilities, ensuring regular and undisturbed operations with minimal costs. This implies the Bank's obligation to provide and maintain liquidity reserve in its regular operations for emergencies and unforeseen circumstances.

Accordingly, the Bank has defined the area of liquidity risk control and management by a set of bylaws and enactments (strategies, policies, procedures, etc.), which are aligned with the legislation and bylaws of the National Bank of Serbia governing liquidity management and with other Bank's policies and relevant bylaws, as well as with standards of Addiko Group, where the Bank is a member.

The objective of the liquidity risk strategy is to set out general parameters for prudent and ongoing management of the liquidity risk inherent in the Bank's business model.

This Strategy defines:

- adequate identifying, defining, analyzing, measuring, monitoring, reporting and limiting the Bank's overall appetite for liquidity risk, with the aim of ensuring sustainable development of the Bank's operations;
- ensuring that the liquidity risk structure is formed in accordance with available capital and liquidity, thus supporting its protection and value preservation for the Bank's shareholders;

- organizational framework for daily management and decision-making regarding liquidity risk;
- efficient liquidity management (including data quality) and forward looking approach that observes the defined early warning signals for the purpose of establishing liquidity adequacy on a long-term basis.

In conformity with the responsibilities and competences defined in the regulations and enactments of the National Bank of Serbia, the Bank's Board of Directors defines the Bank's strategy and goals in line with the criteria prescribed for risks and the result, while the Executive Board has overall competence for the Bank's operations and implementation of the strategy and policies for risk management and the strategy for capital management.

Other responsibilities in respect of liquidity risk are exercised by the following committees, in line with the legislation, regulations and enactments of the National Bank of Serbia:

- Audit Committee
- Assets and Liabilities Committee (ALCO).

The Risk Control Department takes care of overall analysis, measurement, assessment, control and reporting on liquidity risk (including funding spread risk) as well as creation and implementation of adequate limits system and early warning procedures in compliance with the ICAAP (internal capital adequacy assessment process) and ILAAP (internal liquidity adequacy assessment process) frameworks.

BSM & Treasury Department is in charge of liquidity management at the local level, hence within this organizational unit an employee is designated to perform, in line with Addiko Group standards, duties of the Bank's Liquidity Manager.

The basic instruments and indicators for monitoring and measuring short-term and long-term liquidity are the following:

- preparation and execution of cash flow plans in a defined timeframe (at least one month);
- daily movements of liquidity ratios prescribed by the National Bank of Serbia (and calculated and delivered by the Accounting and Reporting Department);
- movements of liquidity ratios (including stress scenario ratios) defined internally by the Risk Control Department and the Group;
- analysis of developments and projections of compliance of cash flows (GAP analysis) in certain time intervals;
- analysis, monitoring and limitation of negative net cash flows against available liquidity reserve under both normal conditions and a range of stress scenarios.

For a comprehensive liquidity risk assessment, several stress scenarios are in use. Stress sensitivity is used to calculate stress effects on the cash flows, as well as on the liquidity reserve. Stress analysis is performed for various timeframes and levels of unforeseen events.

The Risk Control Department monitors and reports monthly on maturity (mis)matches of balance sheet liabilities and receivables and off-balance sheet items through the maturity scale (GAP analysis) for predefined periods of time, taking into consideration the set of predefined model assumptions (criteria for classification of assets and liabilities without maturity). This report is based on the GAP analysis applied to maturity structure of assets and liabilities of the Bank. The underlying purpose of such measurement and the report is to recognize assets and liabilities, i.e. (net) cash flows (inflows/outflows) starting from their agreed maturity per the remaining period until maturity. Balance sheet items without contractually defined maturities ae included yet can also be treated separately and are grouped according to the documented assumptions. With regards to off-balance sheet items, the report includes derivatives with the effect on cash flows and undrawn framework loans, guarantees, and letters of credit under the stated assumptions.

Items without maturity that do not generate cash flows (fixed assets, intangible assets, other assets, equity investments, provisions, other liabilities, equity, etc.) are grouped in a separate column – non-relevant cash flows ("NR").

For the purpose of analyzing the effects of potential (negative) movements of the liquidity position, i.e. creating a number of liquidity stress scenarios, the Risk Control Department, in cooperation with the BSM & Treasury Department providing minimum information on availability and time lag of the liquidity potential and the responsible Finance Controlling Department, defines/updates on a weekly basis the projected cash flows for a period of up to a year and determines the liquidity flows sensitivity to the disturbances entailed by the scenarios. The stress scenario methodology is developed in cooperation with Addiko Group. For quantitative and qualitative measurement, monitoring, control and reporting on long-term liquidity, in the aggregate separately for major currencies, the Risk Control Department applies the methodologies defined internally and/or in coordination with Addiko Group and its standards.

In line with the Decision of the National Bank of Serbia on Risk Management by Banks, the Bank is obligated to maintain the prescribed liquidity levels. The ratio between the sum of the first-ranking liquid receivables and the second-ranking liquid receivables, on one hand, and the sum of the Bank's demand deposit liabilities or liabilities without agreed maturity and liabilities with maturity within one month from the day of liquidity ratio calculation, on the other hand, must be maintained by the Bank so that it equals:

a) at least 1.0 when calculated as an average of liquidity ratios for all working days in a month;
b) not below 0.9 for more than three consecutive working days;
c) at least 0.8 when calculated for one working day.

In accordance with the same Decision, since December 24, 2012 the Bank has also been monitoring the rigid (or cash) liquidity ratio, which represents first-ranking receivables relative to the sum of the Bank's demand deposit liabilities or liabilities without agreed maturity and liabilities with maturity within one month from the day of liquidity ratio calculation. The Bank shall maintain the level of the rigid (cash) liquidity ratio so that it equals:

a) at least 0.7 when calculated as an average of the liquidity ratio for all working days in a month,
b) not below 0.6 for more than three consecutive working days,
c) at least 0.5 when calculated for one working day.

A critically low level of liquidity of the Bank is the liquidity level whose ratio is lower than the above ratios. If the Bank establishes a critically low liquidity level, it is required to inform the National Bank of Serbia thereof no later than the following day.

In the course of 2016 and 2015 the Bank did not record any critically low liquidity levels. The Bank's liquidity ratios complied with the requirements of the National Bank of Serbia.

Liquidity ratio

	2016	2015
As of December 31	2.30	1.93
Average for December	1.97	1.63
Maximum for the year	2.74	2.82
Minimum for the year	1.31	1.25

Comparative rigid liquidity ratios for 2016 and 2015 are provided in the table below:

Rigid liquidity ratio

	2016	2015
As of December 31	1.95	1.61
Average for December	1.63	1.42
Maximum for the year	2.51	2.52
Minimum for the year	1.12	1.05

The following table provides an analysis of the Bank's non-derivative financial assets and financial liabilities grouped according to maturity date, by the net remaining maturity. Gross receivables due from banks and customers are decreased by the amount of allowance for impairment as per loan facilities underlying the receivables. Matured receivables are categorized in up to 1 month maturity bucket. Loan origination/processing fees collected in advance and advance disbursement of interest on savings deposits are categorized in up to 1 month maturity bucket.

RSD '000

As of December 31, 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying value
Assets - receivables	**19,986,502**	**4,157,181**	**11,875,076**	**28,991,215**	**30,726,696**	**95,736,670**
Cash and balances held with the central bank (Note 14)	12,290,116					12,290,116
Financial assets at fair value through profit and loss, held for trading and available for sale (Notes 15 and 16)	1,037,170	1,785,854	3,814,736	10,536,045	816,564	17,990,369
Loans and receivables due from banks and other financial institutions (Note 17)	3,428,024	1,055,812	126,307	14,948		4,625,091
Loans and receivables due from customers (Note 18)	2,828,200	1,315,515	7,934,033	18,440,222	29,910,132	60,428,102
Other assets (Note 22)	402,992					402,992
Liabilities	**42,003,735**	**5,242,817**	**12,870,577**	**15,762,737**	**126,980**	**76,006,846**
Financial assets at fair value through profit and loss, held for trading (Note 15)	16,624	92				16,716
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 23)	3,063,572	450,636				3,514,208
Deposits and other liabilities due to customers (Note 24)	38,408,602	4,782,101	12,819,597	11,426,058	95,523	67,531,881
Subordinated liabilities (Note 25)	657			4,321,531		4,322,188
Other liabilities (Note 27)	514,280	9,988	50,980	15,148	31,457	621,853
Maturity mismatch at year-end	**(22,017,233)**	**(1,085,636)**	**(995,501)**	**13,228,478**	**30,599,716**	
Cumulative gap in asset and liability maturity mismatch	**(22,017,233)**	**(23,102,869)**	**(24,098,370)**	**(10,869,892)**	**19,729,824**	

RSD '000

As of December 31, 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying value
Assets - receivables	**23,333,426**	**2,062,261**	**20,282,904**	**27,572,200**	**26,413,409**	**99,664,200**
Cash and balances held with the central bank (Note 14)	14,725,283					14,725,283
Financial assets at fair value through profit and loss, held for trading and available for sale (Notes 15 and 16)	1,382,478	1,212,638	10,773,026	9,043,951		22,412,093
Loans and receivables due from banks and other financial institutions (Note 17)	756,145		5,032	20,954		782,131
Loans and receivables due from customers and pledged receivables due from customers (Notes 18 and 32)	6,128,683	849,623	9,504,846	18,507,295	26,413,409	61,403,856
Other assets (Note 22)	340,837					340,837
Liabilities	**29,265,521**	**5,642,463**	**28,263,914**	**14,776,921**	**725,057**	**78,673,876**
Financial assets at fair value through profit and loss, held for trading (Note 15)	66,169					66,169
Deposits and other liabilities due to banks, other financial institutions and the central bank (Note 23)	2,056,306	25,673	729,757	6,203,994	628,499	9,644,229
Deposits and other liabilities due to customers (Note 24)	26,601,902	5,603,793	16,051,055	4,301,893	59,917	52,618,560
Subordinated liabilities (Note 25)	1,306		11,451,402	4,256,914		15,709,622
Other liabilities (Note 27)	539,838	12,997	31,700	14,120	36,641	635,296
Maturity mismatch at year-end	**(5,932,095)**	**(3,580,202)**	**(7,981,010)**	**12,795,279**	**25,688,352**	
Cumulative gap in asset and liability maturity mismatch	**(5,932,095)**	**(9,512,297)**	**(17,493,307)**	**(4,698,028)**	**20,990,324**	

For the purpose of liquidity risk monitoring, off-balance sheet items are modelled according to the following assumptions:

- Guarantees – 5% payment in the period of up to 1 month,
- Frame agreements – 5% payment up to 6 months,
- Irrevocable liabilities for undrawn credit lines – 100% payment up to 1 year.

These assumptions for off-balance sheet items, as well as overall assumptions for the purposes of liquidity risk monitoring and measuring, are defined in cooperation with the Group, taking into account assessments of expert units as well and the assumptions for liquidity risk ratio (LIK) measurement defined by NBS, bearing in mind that the Risk Control Department informs ALCO about all such assumptions and their changes.

In accordance with the aforesaid assumptions, the table below provides maturities of these items as of December 31, 2016:

RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying value
Guarantees 5%	261,750					261,750
Revocable frame agreements 5%	30,124	60,247	271,112			361,483
Irrevocable liabilities for undrawn credit lines 100%	110,533	221,067	994,800			1,326,400
Total	**402,407**	**281,314**	**1,265,912**			**1,949,633**

In accordance with the aforesaid assumptions, the table below provides maturities of these items as of December 31, 2015:

RSD '000

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying value
Guarantees 5%	199,995					199,995
Revocable frame agreements 5%	30,396	60,793	273,568			364,757
Irrevocable liabilities for undrawn credit lines 100%	114,883	229,767	1,033,950			1,378,600
Total	**345,274**	**290,560**	**1,307,518**			**1,943,352**

In addition to regulatory liquidity ratios (liquidity ratio – LIK and rigid liquidity ratio – rigid LIK), the Bank defines the following ratios that are monitored daily, for the purpose of internal liquidity monitoring:

- liquidity ratios (by analogy with LIK) per all significant currencies individually (EUR, USD, CHF and RSD) as well as other currencies in the aggregate, supplemented with swap and forward transactions maturing within a month from the day of applicable calculation (GAP limits per currency and currency ratio limits are established), and
- a set of liquidity ratios estimated as potentially significant for internal liquidity management (limits are established).

As in the case of internal limits for liquidity ratio and rigid liquidity ratio, the liquidity ratio limits per significant currencies individually (EUR, USD, CHF and RSD) are adopted by the Executive Board at the proposal of the Risk Control Department as GAP limits per currency that represent "hard" limits and currency ratio limits that represent "soft" limits and early warning signals.

The Risk Control Department monitors movements of internal ratios/liquidity ratios and reports on the value of those ratios to BSM & Treasury Department on a daily basis.

In addition, at least once a month at ALCO meetings, the Risk Control Department reports on the periodic trend of internal liquidity ratio movements.

Maturity structure of derivatives according to the contractually agreed maturities as of December 31, 2016:

RSD '000

	1-3 months	1-5 years	Total
Purchasing transactions	**29,025,839**		**29,025,839**
Swaps with related banks	27,458,381		27,458,381
Swaps with other banks	1,491,251		1,491,251
Swaps with other legal entities	76,207		76,207
Sales transactions	**28,963,577**		**28,963,577**
Swaps with related banks	27,405,864		27,405,864
Swaps with other banks	1,481,668		1,481,668
Swaps with other legal entities	76,045		76,045
Maturity mismatch at year-end	**62,262**		**62,262**

Maturity structure of derivatives according to the contractually agreed maturities as of December 31, 2015:

RSD '000

	1-3 months	1-5 years	Total
Purchasing transactions	**19,257,339**		**19,257,339**
Swaps with related banks	19,257,339		19,257,339
Swaps with other banks			
Swaps with other legal entities			
Sales transactions	**19,317,632**		**19,317,632**
Swaps with related banks	19,317,632		19,317,632
Swaps with other banks			
Swaps with other legal entities			
Maturity mismatch at year-end	**(60,293)**		**(60,293)**

3.1.6. Other Risks

- Compliance Risk

Compliance risk is the result of a failure to align the operations with the laws and by-laws, internal enactments, procedures for the prevention of money laundering and financing of terrorism and standard professional rules and codes, good business practices and the Bank's business ethic. Three major compliance risks are the following:

a) a risk of sanctions of the regulator – the risk resulting from business irregularities which may lead to the regulator imposing measures against the Bank under the conditions and as provided for under the legislation;
b) a risk of financial losses – the risk resulting from all risks the Bank is exposed to, particularly due to non-compliance with the legislation and internal enactments and inadequate application of strategies and policies, i.e. due to management of the Bank resulting in the financial loss for any reason; and
c) a reputation risk – the risk arising from non-compliance with the legislation and internal enactments disrupting the business reputation and trust of the clients.

- Operational Risk

Operational risk is the risk of occurrence of negative effects on the financial result and capital of the Bank due to failures in work of employees (unintentional and intentional), inappropriate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to occurrence of unpredicted external events.

The Bank applies two approaches to operational risk identification and evaluation: reactive approach to risk assessment based on occurrence and proactive approach through scenario analysis (SA) and risk assessment (RA) as qualitative assessment tools. The goal of managing operational risk in the Bank is to achieve a proactive approach (e.g. risk management) instead of the reactive approach (e.g. loss management).

The Bank measures, i.e. assesses the exposure to operational risk, considering the possibility, i.e. frequency of its occurrence, as well as its potential effect on the Bank, focusing on the events highly unlikely to occur, but capable of causing considerable material losses.

The Bank applies the following methods and tools to support operational risk management:

- Loss database for systematic collection of data on losses due to operational risk throughout the organization;
- Qualitative assessments (scenarios and risk assessments) to identify and assess the risks occurring within business processes;
- Regular reporting on operational risk.

All the Bank's employees are obligated to take active part in identifying and reporting on operational risk related losses.

Identification of operational risks shall be performed and assessed so as to allow defining appropriate actions for avoiding, mitigating, transferring or accepting the risks, including the priorities for implementing the safeguards.

The goal is to reduce losses as much as possible, in accordance with the allocated resources and budget. The Bank will propose actions to minimize operational risk if it deems that the benefit arising from the actions taken will not exceed the costs of their implementation, as well as that it will contribute to the Bank's efficiency.

The Bank identifies, assesses and monitors operational risk in all materially significant products, activities, processes and systems, including outsourcing, and before their introduction it estimates operational risk which can arise from their introduction.

The Bank applies the basic indicator approach (BIA) to calculate the capital requirement for operational risk. According to this approach, the capital requirement for operational risk equals the amount of a three-year average exposure ratio multiplied by the capital requirement rate of 15%.

The three-year average exposure ratio is the arithmetic mean of the ratios for the past three years. If in any of the three years the exposure ratio is negative or equal to zero, the amount is not included in calculation of the three-year average. Instead, the average is calculated as the ratio of the sum of positive values of the exposure ratio and the number of years when such values were generated.

The Bank monitors exposure to the operational risk through regular reports on operational risk related losses (contingent losses), which is submitted to the Risk Management Committee and the Executive Board of the Bank.

The Board of Directors of the Bank and the Audit Committee are notified by way of operational risk reports in line with the schedule of these meetings.

The National Bank of Serbia is notified of operational risk occurrences in accordance with statutory regulations or as required by the regulator. In addition, the Bank reports to the Group on a regular basis in line with their prescribed reporting standards.

3.2. Capital Management

The strategic goals of the Bank with respect to capital management are as follows:

- ensuring sufficient capital to meet the minimum regulatory capital requirements in compliance with the regulations of the National Bank of Serbia;
- ensuring sufficient capital to support the Bank's aptitude for risk assumption and satisfy internal capital needs;
- ensuring going concern concept, providing return on equity to the shareholders and benefits for other interested parties;
- ensuring strong capital base, as support for further sustainable development of the Bank's operations;
- capital allocation in line with the Bank's strategic goals, including optimization of return on internal and regulatory capital.

The Bank's capital management is compliant with the effective relevant legislation and regulations of the National Bank of Serbia governing banking operations. In addition, capital management also complies with the requirements of Addiko Group, where the Bank is a member.

The Bank's Board of Directors defines and approves the Strategy for Capital Management, which constitutes the Bank's basic document for capital management.

The Bank's Executive Board has formed a working body – the Risk Management Committee. The Risk Management Committee monitors, analyses and implements simulations and stress tests related to changes in the Bank's capital in the forthcoming period, such as changes in the regulatory capital, capital adequacy and internal capital (calculated based on the internal capital adequacy assessment process – ICAAP). The Risk Management Committee proposes to the Executive Board of the Bank measures for managing the Bank's capital.

For the purpose of maintaining adequate level and structure of available internal capital that may support the expected growth of loans and receivables, future sources of funding and their use, risks to which the Bank is exposed and may be exposed in the forthcoming period, as well as any changes in minimum capital requirement set forth by the Decision on Capital Adequacy of Banks, the Bank establishes a capital management plan. Taking into account the aforesaid elements, including guidelines under the Decision on Risk Management by Banks, the Bank performs capital planning quantification.

The Capital Management Plan comprises:

- strategic objectives and period for their achievement, taking into consideration the influence of the macroeconomic environment and phases of business cycle;
- manner of organizing available internal capital management process;
- process and procedures for planning the adequate level of available internal capital;
- manner of achieving and maintaining the adequate level of available internal capital; and
- contingency plan in the event of emergencies that may affect the amount of available internal capital.

Under the Decision on Capital Adequacy of Banks (Official Gazette of RS nos. 46/2011, 6/2013, 51/2014 and 85/2016) (the “Decision“), the Bank is required to maintain at all times its capital in RSD equivalent amount of EUR 10,000,000, using the official middle exchange rate of NBS. The Bank is required to maintain its capital adequacy ratio at a level that cannot be lower than 12%.

The Decision prescribes that the capital shall comprise the sum of the core capital and supplementary capital less deductible items.

To become part of the core or supplementary capital, capital elements have to meet the following criteria:

- be without specified maturity and without possibility of withdrawal;
- be unconditionally, entirely and immediately available for loss absorption in the course of the Bank’s normal business operations;
- that the Bank has the right not to pay dividends, to limit or postpone their payment;
- that in case of bankruptcy or liquidation the right of the owner of instruments included in the capital to a share in distribution of bankruptcy, i.e. liquidation estate is subordinate to the right of other Bank creditors and equity owners;
- that they have been reduced by all potential tax liabilities.

The Bank’s core capital is made up of the following elements, less deductible items:

- the Bank’s subscribed capital paid in based on commons stock – ordinary and priority shares, except for the priority cumulative shares, in the amount of nominal value of paid common and priority shares and related share premium – amount paid in excess of the nominal value of common and priority shares paid in;
- Reserves from profit – all types of reserves of the Bank formed from profits after taxes;
- profit from prior years not encumbered by any future liabilities, which the Assembly of the Bank has decided to distribute into the core capital;
- current year’s profit, if the National Bank of Serbia, based on submitted documents, has established that the following conditions have been met:
  - that the amount of profit has been confirmed by an external auditor certified for auditing financial statements of the Bank;
  - that the amount of profit has been reduced by the calculated income tax and liabilities for dividend and payment and other profit sharing liabilities;
  - that the Assembly has made the decision on distribution of profit to the core capital and that the amount of the current year’s profit included in the core capital does not exceed the amount defined by the decision.

The core capital deductibles are:

- prior years’ losses;
- current year’s loss;
- intangible assets;
- acquired own common and priority shares, except for priority cumulative shares, in the amount of their carrying value (nominal value increased by share premium);
- common and priority shares of the Bank, except for priority cumulative shares, taken by the Bank as pledge in the amount of receivables secured by pledge of shares, i.e. nominal value of shares taken as pledge increased by related share premium, whichever is lower;
- regulatory alignment with IFRS/IAS, comprised of:
  - unrealized loss on securities available for sale;
  - other net revalued reserve loss not related to deductibles from the core capital or elements included into the supplementary capital;
  - profit from the Bank’s liabilities measured at fair value and reduced due to change of the Bank’s credit rating;
  - amount of required reserve for estimated losses from balance sheet assets and off-balance sheet items.

The Bank’s supplementary capital is made up of the following elements, less deductible items:

- paid-in share capital based on priority cumulative shares of the Bank;
- part of revaluation reserve gains of the Bank;
- hybrid capital instruments;
- subordinated liabilities;

The supplementary capital deductibles are:

- acquired own priority cumulative shares in the amount of their carrying value;
- priority cumulative shares of the Bank taken by the Bank as pledge in the amount of receivables secured by pledge of shares, i.e. nominal value of shares taken as pledge increased by related share premium, whichever is lower;
- receivables from balance sheet assets and off-balance sheet items of the Bank secured by a hybrid instrument or subordinated liability of the Bank up to the amount in which these instruments/liabilities are included into the supplementary capita.

Deductibles from capital are as follows:

- direct or indirect investments into banks and other entities in the financial sector in the amount exceeding 10% of capital of those banks or entities;
- investments into hybrid instruments and subordinated liabilities of other banks and entities in the financial sector where the Bank has direct or indirect investments in the amount exceeding 10% of capital of those entities;
- total amount of direct or indirect investments into banks and other entities in the financial sector in the amount of up to 10% of their capital, as well as investments into their hybrid and subordinated liabilities, exceeding 10% of the sum of the core and supplementary capital of the Bank;
- the amount in excess of qualified equity investments in non-financial sector entities;;
- amount of exposure for free delivery if the counterparty failed to fulfil its obligation within four business days;
- receivables and contingent liabilities to entities/persons related to the Bank or Bank employees, contracted under conditions more favorable than contracts with persons not related to the Bank, i.e. not employed with the Bank.

Deductibles are subtracted from the core and supplementary capital as follows:

- 50% of their total amount is subtracted from the core capital;
- 50% of their total amount is subtracted from the supplementary capital.

Exceptionally, if 50% of the total amount of deductibles exceeds the supplementary capital, the excess amount is subtracted from the core capital.

The Bank is obligated to comply with the following limits:

- The Bank's core capital must be at least 50% of the total capital;
- Subordinated liabilities included in the Bank's supplementary capital cannot exceed 50% of the core capital;
- The total amount of hybrid instruments, excluding hybrid instruments that can be converted into the Bank's shares due to deterioration of the Bank's financial standing (except for priority cumulative shares), cannot exceed 35% of the Bank's core capital;
- Total amount of all hybrid instruments cannot exceed 50% of the Bank's core capital.

The table below provides the amount of the Bank's capital calculated for 2016 and 2015:

Calculation of the Bank's capital RSD '000

	2016	2015
Core capital - Tier 1	**11,492,109**	**7,794,381**
Share capital	17,517,484	17,517,484
Share premium and other reserves from profit	4,306,318	10,651,587
Prior years' retained earnings		1,586,977
Current year's loss	(1,278,508)	(7,932,246)
Less: Intangible assets	(545,150)	(443,261)
Less: Negative effects of fair value adjustments of available-for-sale financial assets	(46,314)	(9,605)
Less: Reserves from profit for estimated losses	(8,461,721)	(13,576,555)
Supplementary capital - Tier 2	**2,807,309**	**3,742,114**
Subordinated liabilities	2,592,918	3,405,531
Portion of the Bank's revaluation reserves	214,391	336,583
Capital	**14,299,418**	**11,536,495**

In 2016, the required reserve was calculated pursuant to the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items (Official Gazette of RS nos. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016 and 91/2016).

The Bank is obligated to calculate the required reserve for estimated losses that can arise on the balance sheet assets and off-balance sheet items according to the methodology of the National Bank of Serbia on a quarterly basis.

If this amount exceeds the amount of allowance for impairment charged to the Bank's income statement, the Bank needs to establish the required reserve for estimated losses on balance sheet assets and off-balance sheet items.

Overview of the reserves calculated according to the Bank's internal methodology and reserves according to the requirements of the National Bank of Serbia are presented in Note 28 (d).

In addition to fulfillment of the requirement that its capital must not be below the RSD equivalent of EUR 10,000,000, the Bank must maintain its capital at all times at the level required for the coverage of all risks it is exposed to or may be exposed to in its operations, no less than the sum of the following capital requirements:

- capital requirement for credit risk and counterparty risk for all business activities and capital requirement for settlement/delivery risk for the trading book activities (hereinafter: credit risk capital requirement);
- capital requirement for price risk for the trading book activities;
- capital requirement for FX risk and commodity risk for all Bank's business activities;
- capital requirement for operational risk for all Bank's business activities.

Capital requirements are calculated in accordance with the Decision on Capital Adequacy of Banks (Official Gazette of RS nos. 46/2011, 6/2013, 51/2014 and 85/2016).

A bank whose capital adequacy ratio is higher than or would be higher than 12% due to distribution of profit by less than 2.5 percentage points, may distribute profit only through allocation to the elements of its core capital.

The table below shows the Bank's capital adequacy ratio calculation at year-end 2016 and 2015 in compliance with the requirements of the National Bank of Serbia.

Calculation of the Bank's capital adequacy ratio RSD '000

	2016	2015
Capital	**14,299,418**	**11,536,495**
Credit risk weighted assets multiplied by the capital adequacy ratio reciprocal value	54,702,457	43,912,827
Exposure to foreign exchange risk multiplied by the capital adequacy ratio reciprocal value		3,317,082
Exposure to price risk multiplied by the capital adequacy ratio reciprocal value	683,200	472,092
Exposure to operational risk	6,702,550	7,469,025
Total risk assets	**62,088,207**	**55,171,026**
Capital adequacy ratio	**23.03%**	**20.91%**

3.3 Fair Value Assessment

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of financial instruments traded in an active market (such as traded securities and securities available for sale) is based on quoted market prices as of the reporting date. Quoted market prices used for the Bank's financial assets represent the current bidding prices. Fair value of financial instruments not traded in the active market (such as derivatives which are traded OTC) is determined by various valuation techniques The Bank applies different methods and determines assumptions based on the market conditions existing as of the reporting date. Quoted market prices or quoted prices for similar instruments are used for long-term liabilities. Other techniques, such as estimated discounted cash flows, are used for determining the fair value of the remaining financial instruments.

Fair value of interest rate swaps is recalculated as the present value of estimated future cash flows. Fair value of forward FX contracts is determined by applying quoted market exchange rates as of the reporting date. It is assumed that the nominal values of receivables and payables, less any impairment losses, approximate their fair values. Fair values of financial liabilities for disclosure purposes are assessed by discounting future cash flows at the current market interest rate available to the Bank for similar financial instruments.

IFRS 13 "Fair Value Measurement" establishes the fair value hierarchy which categorizes the inputs used in valuation techniques into three levels that are applied for fair value measurement:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Information based on market inputs other than quoted prices included in Level 1, observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: Information on an asset or a liability that are not based on observable market data (unobservable inputs).

Fair value of financial instruments traded in active markets is based on quoted market prices as of the reporting date. A market is deemed active if quoted prices are immediately and regularly available at the stock exchange, with dealers, brokers, industrial groups, unit for pricing or the regulatory agency, and if the said prices reflect the current market transactions regularly performed at arm's length. Quoted market prices used for the Bank's financial assets represent current bidding prices. The said instruments are recorded within Level 1 of the fair value hierarchy. The instruments within Level 1 primarily include BELEX investments into equity instruments classified as financial assets held for trading or financial assets available for sale. Fair value of financial instruments not traded in an active market (such as derivatives traded OTC, with publicly available data) is determined by application of various valuation techniques. Those valuation techniques use observable data from the market as much as possible, if available, and rely on special estimates of the Bank as little as possible. If all materially significant inputs necessary for determining fair value of an instrument are present, the instrument measured is classified within Level 2 of the fair value hierarchy.

If one or more materially significant inputs are not based on available market data, the instrument is classified within Level 3 of the fair value hierarchy. Special valuation techniques used for financial instruments are:

- Quoted market prices or prices of dealers for similar instruments;
- Fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on the available yield trend;
- Fair value of forward FX contracts is determined by application of forward exchange rates as of the reporting date, with discounting the acquired value to the present value;
- Other techniques, such as analysis of discounted cash flow, are used to determine fair values of the remaining financial instruments.

Fair Value of Financial Assets and Liabilities Carried at Fair Value

In 2016 and 2015, the Bank did not transfer financial assets held for trading and financial assets available for sale from Level 1 to Level 2.

RSD '000

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading		**1,208,490**		**1,208,490**
(Treasury bills of the Republic of Serbia)		1,169,832		1,169,832
(Positive value of derivatives)		38,658		38,658
Financial assets available for sale		**16,781,879**		**16,781,879**
(Investment units)		614,864		614,864
(Treasury bills of the Republic of Serbia)		15,444,958		15,444,958
(Bank bonds)		722,057		722,057
Total financial assets		**17,990,369**		**17,990,369**
Financial liabilities				
Negative value of derivatives		16,716		16,716
Total financial liabilities		**16,716**		**16,716**

RSD '000

December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading		564		564
(Positive value of derivatives)				
Financial assets available for sale		22,411,529		22,411,529
(Treasury bills of the Republic of Serbia)				
Total financial assets		**22,412,093**		**22,412,093**
Financial liabilities				
Negative value of derivatives		66,169		66,169
Total financial liabilities		**66,169**		**66,169**

Fair value of financial derivatives in established by discounting cash flows at interest rates taken from Reuters or Bloomberg.

Fair value of Treasury bills is calculated on the basis of their par value discounting by the interest rate published on the website of the Treasury Department of the Ministry of Finance.

Fair Value of Financial Assets and Liabilities Carried at Other than Fair Value

The Bank assessed the fair values of the financial instruments carried at other than fair value, as follows:

- By discounting the expected future cash inflows from financial assets at the expected rate of return, consisting of the "risk-free" interest rate and premiums for credit risk per corresponding maturities of the financial assets; and
- By discounting the expected future cash outflows arising from financial liabilities at the "risk-free" interest rate plus the zero credit spread applicable to the corresponding financial liability according to its maturity.

The Bank's management believes that, due to the nature of the Bank's financial assets, as well as the type of its clients, the carrying amounts of loans and receivables due from banks and other financial institutions do not depart from their fair values.

Fair values of the financial instruments carried at other than fair value as of December 31, 2016 are presented in the table below:

RSD '000

	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and balances held with the central bank	12,290,116	12,290,116			12,290,116
Loans and receivables due from banks and other financial institutions	4,625,091	4,625,082			4,625,082
Loans and receivables due from customers	60,428,102	61,689,688			61,689,688
Total	**77,343,309**	**78,604,886**			**78,604,886**
Financial liabilities					
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,514,208	3,514,208			3,514,208
Deposits and other liabilities due to customers	67,531,881	67,516,592			67,516,592
Subordinated liabilities	4,322,188	4,321,531			4,321,531
Total	**75,368,277**	**75,352,331**			**75,352,331**

Fair values of the financial instruments carried at other than fair value as of December 31, 2015 are presented in the table below:

RSD '000

	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and balances held with the central bank	14,725,283	14,725,283			14,725,283
Loans and receivables due from banks and other financial institutions	782,131	782,131			782,131
Loans and receivables due from customers	61,403,856	60,997,205			60,997,205
Total	**76,911,270**	**76,504,619**			**76,504,619**
Financial liabilities					
Deposits and other liabilities due to banks, other financial institutions and the central bank	9,644,229	9,265,000			9,265,000
Deposits and other liabilities due to customers	52,618,560	53,348,533			53,348,533
Subordinated liabilities	15,709,622	15,708,316			15,708,316
Total	**77,972,411**	**78,321,849**			**78,321,849**

4. Interest income and expenses

RSD ’000

	2016	2015
a) Interest income from		
Required reserve held with the central bank	72,860	133,199
Operations with the central bank	1,417	3,426
Loans due from banks and financial institutions	29,183	16,005
Loans due from corporate customers	1,138,964	1,455,246
Loans due from retail customers	1,616,733	1,707,856
Impaired non-performing loans - unwinding	263,310	691,812
Corporate loan origination fees	104,550	104,489
Retail loan origination fees	49,716	39,152
Securities	770,710	956,823
Total interest income	**4,047,443**	**5,108,008**
b) Interest expenses from		
Liabilities due to banks and financial institutions	40,602	36,942
Liabilities to corporate customers	184,074	388,173
Liabilities to retail customers	409,383	674,073
Borrowings	433,713	619,904
Total interest expenses	**1,067,772**	**1,719,092**
Net interest income	**2,979,671**	**3,388,916**

5. Fee and commission income and expenses

RSD ’000

	2016	2015
a) Fee and commission income		
Fees per guarantees and other sureties issued	83,515	83,141
Fees for domestic payment transfer activities	296,611	312,923
Fees for foreign payment transfer activities	134,115	123,037
Fees arising from card operations	226,017	173,149
Fees for custody operations/brokerage fees	380	364
Other fees from banks and financial institutions	2,269	3,646
Other fees from corporate customers	22,233	33,788
Other fees from retail customers	169,439	174,477
Total fee and commission income	**934,579**	**904,525**
b) Fee and commission expenses		
Fees per transactions with banks	2,413	3,159
Fees per transactions with corporate customers	2,345	2,944
Fees for domestic payment transfer activities	34,443	40,474
Fees for foreign payment transfer activities	52,958	49,136
Fees arising from card operations	21,639	20,302
Fees per guarantees and other sureties		11,927
Fees for custody operations/brokerage fees	2,030	1,585
Total fee and commission expenses	115,828	129,527
Net fee and commission income	**818,751**	**774,998**

6. Net gains on financial assets

RSD '000

	2016	2015
Losses on the value adjustment of derivatives held for trading	(16,716)	(67,906)
Gains on the value adjustment of derivatives held for trading	585,914	969,394
Fair value adjustments of securities held for trading	19,668	
Gains on the sales of securities held for sale	1,274	
Net gains on financial assets held for trading	**590,140**	**901,488**
Losses on financial assets available for sale	(61,212)	
Gains on financial assets available for sale	117,879	4,382
Net gains on financial assets available for sale	**56,667**	**4,382**
TOTAL	**169,439**	**174,477**

7. Net foreign exchange gains and positive currency clause effects

RSD '000

	2016	2015
Foreign exchange losses per foreign currency receivables and liabilities	(45,904,368)	(50,768,362)
Negative currency clause effects per receivables	(726,083)	(3,572,723)
Negative currency clause effects per liabilities	(7,452)	(38,219)
Total foreign exchange losses	**(46,637,903)**	**(54,379,304)**
Foreign exchange gains per foreign currency receivables and liabilities	45,260,601	48,711,885
Positive currency clause effects per receivables	1,578,164	5,930,920
Positive currency clause effects per liabilities	1,234	23,760
Total foreign exchange gains	**46,839,999**	**54,666,565**
Net effect	**202,096**	**287,261**

8. Other operating income

RSD '000

	2016	2015
Rental income	3,404	5,565
Collected damages	425	657
Gains on the sales of non-current assets held for sale	2,927	27,043
Gains on the sales of other equipment	14,950	439
Income from the employees	9,124	10,893
Reversal of provisions for liabilities	3,572	
Income per the centralized management function	110,055	
Other income	24,274	16,664
Total other operating income	**168,731**	**61,261**

9. Net losses on impairment of financial assets and credit risk-weighted off-balance sheet assets

Losses on impairment of financial assets and credit risk-weighted off-balance sheet assets:

RSD '000

	2016	2015
Losses on impairment of financial assets		
Loans and receivables due from banks and other financial institutions (Note 18)	(3,536)	(4,457)
Loans and receivables due from customers (Note 18)	(4,671,604)	(9,091,238)
Other assets (Note 18)	(41,082)	(3,844)
Total on financial assets	**(4,716,222)**	**(9,099,539)**
Provisions for losses per off-balance sheet assets (Note 26)	(56,417)	(53,589)
Total losses	**(4,772,639)**	**(9,153,128)**
Gains on reversal of impairment of financial assets and credit risk-weighted off-balance sheet assets		
Loans and receivables due from customers (Note 18)	2,832,369	1,291,816
Collected during the year	272,039	244,225
Total on financial assets	3,104,408	1,536,041
Gains on reversal of provisions for losses per off-balance sheet assets (Note 26)	106,487	
Total gains	**3,210,895**	**1,536,041**
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet assets	**(1,561,744)**	**(7,617,087)**

10. Staff costs

RSD '000

	2016	2015
Net salaries	998,231	1,091,841
Payroll taxes and contributions	364,672	407,934
Other staff costs	162,244	37,418
Cost of termination benefits	14,032	50,025
(Reversal of)/provisions for retirement benefit	(11,668)	2,361
Total staff costs	**1,527,511**	**1,589,579**

11. Amortization and depreciation charge

RSD '000

	2016	2015
Amortization of intangible assets	81,556	148,666
Depreciation of investment property		4,823
Depreciation of leasehold improvements	40,369	46,973
Depreciation of building properties	10,129	10,200
Depreciation of other equipment	98,973	114,296
Total amortization and depreciation charge	**231,027**	**324,958**

12. Other expenses

RSD '000

	2016	2015
Donations and financial aid	4,409	11,984
Rental costs	396,562	438,105
Other costs related to rented premises - leasehold improvements	97,820	96,224
Insurance premiums	302,221	322,634
Entertainment	14,241	11,344
Marketing and advertising	190,859	122,748
IS usage	555,851	653,584
Cost of fuel for vehicles and vehicle maintenance	16,681	15,860
Telecommunications and postage services	91,572	88,481
Membership fees, foreign and domestic	2,532	2,926
Indirect taxes and contributions	257,191	283,438
Auditing services	17,277	14,595
Consultant services	126,657	98,006
Municipal utilities	62,162	69,486
Office supplies	23,602	26,359
Other expenses to and on behalf of employees	52,162	44,399
Court and administrative fees	34,161	49,320
Costs of card operations	113,273	90,884
Security services	94,701	101,848
Other administrative costs	100,673	104,970
Material expenses	2,484	19,309
Losses on write-off and sales of property, equipment and intangible assets	53,594	42,548
Cost of provisions for liabilities	98,523	480,367
Losses on value adjustment of property		11,358
Expenses for impairment of intangible assets		454,563
Other expenses	63,791	31,208
Total other expenses	**2,772,999**	**3,686,548**

13. Income taxes

(a) Components of income tax

Total income tax expense comprises RSD '000

	2016	2015
Current income tax expense	(1,283)	
Gains on decrease in deferred tax assets and creation of deferred tax liabilities		(132,380)
Total	**(1,283)**	**(132,380)**
Current tax assets	79,525	170,730
Less: Calculated current income tax expense	(1,283)	
Current tax assets at year-end	**78,242**	**170,730**

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

RSD '000

	2016	2015
Loss before tax	**(1,277,225)**	**(7,799,866)**
Income tax at the rate of 15%	**(191,584)**	**(1,169,980)**
Tax effects of income and expenses not recognized for the tax purposes		
Tax on capital gains	(1,283)	
Tax effects of unrecognized tax losses	191,584	1,169,980
Effects of changes in deferred tax assets		(132,380)
Total income taxes included in the income statement	**(1,283)**	**(132,380)**
Effective interest rate	**0.10%**	**1.70%**

(c) Basis for recording deferred tax assets and liabilities and their effect on the Bank's income statement for 2016 and 2015:

RSD '000

	Deferred tax assets 2016	Deferred tax liabilities 2016	Income statement 2016	Deferred tax assets 2015	Deferred tax liabilities 2015	Income statement 2015
On the lower / (higher) carrying than the tax present value of fixed assets				79,161		
Unrealized (gains)/losses on available-for-sale securities		(29,661)			(57,702)	
Provisions for retirement benefits				13,751		
Losses on reversal of deferred tax assets				(132,380)		(132,380)
Deferred tax assets from tax losses				39,468		
		(29,661)			**(57,702)**	**(132,380)**

At the end of 2016 the Bank had no deferred tax assets.

At the end of 2015, the Bank's management decided to reverse deferred tax assets formed in prior years based on the income statement result in the amount of RSD 132,380 thousand.

In preparation of the financial statements for the year ended December 31, 2014, the Bank's view was that the negative result in the past several years was the consequence of the EU restrictions on development of new deals and transactions. For that reason, recognition of deferred assets was made based on expected future results supported by the business plans. It was planned that the Bank would start generating profit, and consequently the tax base, once the privatization process was completed.

Based on the analysis of the 2015 performance, it was clear that recovery would take a long time and that the EU restrictions were obviously not the only problem. Owing to its considerable downsizing, the Bank has had difficulties in respect of its cost-to-income ratio. The restructuring process was commenced ant the Bank's management was making efforts to cut down on the costs. In addition, the Group' management defined a new strategy focusing on new business areas and new business approach, different from the past years' practice. Based on the foregoing facts, it was concluded that the criteria for recognition of deferred tax assets in the 2015 financial statements had not been met.

At year-end 2016 the Bank did not record contingent deferred tax assets per unused tax losses of RSD 2,713,154 thousand for prior years' tax losses.

Losses stated in the tax statement, other than capital gains and losses, are available for carryforward against taxable profit of the future accounting period for duration of no longer than five years.

In the following year, the Bank will reassess its unrecognized deferred tax assets and recognize them to the extent it is probable that future taxable income will be available to allow recover of deferred tax assets as prescribed by IAS 12.37.

14. Cash and balances held with the central bank

RSD '000

	2016	2015
In RSD		
Gyro account	**5,049,720**	**4,907,432**
Cash on hand	580,619	1,882,853
Interest receivables from NBS	4,500	3,181
Total in RSD	**5,634,839**	**6,793,466**
In foreign currencies		
Required foreign currency reserve	6,168,988	5,683,039
Cash on hand	486,224	2,248,408
Foreign currency accounts for trading in securities	65	370
Total in foreign currencies	**6,655,277**	**7,931,817**
Balance at December 31	**12,290,116**	**14,725,283**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances on the Bank's account, cash on hand and foreign currency cash balances held on accounts with domestic and foreign banks.

The following items are included in cash and cash equivalents for the purposes of the cash flow statement:

RSD '000

	2016	2015
Gyro account	5,049,720	4,907,432
Cash on hand	1,066,843	4,131,261
Foreign currency accounts held with foreign banks	296,535	122,031
Foreign currency accounts for trading in securities	65	370
Balance at December 31	**6,413,163**	**9,161,094**

In 2016 the Bank calculated the required RSD and foreign currency reserves in accordance with the Decision on Obligatory Reserves Held with the National Bank of Serbia (Official Gazette of RS nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015 and 102/2015).

The Bank is under obligation to maintain the average daily balance of the allocated required reserve over the reporting period in the amount of the calculated required reserve, where it is allowed that during the month daily balances of both RSD and foreign currency required reserves may be above or below the calculated required reserves. All days within the accounting period are taken into account in calculation of the average daily balance of the required reserve.

The required reserve is calculated at the rate of 5% applicable to the amount of RSD deposits and liabilities with agreed maturities of up to two years, while the rate of 0% is applied to the RSD liabilities with agreed maturities of over two years.

The foreign currency required reserve calculated based on the foreign currency liabilities maturing within two years was partially allocated in RSD (38%) as well as the foreign currency required reserve based on the foreign currency liabilities with maturities of over two years (30%). Allocations in RSD were made throughout 2016 in the same aforesaid percentage shares.

As of December 31, 2016 the calculated RSD required reserve, the amount of which had to be maintained on the gyro account from December 18, 2016 to January 17, 2017 totaled RSD 4,468,024 thousand and was in compliance with the foregoing Decision of the National Bank of Serbia.

The National Bank of Serbia pays interest to banks on the amount of the actual average daily balance of the allocated RSD required reserve in the reporting period up to the amount of the calculated RSD required reserve.

The interest rate payable by the National Bank of Serbia during 2016 was 1.75% p.a.

During 2015, the National Bank of Serbia decreased rates applicable to foreign currency liabilities per maturity by 1 percentage point in January and in February 2016.

In January 2016 the required foreign currency reserve was calculated at the following rates:

- 21% - applicable to the amount of foreign currency liabilities with agreed maturities of up to two years;
- 14% - applicable to the amount of foreign currency liabilities with agreed maturities of over two years.

As from February 2016 up to the year-end the required foreign currency reserve was calculated at the following rates:

- 20% - applicable to the amount of foreign currency liabilities with agreed maturities of up to two years;
- 13% - applicable to the amount of foreign currency liabilities with agreed maturities of over two years.

As from January 2016 the rate applicable to the RSD liabilities with the currency clause index in the calculation of RSD required reserve was increased to and remained throughout the year at:

- 100% – applicable to the amount of to the RSD liabilities with the currency clause index, irrespective of maturity.

A portion of the calculated foreign currency reserve allocated in foreign currency remained unaltered throughout 2016, in the following percentage shares:

- 62% of the amount calculated on foreign currency liabilities and currency clause-indexed liabilities with agreed maturities of up to two years; and
- 70% the amount calculated on foreign currency liabilities and currency clause-indexed liabilities with agreed maturities of over two years.

As of December 31, 2016 the calculated foreign currency required reserve, the amount of which had to be maintained from December 18, 2016 to January 17, 2017 totaled EUR 50,632 thousand.

The National Bank of Serbia does not pay any interest on the amount of the actual average balance of the allocated foreign currency reserve.

15. Financial assets and financial liabilities held for trading

RSD '000

	2016	2015
Receivables arising from changes in the fair value of derivatives	38,658	564
Liabilities arising from changes in the fair value of derivatives	16,716	66,169
Net fair value of derivatives	**21,942**	**(65,605)**
Receivables arising from changes in the fair value of derivatives	38,658	564
Investments in the Republic of Serbia FX Treasury bills	1,009,162	
Investments in the Republic of Serbia RSD Treasury bills	160,670	
Total securities held for trading	**1,169,832**	
Total financial assets held for trading	**1,208,490**	**564**

All derivative financial instruments are carried at fair value within the Bank's off-balance sheet items with positive changes in the fair value of derivatives recognized as assets and negative changes in the fair value of derivatives as liabilities. Fair value at the beginning of a transaction equals the price of the transaction.

The table below shows contracts for foreign currency swaps with the settlement dates after the reporting date in gross amounts as at December 31, 2016:

RSD '000

	Contracts with positive value	Positive fair value	Contracts with negative value	Negative fair value
FX swap - Receivable on settlement date EUR / Liability on settlement date CHF	EUR 104,400,000/ CHF 111,895,920	36,922		
FX swap - Receivable on settlement date EUR / Liability on settlement date RSD			EUR 1,000,000/ RSD 124,245,500	64
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR			RSD 13,596,660,000/ EUR 110,000,000	15,999
FX swap - Receivable on settlement date CAD / Liability on settlement date EUR			CAD 494,742/EUR 350,000	227
FX swap - Receivable on settlement date GBP / Liability on settlement date EUR	GBP 978,348/ EUR 1,140,000			
FX swap - Receivable on settlement date EUR / Liability on settlement date USD	EUR 1,850,000/ USD 1,952,305			
FX swap - Receivable on settlement date CHF / Liability on settlement date EUR	CHF 3,651,260/ EUR 3,400,000	778		
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 496,238,000/ EUR 4,000,000	296		
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 248,498,400/ EUR 2,000,000	66		
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR	RSD 124,247,900/ EUR 1,000,000	114		
Forward transaction			RSD 622,266,500/ EUR 5,000,000	426
Forward transaction	RSD 23,113,970/ USD 200,700	442		
Forward transaction	RSD 53,093,094/ USD 448,507	40		
Fair value at year-end		**38,658**		**16,716**

The table below shows contracts for foreign currency swaps with the settlement dates after the reporting date in gross amounts as at December 31, 2015:

RSD '000

	Contracts with positive value	Positive fair value	Contracts with negative value	Negative fair value
FX swap - Receivable on settlement date EUR / Liability on settlement date NOK	EUR 300,000/ NOK 2,857,800	333		
FX swap - Receivable on settlement date EUR / Liability on settlement date SEK	EUR 350,000/ SEK 3,202,150	231		
FX swap - Receivable on settlement date RSD / Liability on settlement date CHF			RSD 8,560,870,200/ CHF 76,500,000	49,951
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR			RSD 6,012,631,350/ EUR 49,500,000	9,539
FX swap - Receivable on settlement date RSD / Liability on settlement date EUR			RSD 2,549,589,000/ EUR 21,000,000	5,271
FX swap - Receivable on settlement date USD / Liability on settlement date EUR			USD 10,346,164/ EUR 9,470,000	899
FX swap - Receivable on settlement date USD / Liability on settlement date EUR			USD 5,001,161/ EUR 4,575,000	113
FX swap - Receivable on settlement date EUR / Liability on settlement date CHF			EUR 2,560,000/ CHF 2,769,920	331
FX swap - Receivable on settlement date AUD / Liability on settlement date EUR			EUR 300,000/ AUD 449,850	65
Fair value at year-end		**564**		**66.169**

In 2016 the Bank earned interest income on investments in securities held for trading in the amount of RSD 34,873 thousand. In 2015 there were no investments made in securities held for trading.

Securities within the Bank's portfolio are remeasured every ten days. A number of days remaining to maturity is considered for each security and the pricing is performed by interpolation of the interest rates applied according to the number of days to maturity.

Interest rate input data for remeasurement of securities ae obtained from Bloomberg and Reuters systems. The most recent interest rate on securities in the auctions held by the Ministry of Finance are obtained from Bloomberg while interest rate for RSD securities with maturities below 3 months and EUR securities with maturities below 12 months are obtained from the Reuters system (Reuters interbank interest rates) as follows:

- Overnight and 2-week rates are applied to RSD securities, and
- Overnight rate increased by annual CDS of the Republic of Serbia expressed in USD (YCCD2104) is applied to EUR securities.

The prices made are imported onto the Bank's information system where each price is multiplied by the par value of the security and the product is divided by 100. The value arrived at in this manner represents the security's current value.

The fair value is obtained by deducting the sum of the cost and deferred discount value from the securities current value.

16. Financial assets available for sale

Financial assets not quoted in the stock exchange RSD '000

	2016	2015
Investments in discount FX Treasury bills of the Republic of Serbia		6,404,496
Investments in coupon FX Treasury bills of the Republic of Serbia	11,682,691	9,357,433
Total in foreign currencies	**11,682,691**	**15,761,929**
Investments in RSD Treasury bills of the Republic of Serbia	3,762,267	6,649,600
Investments in RSD investment units of banks	614,864	
Investments in long-term RSD bonds of foreign banks	722,057	
Total in RSD	**5,099,188**	**6,649,600**
Total financial assets available for sale	**16,781,879**	**22,411,529**

Debt securities of the Republic of Serbia may be short-term and long-term, in local or foreign currencies. Short-term debt securities are issued in the form of no coupon treasury bills by the Republic of Serbia Ministry of Finance. Long-term debt securities are issued in the form of coupon bonds by the Republic of Serbia.

The nominal value is 10,000.00 monetary units if denominated in dinars, or 1,000 if denominated in a foreign currency.

Debt securities of the Republic of Serbia are issued with maturities ranging from 3 months to 10 years.

The market value of the Republic of Serbia debt securities is calculated by discounting all future cash flows of the securities by the relevant debt securities interest rate used in the most recent auctions as published on the website of the Treasury Department of the Ministry of Finance.

In 2016, the Bank invested its free dinar funds in debt securities of the Republic of Serbia at interest rates ranging from 4.07% to 5.95% p.a. (2015: 4.2% - 9.4% p.a.), in EUR securities at interest rates from 1.18% to 3.45% p.a. (2015: 1.1% - 4.26% p.a.), and in USD securities at interest rates from 3.61% to 4.45% p.a. (2015: 3.56% - 3.70%).

In 2016 the Bank purchased bonds issued by the European Bank for Reconstruction and Development (EBRD) through the issue underwriter Raiffeisen Bank a.d. Beograd. These are long-term coupon RSD-denominated bonds with floating rate of 3-month BELIBOR + 0.4% p.a. The interest is payable quarterly. The securities were purchased at the nominal value and are governed by the legislation of the Republic of Serbia.

In 2016 the Bank generated interest income from its investments in securities available for sale amounting to RSD 735,837 thousand (2015: RSD 956,823 thousand).

Changes in the value of financial assets available for sale RSD '000

	RS Treasury bills
Opening gross balance as at January 1, 2015	**19,724,113**
Increase during the year	1,610,003
Net gains on the sales	4,382
Interest income	956,823
Decrease in unrealized loss	(8,626)
Reserve increase	205,854
Foreign exchange effects	(81,020)
Net balance as at December 31, 2015	**22,411,529**
Opening gross balance as at January 1, 2016	**22,411,529**
Decrease during the year	(6,670,351)
Net gains on the sales	56,667
Interest income	735,837
Decrease in unrealized loss	(36,709)
Reserve decrease	(122,192)
Foreign exchange effects	407,098
Net balance as at December 31, 2016	**16,781,879**

The Bank did not have any financial assets pledged to secure repayment of borrowings.

17. Loans and receivables due from banks and other financial institutions

RSD '000

	2016	2015
In RSD		
RSD loans	168,954	26,354
Other RSD receivables	3,000,161	135,295
Total in RSD	**3,169,115**	**161,649**
In foreign currencies		
Foreign currency accounts held with other banks	296,689	122,045
Foreign currency loans	1,168,048	116,761
Other foreign currency receivables	59	386,907
Total in foreign currencies	**1,464,796**	**625,713**
Gross loans and receivables due from banks	**4,633,911**	**787,362**
- collective allowance for impairment in RSD	(2,513)	(1,592)
- collective allowance for impairment in foreign currencies	(6,307)	(3,639)
Total	**4,625,091**	**782,131**

In the course of 2016, the Bank extended RSD loans to banks at the interest rates ranging from 2.5 % to 2.97% p.a. (2015: from 2.5 % to 9.7%), EUR loans at interest rates from 0 % to 1% p.a. (2015: 0.0 %), and USD at the interest rates ranging from 0.4% to 1.55% p.a. (2015: no USD loans extended).

18. Loans and receivables due from customers

a) Breakdown per Customer Type

The table below provides loans and receivables due from customers grouped per initial net maturities:

RSD '000

	2016			2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
- Corporate customers	8,182,331	24,596,515	32,778,846	13,122,004	24,464,904	37,586,908
- Retail customers	9,203,433	29,631,695	38,835,128	8,619,370	28,685,915	37,305,285
- Public sector	142,030	887,070	1,029,100	163,390	1,269,907	1,433,297
- Other customers	96,320	883,980	980,300	97,105	895,054	992,159
Total in RSD	**17,624,114**	**55,999,260**	**73,623,374**	**22,001,869**	**55,315,780**	**77,317,649**
In foreign currencies						
- Corporate customers	368,227	640,538	1,008,765	497,217	1,754,807	2,252,024
- Retail customers	16,980	108,240	125,220	2,984	128,878	131,862
- Public sector				42	304,064	304,106
Total in foreign currencies	**385,207**	**748,778**	**1,133,985**	**500,243**	**2,187,749**	**2,687,992**
Gross loans	**18,009,321**	**56,748,038**	**74,757,359**	**22,502,112**	**57,503,529**	**80,005,641**
Less: Impairment allowance						
- Individual in RSD	(3,293,034)	(3,241,639)	(6,534,673)	(6,380,028)	(4,867,147)	(11,247,175)
- Individual in FX	(200,730)	(4,993)	(205,723)	(837,727)	(14,890)	(852,617)
- Collective in RSD	(5,421,743)	(2,141,155)	(7,562,898)	(4,513,923)	(1,957,568)	(6,471,491)
- Collective in FX	(6,252)	(19,711)	(25,963)	(7,892)	(22,610)	(30,502)
Total impairment allowance	**(8,921,759)**	**(5,407,498)**	**(14,329,257)**	**(11,739,570)**	**(6,862,215)**	**(18,601,785)**
Balance at December 31	**9,087,562**	**51,340,540**	**60,428,102**	**10,762,542**	**50,641,314**	**61,403,856**
Less: Pledged receivables					**(6,278,311)**	**(6,278,311)**
Balance at December 31	**9,087,562**	**51,340,540**	**60,428,102**	**10,762,542**	**44,363,003**	**55,125,545**

The Bank pledged a portion of loans and receivables amounting to RSD 6,278,311 thousand as collateral to securitize borrowings obtained from Hypo Alpe Adria Group AG (subsequently under the name of Addiko Bank AG) in the amount of CHF 55,135,339 and EUR 5,167,464 under the agreement executed on June 30, 2015. As the pledgor the Bank registered the pledge lien with the Serbian Business Registers Agency.

On December 14, 2016 the pledge creditor, Addiko Bank AG (previously under the name of Hypo Alpe Adria Group AG) issued an approval for discharge of the aforesaid pledge. On December 29, 2016 the Bank submitted to the Serbian Business Registers Agency a request for pledge lien discharge and deletion from the register and the Agency issued the Bank an appropriate decision on pledge lien discharge and deletion.

In 2016 the Bank sold receivables due from 72 customers, and the gross value of the receivables sold totaled EUR 86.1 million.

During 2016 the Bank calculated interest on corporate and public sector loans depending on the customer credit rating, loan type and collateral provided.

Accordingly, interest rates applied to short-term corporate loans equaled EURIBOR increased by an average markup of 3.47% annually for currency clause-indexed loans and BELIBOR increased by an average markup of 2.37% annually for RSD loans.

In 2016 long-term currency clause-indexed loans were approved to corporate clients for a maximum period of 7 years at the interest rate equal to EURIBOR increased by an average markup of 3.55% annually, while long-term RSD loans were approved for periods of 24 months on the average at an interest rate of BELIBOR increased by a markup of 1.24% annually.

All-purpose retail loans in RSD were extended during 2016 at interest rates ranging from 7.4% to 19.48% per annum (2015: from 12% to 14%).

Housing loans were extended during 2016 at interest rates ranging from 3.5% to 5.05% per annum (2015: from 3.11% to 6.63%).

(b) Breakdown per Loan Type

RSD ’000

	2016	2015
Loans per transaction accounts	430,444	414,350
Overnight loans	27,278	114,269
Consumer loans	276,484	362,494
Cash loans	6,976,674	3,018,601
Working capital loans	24,708,059	25,348,322
Investment loans	9,712,390	13,670,645
Housing loans	27,637,834	29,538,535
Credit cards	406,222	461,980
Other loans	4,416,524	5,508,948
Receivables per payment under guarantees called on	165,450	1,567,497
Total gross loans	**74,757,359**	**80,005,641**
Less: Allowance for impairment of extended loans	(14,329,257)	(18,601,785)
Balance at December 31	**60,428,102**	**61,403,856**

(c) Movements on the Accounts of Impairment Allowances of Financial Assets and Other Assets

Movements on the impairment allowance accounts during 2016 and 2015 are presented below.

RSD '000

	Per loans due from banks (Note 17)	Per loans due from customers (Note 18)	Per other receivables (Note 22)	Total
Balance as at January 1, 2015	**(694)**	**(12,578,155)**	**(40,355)**	**(12,619,204)**
Charge for the year (Note 9)	(4,457)	(9,091,238)	(3,844)	(9,099,539)
Reversal of impairment allowance credited to income (Note 9)		1,291,816		1,291,816
Foreign exchange effects	(80)	(593,069)		(593,149)
Write-off and derecognition		1,432,824		1,432,824
Decrease per unwinding effect		691,812		691,812
Collected		244,225		244,225
Balance as at December 31, 2015	**(5,231)**	**(18,601,785)**	**(44,199)**	**(18,651,215)**
Balance as at January 1, 2016	**(5,231)**	**(18,601,785)**	**(44,199)**	**(18,651,215)**
Charge for the year (Note 9)	(3,536)	(4,671,604)	(41,082)	(4,716,222)
Reversal of impairment allowance credited to income (Note 9)		2,832,369		2,832,369
Foreign exchange effects	(53)	(242,714)	(1)	(242,768)
Write-off and derecognition		5,819,128		5,819,128
Decrease per unwinding effect		263,310		263,310
Collected		272,039		272,039
Balance as at December 31, 2016	**(8,820)**	**(14,329,257)**	**(85,281)**	**(14,423,358)**

19. Nematerijalna ulaganja

RSD '000

	Licenses and rights	Licenses in progress	Total
Cost			
Balance as at January 1, 2015	1,551,621	93,572	1,645,193
Additions		232,176	232,176
Transfers (activations)	306,318	(306,318)	
Retirement and disposal	(399,854)	(14,856)	(414,710)
Balance as at December 31, 2015	**1,458,085**	**4,574**	**1,462,659**
Additions		205,498	205,498
Transfers (activations)	189,318	(189,318)	
Retirement and disposal	(21,068)	(2,605)	(23,673)
Balance as at December 31, 2016	**1,626,335**	**18,149**	**1,644,484**
Accumulated amortization			
Balance as at January 1, 2015	799,491		799,491
Charge for the year (Note 11)	148,666		148,666
Retirement and disposal	(398,705)		(398,705)
Impairment	469,946		469,946
Balance as at December 31, 2015	**1,019,398**		**1,019,398**
Charge for the year (Note 11)	81,556		81,556
Retirement and disposal	(3,934)		(3,934)
Write-off	2,314		2,314
Balance as at December 31, 2016	**1,099,334**		**1,099,334**
Net book value at			
December 31, 2016	**527,001**	**18,149**	**545,150**
December 31, 2015	**438,687**	**4,574**	**443,261**

Licenses refer to the right to use software necessary for the Bank's operations. The software was not internally generated.

In accordance with the requirement of IAS 36 – Impairment of Assets and IFRS 13 – Fair Value Measurement, the fair value of the Bank's intangible assets – the core software- was assessed as of December 31, 2016 by the independent appraiser Vision Consulting d.o.o. Beograd.

Measurement of the fair value of the Bank's core software was performed by applying the cost approach/replacement cost method, in view of the fact that the software is fully adjusted to the Bank's requirements. The Bank only has the right of use of the software, which will not be converted into the right of ownership, and it is therefore not possible to realize any benefits from the lease thereof, which is why the application of the income approach was not possible.

Due to numerous specific features of the software itself and its subsequent adjustments, there is no sufficiently similar software in the market for application of the market approach.

Inputs of Levels 1, 2 and 3 were applied in the cost approach, with predominant role of Level 2 inputs – estimated replacement costs for a new asset according to the initial 2008 contract in 2008 and actual acquisition costs (Level 1) and the new contract version from 2010 and adjusted actual acquisition costs (Level 1).

In accordance with the cost approach methodology, the appraised acquisition cost was decreased by the physical and functional write-off and these adjustments constitute Level 3 inputs.

The core software appraisal encompassed additional investments in the software made in 2016 and completed by the year-end. Taking into account regular software maintenance over the past years and the 2016 upgrade, the remaining useful life of the asset was estimated to 7 years.

Based on the assessment it was concluded that the recoverable amount of the core software, along with the additional investments made, was by RSD 1,941 thousand higher, which implies that there were no indications of impairment.

20. Property, plant and equipment

RSD '000

	2016	2015
Buildings	414,937	424,848
Investments in progress (buildings)	13,723	
Leasehold improvements	41,564	93,063
Computer and other equipment	219,388	283,428
Assets acquired under finance lease		836
Investments in progress	87,090	11,120
Total	**776,702**	**813,295**

RSD '000

	Buildings	Leasehold improve-ments	Invest-ments in progress (buildings)	Computer equipment	Other equipment	Invest-ments in progress	Assets under finance lease	Total
Cost								
Balance as at January 1, 2015	479,218	918,198		504,367	1,194,704	29,308	2,984	3,128,779
Additions			11,552			70,850		82,402
Transfers (activations)	490	11,062	(11,552)	54,957	34,002	(88,959)		
Transfers from investment property and assets acquired under finance lease					1,913		(1,913)	
Retirement and disposal		(100,189)		(57,444)	(76,927)	(79)		(234,639)
Impairment					(4,597)			(4,597)
Balance as at December 31, 2015	**479,708**	**829,071**		**501,880**	**1,149,095**	**11,120**	**1,071**	**2,971,945**
Additions			13,941			131,087		145,028
Transfers (activations)	218		(218)	13,525	41,592	(55,117)		
Transfers from investment property and assets acquired under finance lease					1,071		(1,071)	
Retirement and disposal		(41,403)		(5,852)	(88,389)			(135,644)
Balance as at December 31, 2016	**479,926**	**787,668**	**13,723**	**509,553**	**1,103,369**	**87,090**		**2,981,329**
Accumulated depreciation								
Balance as at January 1, 2015	37,899	770,159		415,301	965,603		554	2,189,516
Charge for the year (Note 11)	10,200	46,973		48,276	65,854		166	171,469
Transfers from investment property					485		(485)	
Retirement and disposal	6,761	(81,124)		(57,411)	(70,561)			(202,335)
Balance as at December 31, 2015	**54,860**	**736,008**		**406,166**	**961,381**		**235**	**2,158,650**
Charge for the year (Note 11)	10,129	40,369		49,860	49,113			149,471
Transfers from investment property					235		(235)	
Additional charge due to restructuring				10,522	8,281			18,803
Retirement and disposal		(30,273)		(5,852)	(86,172)			(122,297)
Balance as at December 31, 2016	**64,989**	**746,104**		**460,696**	**932,838**			**2,204,627**
Net book value at								
December 31, 2016	**414,937**	**41,564**	**13,723**	**48,857**	**170,531**	**87,090**		**776,702**
December 31, 2015	**424,848**	**93,063**		**95,714**	**187,714**	**11,120**	**836**	**813,295**

The Bank owns buildings with premises for performance of its operations at 7 locations: Sub-branch Bežanijska Kosa, Sub-branch Hypo Hill Belgrade, Sub-branch Stepa Stepanović Belgrade, Branch Bečej, Branch Bačka Palanka, Branch Subotica and Branch Kruševac.

All other business premises are rented and the item of leasehold improvements relates to the refurbishment, equipment and putting to use of the rented premises.

Under Decision of the Board of Directors of Addiko Bank a.d. Beograd on Shutdown of Business Units no. 33346/16 dated November 24, 2016 the net book value of leasehold improvements was written off in the amount of RSD 41,403 thousand for 3 locations scheduled for shutdown under the aforesaid Decision.

The Bank did not pledge its property as collateral.

Operating Lease Arrangements

The future minimum lease payments for operating lease of business premises as at December 31 were as follows:

RSD ’000

	2016	2015
Up to 1 year	303,727	394,334
From 1 to 5 years	324,479	594,465
Over 5 years	38,642	63,441
Total	**666,848**	**1,052,240**

In addition to the foregoing, the Bank executed two open-end agreements on the lease of business premises.

Finance Lease Arrangements

The following comparative table shows the present values of the minimum finance lease payments:

RSD ’000

	2016		2015	
	Minimum lease payments under finance lease	Present value of the minimum finance lease payments	Minimum lease payments under finance lease	Present value of the minimum finance lease payments
Up to 1 year				
Sum of the minimum lease payments under finance lease			135	133
Less:			135	133
Cost of financing				
Present value of the minimum finance lease payments			(2)	
Stanje na dan 31. decembra 2016. godine			**133**	**133**

All the finance lease contracts expired in 2016 and the Bank did not executed any new ones.

21. Non-current assets held for sale

RSD '000

	2016	2015
Cost		
Opening balance at beginning of the year	337,905	
Transfer from assets acquired in lieu of debt collection	17,917	158,769
Transfer from investment property		179,136
Sales during the year	(206,555)	
Net book value at year-end	**149,267**	**337,905**

In 2015, the Bank acquired a number of buildings provided as collateral for loans by participating as a buyer in the second out-of-court auction. Having purchased these properties, the Bank derecognized a portion of the customers' debts in the amount of the actual price of the properties and undertook actions to sell these assets.

The Bank's management decided to complete the sale of these assets so that the assets fulfilling the criteria of IAS 5 – Non-Current Assets Held for Sale and Discontinued Operations were transferred from the assets acquired in lieu of debt collection to the non-current assets held for sale.

Out of these assets, during 2016 the Bank sold real estate totaling RSD 206,555 thousand and realized gains on the sale of RSD 17,154 thousand.

The Bank's management is taking all the necessary actions to make the sale of the remaining assets – engagement of a real estate agency, advertising, search for prospective buyers – all in order to complete the sales as soon as possible.

22. Other assets

RSD '000

	2016	2015
Receivables	**471,286**	**358,359**
Receivables from employees	1,023	223
Receivables from banks for card operations	113,882	47,395
Advances and deposits paid	70,513	66,692
Receivables for paid customer liabilities	63,868	46,435
Other fees and other receivables	48,634	64,790
Receivables for rent	10,550	10,111
Other receivables	162,816	122,713
Other assets and prepayments and accrued income	**97,017**	**132,783**
Prepaid expenses	16,871	26,418
Prepayments and accrued income	118	257
Assets acquired in lieu of debt collection	68,676	78,178
Office supplies	11,352	27,930
Other assets, gross	**568,303**	**491,142**
Less: Allowance for impairment of other receivables	**(96,634)**	**(58,420)**
Other assets, net	**471,669**	**432,722**

Assets acquired in lieu of debt collection comprise land of RSD 63,617 thousand (2015: RSD 63,617 thousand), buildings and apartments of RSD 5,000 thousand (2015: RSD 14,502 thousand) and movable assets of RSD 60 thousand (2015: RSD 60 thousand).

Out of the total amount of allowance for impairment for other receivables, RSD 85,282 thousand pertains to the allowance for impairment of other receivables (2015: RSD 44,199 thousand), while RSD 11,352 thousand (2015: RSD 14,221 thousand) refers to the allowance for impairment of inventories.

23. Deposits and other liabilities due to banks, other financial institutions and the central bank

RSD '000

	2016	2015
RSD transaction deposits	**312,173**	**64,959**
Transaction deposits of banks	248,399	20,645
Transaction deposits of other financial institutions	63,774	44,314
Foreign currency transaction deposits	**670,978**	**321,957**
Transaction deposits of banks	262,359	270,614
Transaction deposits of other financial institutions	408,619	51,343
Other RSD deposits	**18,738**	**475,445**
Other deposits of banks		225,000
Other deposits of other financial institutions	17,666	248,832
Liabilities for interest and fees	1,072	1,613
Other foreign currency deposits	**437,984**	**1,007,040**
Other deposits of banks	311,150	1,006,510
Other deposits of other financial institutions	126,612	
Liabilities for interest and fees	222	530
Borrowings	**2,074,335**	**7,774,828**
RSD borrowings		600,000
Overnight borrowings	2,074,335	342,336
Long-term borrowing from the Parent Bank		6,832,492
Balance as at December 31	**3,514,208**	**9,644,229**

In 2016 short-term loans were approved to the Bank at interest rates depending on the currency and maturity in the following ranges: RSD loans – 1.7% to 3.1% p.a. (2015: from 1.7% to 9.6%); EUR loans – 0% to 0.65% p.a. (2015: from -0.15% to 0.5%); AUD loans – 3% p.a. (2015: 2%); USD loans – 0.4% to 0.7% p.a. (2015: from 0.18% to 0.39%).

In 2016, annual interest rates on long-term borrowings in foreign currencies ranged from 3-month EURIBOR + 2.33% to 3-month EURIBOR + 5.47% and from 6-month LIBOR + 1.715% to 3-month LIBOR + 2.33%, depending on the length of the repayment period and currency.

In 2015, annual interest rates on long-term borrowings in foreign currencies ranged from 3-month EURIBOR + 2.33% to 3-month EURIBOR + 5.47% and from 6-month LIBOR + 2.17% to 3-month LIBOR + 2.33%, depending on the length of the repayment period and currency.

Breakdown of the Bank's borrowings as of December 31, 2016 is provided in the table below:

Creditor RSD '000

	Currency	FX loan amount approved	Maturity	Interest rate	2016
Addiko Bank AG	EUR	16,800	04,01,2017,	0,3%	2,074,335
Balance of borrowings at December 31, 2016					**2,074,335**

Breakdown of the Bank's borrowings as of December 31, 2015 is provided in the table below:

Creditor RSD '000

	Currency	FX loan amount approved	Maturity	Interest rate	2015
Hypo Alpe Adria Group AG	CHF	55,135	30.06.2019.	6M Libor +2.17%	6,203,994
Hypo Alpe Adria Group AG	EUR	5,167	31.12.2027.	3M Euribor + 2.5%	628,498
Local banks	RSD	600	04.01.2016.	2.57%	600,000
Local banks	USD	1,000	06.01.2016.	0.39%	111,246
Local banks	EUR	1,900	04.01.2016.	0.16%	231,090
Balance of borrowings at December 31, 2015					**7,774,828**

24. Deposits and other liabilities due to other customers

RSD '000

	2016	2015
RSD transaction deposits	**9,917,014**	**4,644,171**
Corporate customers	3,449,516	2,607,663
Public companies	4,079,938	271,603
Non-resident entities	46,489	8,270
Other customers	278,623	147,161
Retail customers	2,062,448	1,609,474
Foreign currency transaction deposits	**16,952,978**	**11,969,821**
Corporate customers	4,364,808	3,850,820
Public companies	3,205,272	421,720
Non-resident entities	121,067	60,182
Other customers	52,508	42,979
Retail customers	9,209,323	7,594,120
Other RSD deposits	**3,447,208**	**5,440,575**
Corporate customers	1,766,366	3,288,122
Public companies	1,375,955	1,427,000
Public sector	16,600	18,500
Non-resident entities	1,878	640
Other customers	172,953	621,519
Retail customers	78,353	71,711
Interest and fee liabilities	35,058	13,000
Interest and fee liabilities with currency clause index	45	83
Other foreign currency deposits	**3,547,336**	**2,105,211**
Corporate customers	1,782,219	1,852,904
Public companies	1,530,710	
Other customers	17,267	11,745
Retail customers	235	2,328
Interest and fee liabilities	216,905	238,234
Earmarked RSD deposits	**6,720,733**	**172,232**
Corporate customers	453,894	155,424
Corporate customers deposits with currency clause index	11,429	15,580
Public companies	6,254,528	
Retail customers	473	682
Retail customers deposits with currency clause index	409	546
Earmarked foreign currency deposits	**831,006**	**946,410**
Corporate customers	576,990	690,213
Retail customers	254,016	256,197
Savings deposits	**26,115,606**	**27,340,140**
RSD savings deposits	682,627	427,326
Foreign currency savings deposits	25,433,883	26,938,953
Deferred foreign currency interest	(904)	(26,139)
Balance at December 31	**67,531,881**	**52,618,560**

Demand deposits of corporate customers both in RSD and foreign currencies do not accrue interest, except in instance of special arrangements, where interest rate is defined by individual contracts with significant customers. Most commonly, upon execution of special arrangements, interest rates are linked to the National Bank of Serbia's key policy rate. The Bank calculates and pays interest on demand deposits of local government budget beneficiaries the rate of which may not be lower than the current discount rate of the National Bank of Serbia.

Corporate and public sector term deposits accrue interest in accordance with the maturity and the amount of funds deposited. At the initiative of the BSM & Treasury Department, interest rates are adjusted to the market trends in reference interest rates. In 2016 the average interest rate on RSD deposits equaled 2.47% annually while the average annual rate on EUR deposits was 0.76%.

Interest rates applicable to demand savings deposits in foreign currencies ranged from 0.1% to 1.2% annually (2015: from 0.1% to 1.25%), and the rate of interest on RSD transaction deposits of retail customers equaled 0.1% p.a. (2015: 0.1%).

RSD savings deposits of retail customers accrued interest at the rates between 3% and 4.70% annually (2015: between 3% and 7%).

Foreign currency savings deposits of retail customers accrued interest at the rates ranging from 0.5% to 1.70% annually (2015: from 0.05% to 2.5%).

Breakdown of deposits and other liabilities due to customers per maturity:

RSD '000

	2016			2015		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD						
Transaction deposits	9,917,014		9,917,014	4,644,171		4,644,171
Other deposits	3,402,605	9,500	3,412,105	5,416,519	10,973	5,427,492
Earmarked deposits	46,596	6,674,137	6,720,733	96,605	75,627	172,232
Savings deposits:	661,199	21,428	682,627	425,057	2,269	427,326
Interest and fee liabilities	35,103		35,103	13,083		13,083
Total in RSD	**14,062,517**	**6,705,065**	**20,767,582**	**10,595,435**	**88,869**	**10,684,304**
in foreign currencies						
Transaction deposits	16,952,978		16,952,978	11,969,821		11,969,821
Other deposits	3,302,985	27,446	3,330,431	1,859,251	7,726	1,866,977
Earmarked deposits	422,508	408,498	831,006	503,574	442,836	946,410
Savings deposits:	18,013,661	7,420,222	25,433,883	19,794,007	7,144,946	26,938,953
Interest and fee liabilities	216,001		216,001	212,095		212,095
Total in foreign currencies	**38,908,133**	**7,856,166**	**46,764,299**	**34,338,748**	**7,595,508**	**41,934,256**
Balance at December 31	**52,970,650**	**14,561,231**	**67,531,881**	**44,934,183**	**7,684,377**	**52,618,560**

25. Subordinated liabilities

The balances of liabilities arising from subordinated loans as at December 31, 2016 and 2015 are provided in the following table:

Naziv poverioca

RSD '000

	Currency	Amount in currency	Due date	Interest rate	2016	2015
Addiko Bank AG	EUR	35,000,000	26.09.2020.	3M Euribor + 5.47	4,321,531	15,708,316
Interest liabilities					657	1,306
Total in RSD					**4,322,188**	**15,709,622**

The Bank fully repaid all the borrowings that matured in September 2016 in the amount of EUR 75.6 million and CHF 20 million.

The subordinated loans received met all the requirements prescribed by the National Bank of Serbia to be included in the supplementary capital of the Bank.

26. Provisions

The Bank made the following provisions:

RSD '000

	2016	2015
Provisions for losses from guarantees	52,230	83,791
Provisions for unsecured letters of credit	1,164	914
Provisions for long-term commitments	17,365	36,124
Total provisions for losses per off-balance sheet items	**70,759**	**120,829**
Provisions for other contingent liabilities	299,970	300,929
Provisions for litigations and claims	169,133	74,735
Provisions for termination benefits	24,448	89,420
Provisions for retirement benefits	40,520	53,005
Balance at December 31	**604,830**	**638,918**

a) Provisions for losses on guarantees, other contingent liabilities and termination/retirement benefits:

The Bank made provisions for losses on off-balance sheet items charged to expenses, in line with its business policy.

Provisions for other contingent liabilities amounting to RSD 299,970 thousand relate, among other things, to unreleased provisions formed in prior years for compensation payments to private individuals, as stipulated by the Recommendation of the National Bank of Serbia BAN002 regarding application of the contracted undeterminable elements of variable interest rate prior to commenced implementation of the Law on the Protection of Financial Services Users in the amount of RSD 19,159 thousand. This amount will be used for effecting payments under subsequently filed client complaints with a view to settling disputes pertaining to the Recommendation of the National Bank of Serbia BAN002.

Provisions for other contingent liabilities amounting to RSD 280,811 were made based on the calculation of a potential loss that would be incurred by the Bank in respect of a highly probable lawsuit.

Provisions for termination benefits increased in 2016 by RSD 14,032 thousand (2015: RSD 50,025 thousand).

In September 2016, the Board of Directors of Addiko Bank a.d. Beograd adopted new Rulebook on Internal Organization fundamentally changing the Bank's organizational structure, based on which the Job Classification Rulebook was amended. Specifically, certain organizational units were eliminated or merged with other units, and organizational units within the Bank's Head Office were united.

The Bank's Executive Board identified employees who were redundant in accordance with the established criteria, as well as employees who would be offered reassignment to jobs to be created.

In accordance with these decisions and the Bank's Rules of Procedure, the Executive Board drafted a redundancy program, which was submitted to the National Employment Agency. The foregoing actions for headcount reduction will be implemented observing corporate social responsibility principle. The priority is to reach an agreement with employees, i.e. to match the headcount with the reduced number of jobs through voluntary termination of employment or an annex to the employment contract for reassignment to new jobs within the Bank.

In accordance with these decisions, in 2016 termination benefits totaling RSD 79,004 thousand were paid to the employees whose employment contracts were terminated.

Provisions for retirement benefits were formed based on the independent actuary's report as at the reporting date, and they are recognized in the amount of the present value of expected future payments.

The starting assumptions of the independent actuary for the said calculation were as follows:

- Data on employees (total years of service as at December 31, 2015, gender, age);
- Mortality rate tables;
- Interest rate of 7%;
- Salaries paid by the Bank in 2016 per each employee; and
- Employee turnover in the next 40 years.

The Labor Law (Official Gazette of RS no. 75/2014) stipulates an obligation of the employer to pay a retirement benefit to the retiring employee in the minimum amount of the employee's two average salaries, whereby the amount of such retirement benefit may not be lower than two average salaries paid per employee in the Republic of Serbia according to the latest data published by the Statistical Office of the Republic of Serbia.

Movements on provision accounts are presented in the following table:

RSD '000

	Guarantees and other off-balance sheet items	Other contingent liabilities	Termination benefits	Retirement benefits	Total
Balance at January 1, 2015	**67,240**	**24,204**	**40,740**	**51,045**	**183,229**
Charged/(reversed) to the income statement	53,589	480,367	50,025	2,360	586,341
Release of provisions		(128,907)	(1,345)	(400)	(130,652)
Balance at December 31, 2015	**120,829**	**375,664**	**89,420**	**53,005**	**638,918**
Charged/(reversed) to the income statement	(50,070)	94,951	14,032	(11,667)	47,246
Release of provisions		(1,512)	(79,004)	(818)	(81,334)
Balance at December 31, 2016	**70,759**	**469,103**	**24,448**	**40,520**	**604,830**

b) Provisions for Litigations

As of December 31, 2016 there were 311 lawsuits involving the Bank as a defendant. All these lawsuits were initiated from 2005 to 2016. The aggregate value of all lawsuits filed against the Bank amounts to RSD 4,205,811 thousand.

The Bank has adopted a procedure for performance assessment of passive legal proceedings and court cases and for definition of provisions for the legal risk arising from these proceedings.

Performance assessment of passive legal proceedings is made based on:

- legal merits of the claim;
- legal analysis of the course of each and every court case;
- consideration of facts and evidence presented in the course of the proceedings by the counterparty and facts and evidence presented or which may be presented by the Bank and mutual dependence and connection of such facts and evidence
- customary jurisprudence in the same or similar court cases;
- if a lawsuit is conducted by an attorney hired by the Bank, the performance assessment will take into account his/her opinion as well; exceptionally, in very complex cases, the Bank's unit in charge of the case at hand may seek an external legal opinion on the success of the case even if it is not conducted by an attorney, but by the Bank;
- possibility to reach court or out-of-court settlement with the counterparty;
- rules and conditions for provisioning as set out in the International Accounting Standard – IAS 37; and
- other elements that may affect the Bank's success in a court case.

Performance assessment of passive legal suits is carried out at least once every six months, no later than on the 15th day of the month prior to expiry of the calendar term.

The assessment is done based on legal and factual state at the assessment day.

In 2015, the Bank made provisions for litigations and claims amounting to RSD 169,133 thousand.

The Bank was also involved in a number of lawsuits filed against third parties in an attempt to collect receivables.

All the Bank's receivables claimed before court have been provided for in accordance with the Bank's methodology and charged to the Bank's income statement.

27. Other liabilities

RSD '000

	2016	2015
RSD trade payables	112,921	89,358
Foreign currency trade payables	22,742	27,323
Early loan repayment	66,540	67,365
Liabilities for unused annual leaves and other liabilities to employees	104,320	18,548
Other RSD liabilities	122,233	71,239
Other foreign liabilities	93,257	294,640
RSD advances received	43	923
Taxes and contributions payable	37,167	9,561
Long-term finance lease liabilities (Note 20)		133
Liabilities from card operations	11,334	2,126
Accrued expenses	31,603	38,598
Deferred income	19,693	15,482
Total other liabilities	**621,853**	**635,296**

28. Equity and reserves

As of December 31, 2016 the Bank's equity comprised share capital, share issue premium, reserves, revaluation reserves, fair value reserves and accumulated losses.

The structure of the Bank's equity:

RSD '000

	2016	2015
Share capital	17,517,484	17,517,484
Share premium	4,306,318	9,758,438
Other reserves from profit		821,856
Reserves for general banking risks		71,293
Fair value reserves	168,077	326,978
Prior years' retained earnings		1,586,977
Current year's loss	(1,278,508)	(7,932,246)
Balance at December 31	**20,713,371**	**22,150,780**

a) Share Capital and Share Premium

As of December 31, 2016 the Bank's subscribed capital paid in comprised 8,758,742 common stock shares (December 31, 2015: 8,758,742 shares) with the par value of RSD 2,000 per share.

Each share entitles the holder to one vote. All shares outstanding were fully paid in.

The shares are registered with the Securities Commission:

CFI code: ESVUFR

ISIN no: RSHYPOE 68424

On March 27, 2014 a change to the majority shareholder of Hypo Alpe-Adria-Bank a.d. Beograd was registered in the Central Securities Depository and Clearing House. Instead of the majority shareholder Hypo Alpe-Adria-Bank International AG Klagenfurt, Hypo SEE Holding AG Klagenfurt was registered as the majority shareholder. On October 30, 2014 Hypo SEE Holding AG changed its name to Hypo Group Alpe Adria AG.

As of December 31, 2014 Hypo Group Alpe Adria AG owned 7,159,669 Bank's shares while Industrija kotrljajućih ležajeva a.d. u stečaju, Beograd owned 73 shares.

On November 13, 2015, the Commercial Court in Belgrade approved the sale of 73 shares owned by the bankruptcy debtor Industrija kotrljajućih ležajeva ad, Beograd. The shares were purchased by Hypo Group Alpe Adria AG, which thus became the sole shareholder of Hypo Alpe-Adria-Bank a.d. Beograd.

On December 30, 2015 an increase in share capital was registered with the Business Registers Agency. The capital increase was recorded with the Central Securities Depository through 29th issue of 1,599,000 common shares, at the par value of RSD 2,000 per share. The shares were paid by converting a portion of subordinated loan into share capital amounting to RSD 3,198,000,000.

On July 8, 2016, under Decision of the Commercial Court in Vienna no. FN 350921k Hypo Group Alpe Adria AG changed its legal name to Addiko Bank AG, headquartered at the address of Wipplingerstrasse 34/4 Vienna, Austria.

During 2016 there was no increase in the share capital. Hence, the total number of shares outstanding paid in was 8,758,742 and the nominal (par) value per share amounted to RSD 2,000.

The Bank has no subscribed capital not paid in.

Increase in the share count in 2016 and 2015 is provided in the table below:

RSD ’000

	Common Share count	Nominal value
Balance at January 1, 2015	7,159,742	2,000
New share issue in 2015	1,599,000	2,000
Total share count at December 31, 2015	**8,758,742**	**2,000**
Total share count at December 31, 2016	**8,758,742**	**2,000**

Each share entitles the holder to one vote. There are no restrictions to the payment of dividend on shares.

The Bank’s shareholders as at December 31, 2016 were:

RSD ’000

Shareholder	Amount in RSD ’000	% Equity interest	Share count
Addiko Bank AG	17,517,484	100%	8,758,742
Total	**17,517,484**	**100.00%**	**8,758,742**

The Bank’s shareholders as at December 31, 2015 were:

RSD ’000

Shareholder	Amount in RSD ’000	% Equity interest	Share count
Hypo Group Alpe Adria AG	17.517.484	100%	8.758.742
Ukupno	**17.517.484**	**100.00%**	**8.758.742**

Share Issue Premium

As of December 31, 2015 the Bank’s share premium amounted to RSD 9,758,438 thousand and arose upon share issue. The share issue is the difference between the achieved selling price of shares and their par value:

a) From 2002 to 2008 the Bank formed a share issue premium in the amount of RSD 2,790,840 thousand;
b) In 2008, after two issues of shares, the Bank formed a share issue premium in the amount of RSD 4,414,469 thousand;
c) In March 2009 the total of 392,205 shares were issued with the par value of RSD 2,000, which were thereafter sold at RSD 8,500, resulting in the share issue premium of RSD 2,549,332 thousand;
d) In July 2010 the total of 584 shares were issued with the par value of RSD 2,000, which were thereafter sold at RSD 8,500, resulting in the share issue premium of RSD 3,796 thousand;
e) Under Decision of the Bank’s Shareholder Assembly no. 11866/16 dated April 26, 2016, the Bank absorbed the loss incurred in 2015 in the amount of RSD 5,452,120 thousand, so that the share premium mounted to RSD 4,306,318 thousand at the end of 2016.

b) Reserves from Profit

Reserves from profit were formed through allocations of the Bank's retained earnings in prior years. As of December 31, 2015, the reserves from profit amounted to RSD 821,856 thousand.

Under Decision of the Bank's Shareholder Assembly no. 11866/16 dated April 26, 2016, the Bank absorbed the loss incurred in 2015 in the amount of RSD 821,856 thousand against these reserves, so that there were no reserves from profit at December 31, 2016.

c) Fair Value Reserves

Positive effects of fair value adjustments of the Bank's financial assets available for sale (fair value reserves) arose from the adjustment of the investments into financial assets available for sale to their fair values. These reserves were then adjusted for the effects of deferred taxes (Notes 13 and 16).

As of December 31, 2016 the Bank's revaluation reserves totaled RSD 214,391 thousand (December 31, 2015: RSD 336,583 thousand). Unrealized losses from financial assets available for sale amounted to RSD 46,314 thousand (December 31, 2015: RSD 9,605 thousand).

Components of the other comprehensive income that may subsequently be reclassified to profit or loss under revaluation reserves amounted to RSD (158,901) thousand (2015: RSD 197,227 thousand).

d) Reserves for Estimated Losses Arising on Balance Sheet Assets and Off-Balance Sheet Items

The Bank is obligated to calculate on a quarterly basis risks of potential losses on balance sheet assets and off-balance sheet items pursuant to the Decision of the National Bank of Serbia on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items.

Loans, receivables and other Bank's exposures are classified into categories, in accordance with assessed collectability of loans and receivables, depending on the number of days past due in repayment of the principal and/or interest, borrower's financial position and quality of the obtained collateral.

As of December 31, 2016, the requires reserve for estimated losses on balance sheet assets and off-balance sheet items amounted to RSD 8,461,721 thousand (December 31, 2015: RSD 13,576,555 thousand).

Comparative overview of calculated allowance for impairment of balance sheet assets and provisions on potential losses on off-balance sheet items charged to the Bank's income statement in accordance with the Bank's enactments and calculated reserve as required by the National Bank of Serbia as at December 31, 2016:

RSD '000

	NBS methodology	Bank's bylaws	Required reserve
Total per balance sheet assets	20,855,785	14,423,359	8,275,753
Total per off-balance sheet items	235,759	70,759	185,968
Total	**21,091,544**	**14,494,118**	**8,461,721**

Comparative overview of calculated allowance for impairment of balance sheet assets and provisions on potential losses on off-balance sheet items charged to the Bank's income statement in accordance with the Bank's enactments and calculated reserve as required by the National Bank of Serbia as at December 31, 2015 (under NBS regulations effective as at that date):

RSD '000

	NBS methodology	Bank's bylaws	Required reserve
Total per balance sheet assets	30,625,207	18,651,215	13,388,263
Total per off-balance sheet items	269,341	120,829	188,292
Total	**30,894,548**	**18,772,044**	**13,576,555**

29. The bank's regulatory compliance

The Bank is required to align its volume of operations and the structure of its risk-weighted assets with the adequacy and performance ratios prescribed by the Law on Banks and the relevant decisions of the National Bank of Serbia enacted in accordance with the aforecited Law.

As of December 31, 2016 the Bank was in full compliance with all the prescribed ratio values.

The Bank achieved the following adequacy/performance ratios:

RSD '000

Adequacy/performance ratios	Prescribed	2016	2015
Capital	Minimum EUR 10 million	EUR 116 million	EUR 95 million
Capital adequacy ratio	Minimum 12%	23.03%	20.91%
The sum of the Bank's long-term investments	Maksimum 60%	5.43%	7.05%
The sum of all large Bank's exposures	Maksimum 400%	29.49%	33.26%
Liquidity ratios:	Minimum 1	2.30%	1.93%
- in the first month of the period	Minimum 1	1.45%	1.59%
- in the second month of the period	Minimum 1	1.69%	1.40%
- in the third month of the period	Minimum 1	1.97%	1.63%
Rigid liquidity ratios:	Minimum 0.7	1.95%	1.61%
- in the first month of the period	Minimum 0.7	1.29%	1.39%
- in the second month of the period	Minimum 0.7	1.41%	1.20%
- in the third month of the period	Minimum 0.7	1.63%	1.42%
Foreign exchange risk ratio	Maksimum 20%	1.35%	28.75%
Large Bank's exposures to a single entity or a group of related entities	Maksimum 25%	12.08%	10.41%

30. Transactions with related parties and addiko group members

The sole owner of Addiko Bank a.d. Beograd is Addiko Bank AG, holding all (100%) shares of Addiko Bank a.d. Beograd. Related party transactions are performed at arm’s length.

a) Statement of the Financial Position (Balance Sheet)

The table below presents balances arising from related party transactions as of December 31, 2016:

Financial assets at Dec. 31, 2016 RSD ’000

	Addiko Bank AG, Vienna	Addiko Bank Ljubljana	Addiko Bank Zagreb	Addiko Bank Banja Luka	Addiko Bank Mostar	Addiko Bank Podgorica	Total
Receivables per changes in the fair value of derivatives	36,962						36,962
Loans and receivables due from banks and other financial institutions	176,169	9,699	9,942	1,050,288	1,784		1,247,882
Other assets	110,359		15,518	15,302	543	6,123	147,845
Total financial assets	**323,490**	**9,699**	**25,460**	**1,065,590**	**2,327**	**6,123**	**1,432,689**
Financial liabilities at December 31, 2016							
Financial liabilities at fair value through profit or loss, held for	16,289						16,289
Deposits and other liabilities due to banks, other financial instituti-ons and the central bank	2,312,662		16,534	9,765	314,157	21,390	2,674,508
Subordinated liabilities	4,322,188						4,322,188
Other liabilities	57		8,739	900	305	418	10,419
Total financial liabilities	**6,651,196**		**25,273**	**10,665**	**314,462**	**21,808**	**7,023,404**

The table below presents balances arising from related party transactions as of December 31, 2015:

Financial assets at Dec. 31, 2015 RSD ’000

	Addiko Bank AG, Vienna	Addiko Bank Ljubljana	Addiko Bank Zagreb	Addiko Bank Banja Luka	Addiko Bank Mostar	Addiko Bank Podgorica	Total
Receivables per changes in the fair value of derivatives	564						564
Loans and receivables due from banks and other financial institutions	119,098	64	3,620	1			122,783
Other assets	304	-	11,315	12,677	369	4,798	29,463
Total financial assets	**119,966**	**64**	**14,935**	**12,678**	**369**	**4,798**	**152,810**
Financial liabilities at December 31, 2015							
Financial liabilities at fair value through profit or loss, held for	66,169						66,169
Deposits and other liabilities due to banks, other financial instituti-ons and the central bank	7,302,751		248,087	134,513	609,888	8,590	8,303,829
Subordinated liabilities	15,709,622						15,709,622
Other liabilities	15,464		7,792	669	55	351	24,331
Total financial liabilities	**23,094,006**		**255,879**	**135,182**	**609,943**	**8,941**	**24,103,951**

b) Income Statement

The table below presents related party transactions as of December 31, 2016:

Income in 2016 RSD '000

	Addiko Bank AG, Vienna	Addiko Bank Ljubljana	Addiko Bank Zagreb	Addiko Bank Banja Luka	Addiko Bank Mostar	Addiko Bank Podgorica	Total
Interest income	135			675			810
Fee and commission income				40	7		47
Net gains on financial assets held for trading	525,660						525,660
Other income	**110,055**						**110,055**
Total income	**635,850**			**715**	**7**		**636,572**
Expenses in 2016							
Interest expenses	(445,103)	(357)	(108)	(247)	(2,088)		(447,903)
Fee and commission expenses			(620)				(620)
Other expenses	(39,715)		(32,455)				(72,170)
Total expenses	**(484,818)**	**(357)**	**(33,183)**	**(247)**	**(2,088)**		**(520,693)**

The table below presents related party transactions as of December 31, 2015:

Income in 2015 RSD '000

	Addiko Bank AG, Vienna	Addiko Bank Ljubljana	Addiko Bank Zagreb	Addiko Bank Banja Luka	Addiko Bank Mostar	Addiko Bank Podgorica	Total
Interest income	172						172
Fee and commission income				10			10
Net gains on financial assets held for trading	897,436						897,436
Total income	**897,608**			**10**			**897,618**
Expenses in 2015							
Interest expenses	(635,633)		(45)	(65)	(387)		(636,130)
Fee and commission expenses			(67)				(67)
Other expenses	(88,863)		(32,862)				(121,725)
Total expenses	**(724,496)**		**(32,974)**	**(65)**	**(387)**		**(757,922)**

c) Transactions with Related Individuals – Key Management Personnel

In 2016 the Bank paid to the members of the Board of Directors for their engagement gross remuneration in the amount of RSD 4,594 thousand (2015: RSD 4,139 thousand).

In 2016 the Bank paid to the members of the Executive Board gross salaries in the amount of RSD 93,890 thousand (2015: RSD 65,849 thousand).

In 2016 the Bank paid to the members of the key management gross salaries in the amount of RSD 172,591 thousand (2015: RSD 176,021 thousand). The key management personnel are persons authorized and responsible for planning, managing and controlling the Bank's activities, directly or indirectly, including all Directors, (whether Executive Directors or not).

There were no other disbursements to the key management personnel other than the above said remunerations.

As of December 31, 2016 the individuals related to the Bank had deposits placed with the Bank totaling RSD 183,270 thousand (December 31, 2015: RSD 202,116 thousand).

As of December 31, 2016 loans extended to the individuals related to the Bank totaled RSD 185,449 thousand (December 31, 2015: RSD 282,977 thousand).

31. Reconciliation of receivables and payables

The Bank reconciled amounts receivable and payable with its customers as of October 31, 2016 and another time with the major customers as of December 31, 2016. The reconciliations were made via the outstanding item statements (OIS).

Until this auditors' report date, out of 13,000 OIS requests sent to customers, the unreconciled receivables amounted to EUR 996 thousand, CHF 92 thousand and RSD 32,937 thousand. The contested balances mostly relate to those of the customers undergoing the bankruptcy procedures or restructuring. The customers failed to confirm the balances of deposits and other liabilities of the Bank in the aggregate amount of EUR 8 thousand and RSD 5,427 thousand.

The Bank is still taking actions to reconcile balances of receivables and liabilities with its customers and the reconciliation process is underway.

32. Off-balance sheet items

RSD '000

	2016	2015
Total guarantees and commitments	**13,884,173**	**12,707,615**
Payment guarantees	2,110,518	1,772,672
Performance guarantees	3,124,484	2,227,233
Unsecured letters of credit	93,123	33,957
Irrevocable commitments	1,326,400	1,378,600
Revocable commitments for undrawn loans	7,229,648	7,295,153
Total derivatives	**57,989,416**	**38,574,971**
Receivables for sold currencies	29,025,839	19,257,339
Liabilities for purchased currencies	28,963,577	19,317,632
Other off-balance sheet items	**454,400,862**	**455,858,866**
Managed funds	1,178,782	1,159,153
Other commitments	2,791,184	2,388,249
Guarantees and sureties received	11,966,335	8,307,460
Collaterals	428,990,038	428,990,037
Pledged receivables	-	6,278,311
Other off-balance sheet items	9,474,523	8,735,656
Total off-balance sheet items	**526,274,451**	**507,141,452**

At the end of each accounting period, the Bank calculates provisions for commitments and contingent liabilities. The amount recognized as a provision is the best estimate of outflow of resources required to settle the existing liabilities as at the reporting date. Breakdown of provisions per off-balance sheet items is presented in the Note 26.

Derivative Financial Instruments

Within off-balance sheet items derivatives are presented as receivables and liabilities under FX swaps. Swaps represent contracts between two parties on exchange of payments in a period, with amounts of payments depending on the change of a relevant index, such as an interest rate or an exchange rate.

Derivatives, including currency contracts, currency swaps and other derivative financial instruments, are initially recognized at fair value within the off-balance sheet items at the date of contract execution and are subsequently remeasured at fair value.

Derivatives are initially recognized at the moment when derivative contract has been agreed with the counterparty (date of agreement). The notional amount of principal, to which derivatives are agreed, are recorded as off-balance sheet items.

Positive or negative changes in the fair value of derivatives are recorded within balance sheet assets or liabilities, and presented in the Note 15.

33. Exchange rates

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

	2016	2015
USD	**117.1353**	**111.2468**
EUR	123.4723	121.6261
CHF	114.8473	112.5230
GBP	143.8065	164.9391
JPY	1.0044	0.9240

34. Events after the reporting period

There have been no significant events after the reporting period that would require disclosures in the notes to the accompanying financial statements of the Bank for FY 2016.

Content

Annual Business Report is prepared in accordance with Article 29 of the Law on Accounting of the Republic of Serbia (Official Gazette of RS no. 62/13) and contains the following:

Annual Business Report
Year ended December 31, 2016

1. General Information about the Bank

Under Decision of the Commercial Court in Belgrade no. XII-Fi. 10865/02 dated September 27, 2002, based on the share sale and purchase transaction performed with the existing shareholders of Depozitno-kreditna banka a.d. Beograd, the majority ownership of Hypo Alpe-Adria-Bank AG Klagenfurt over the Bank was registered, while the Bank's name was changed to Hypo Alpe-Adria-Bank a.d. Beograd and the change registered under the same court's Decision no IX Fi. 12210/02 dated October 28, 2002.

Upon takeover of shares of Hypo Alpe-Adria-Bank a.d. Beograd by Hypo Alpe-Adria-Bank International AG Klagenfurt approved under the Decision of the Securities Commission no. 4/0-32-3303/4-10 dated July 14, 2010, and realization of the procedure of enforced sale of shares, fully in line with the Law, Hypo Alpe-Adria-Bank a.d. Beograd had two shareholders: Hypo Alpe-Adria-Bank International AG Klagenfurt and Industrija kotrljajućih ležaja a.d. Beograd (subsequently: Industrija kotrljajućih ležaja a.d. Beograd – in bankruptcy).

At its session held on March 24, 2011, the Shareholder Assembly of Hypo Alpe-Adria-Bank a.d. Beograd enacted Decision on Amendments and Supplements to the Articles of Association of Hypo Alpe-Adria-Bank a.d. Beograd no. 08461/11, whereby the Bank changed its organizational form and became a closed shareholding company, and the Bank's submitted request was adopted under Decision no. BD 39396/11 dated April 5, 2011 of the Serbian Business Registers Agency, whereby Hypo Alpe-Adria-Bank a.d. Beograd changed its legal form and was registered as a closed shareholding company

Pursuant to the National Bank of Serbia's Decision no. 10407 dated November 22, 2013 on the issue of prior approval to the acquirer Hypo SEE Holding AG for the acquisition of direct ownership, vesting it with 99.999% of voting rights in Hypo Alpe-Adria-Bank a.d. Beograd, on March 27, 2014, in the Central Securities Depository and Clearing House, the shares of the issuer Hypo Alpe-Adria-Bank a.d. Beograd were transferred from the account of Hypo Alpe-Adria-Bank International AG Klagenfurt to the account of the acquirer Hypo SEE Holding AG Klagenfurt, corporate ID no. FN 350921, Alpen-Adria-Platz 1, Klagenfurt.

On October 30, 2014 Hypo SEE Holding AG changed its name to Hypo Group Alpe Adria AG. On November 13, 2015, the Commercial Court in Belgrade approved the sale of 73 shares owned by the bankruptcy debtor Industrija kotrljajućih ležajeva ad, Beograd. The shares were purchased by Hypo Group Alpe Adria AG, which thus became the sole shareholder of Hypo Alpe-Adria-Bank a.d. Beograd.

The sole (100%) owner of Hypo Group Alpe Adria AG Klagenfurt is Al Lake Luxembourg S.A.R.L. registered with the Commercial Entity Register of Luxembourg under no. B191802, at the address of 47 Grand Rue, L-1661 Luxembourg.

Al Lake Luxembourg S.A.R.L. is owned by Al Lake Management S.A.R.L., Luxembourg.

Owners of Al Lake Management S.A.R.L., Luxembourg are funds managed by Advent International Corporation domiciled in the United States of America and by the European Bank for Reconstruction and Development (EBRD).

On July 8, 2016, under Decision of the Commercial Court in Vienna, Hypo Group Alpe Adria AG (HGAA) changed its legal name to Addiko Bank AG (ABH), headquartered at the address of Wipplingerstrasse 34/4 Vienna, Austria.

On July 8, 2016, under Decision of the Serbian Business Registers Agency no. BD 55080/2016 Hypo Alpe-Adria-Bank a.d. Beograd changed its legal name to Addiko Bank a.d. Beograd.

The Bank's activity code is 6419 – other monetary intermediation.

The Bank's corporate ID number is 07726716.

The Bank's tax ID number is 100228215.

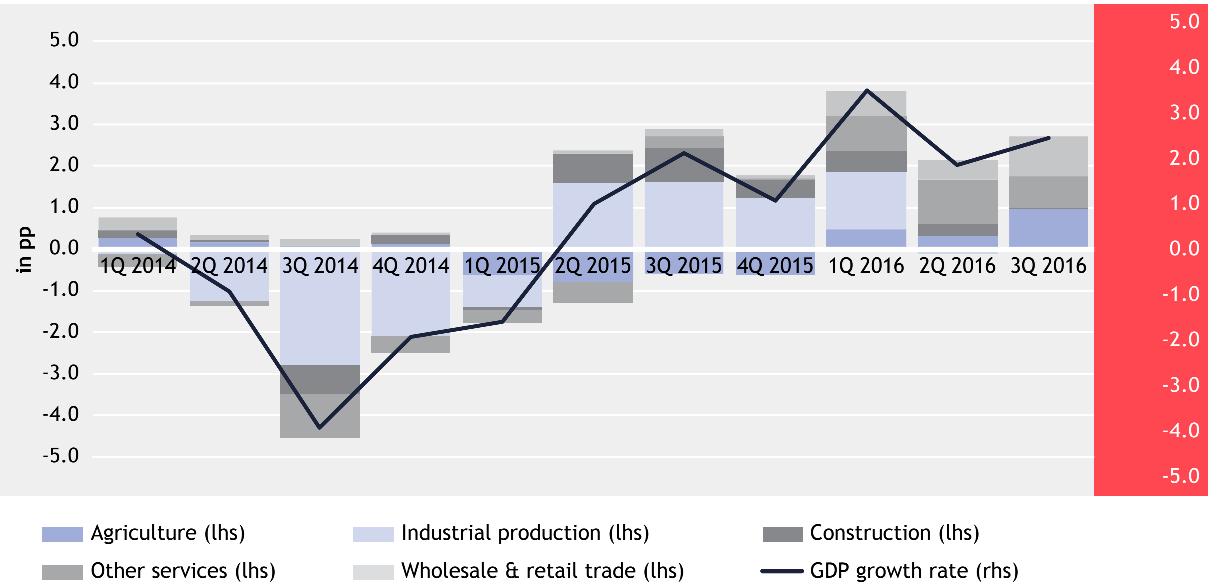
2. Macroeconomic Environment and Banking Sector

International Environment and Economic Activity

The past year worldwide was marked by continued trend of relatively slow economic growth. The year-on-year growth rate in the Eurozone, Serbia's major trading partner, slowed down to 1.7% during the first three quarters of 2016 against the growth of 2.0% achieved in 2015, despite further implementing very expansive monetary policies of the European Central Bank (ECB).

In spite of relatively modest growth in the countries that are Serbia's key trading partners, domestic economy had an accelerated growth. In the first three quarters of 2016, GDP grew by about 2.8% (2015: + 0.7%). Growth acceleration is owed primarily to favorable agricultural season, intensified investment activities and slight recovery of domestic demand, which was caused by the effects of low base load of the energy sector at the beginning of year.

Graph 1. Kontribucije privrednom rastu u Srbiji (proizvodni princip)

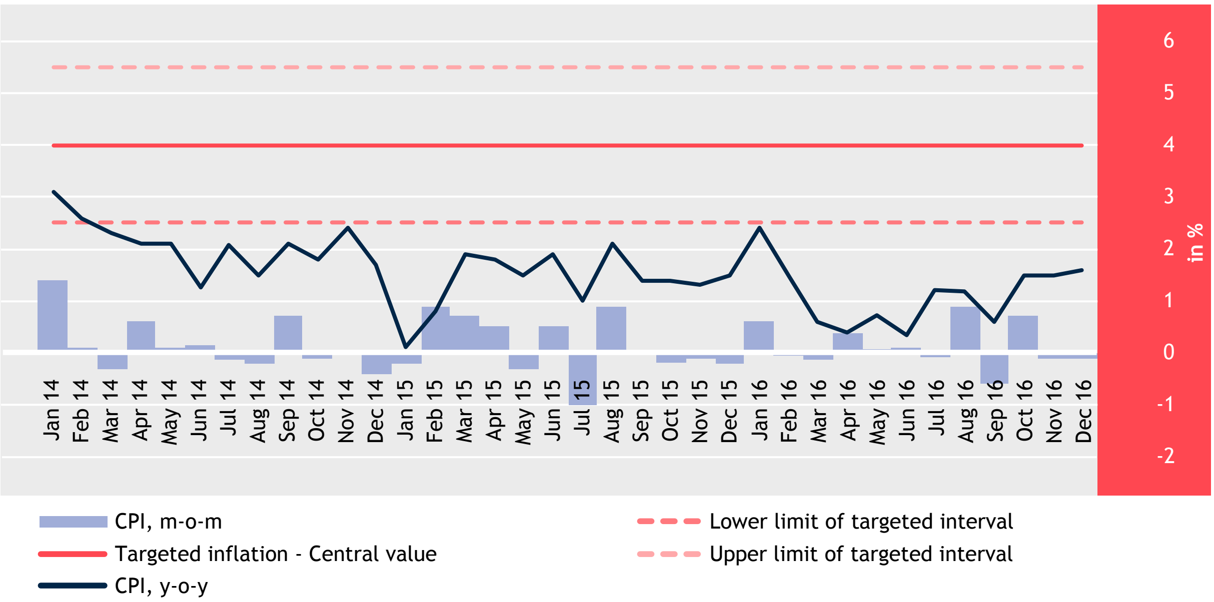


Source: Republic Statistical Office, calculation by ABSE

Prices

A trend of low inflation pressures continued throughout 2016 apparently due to low aggregate international demand, still relatively low oil prices, effects of good agricultural season and relative stability of the exchange rates. Thus year-on-year inflation stood at 1.5% from January through October 2016, the same as at the end of 2015. This means that year-on-year inflation as well as inflation during 2016 (all year round) remained below the target tolerance band of the National Bank of Serbia (“NBS”) (4±1.5%). At the end of 2016 NBS announced new, decreased, target inflation tolerance band of 3±1.5%.

Graph 2. Annual and monthly inflation and NBS target tolerance band

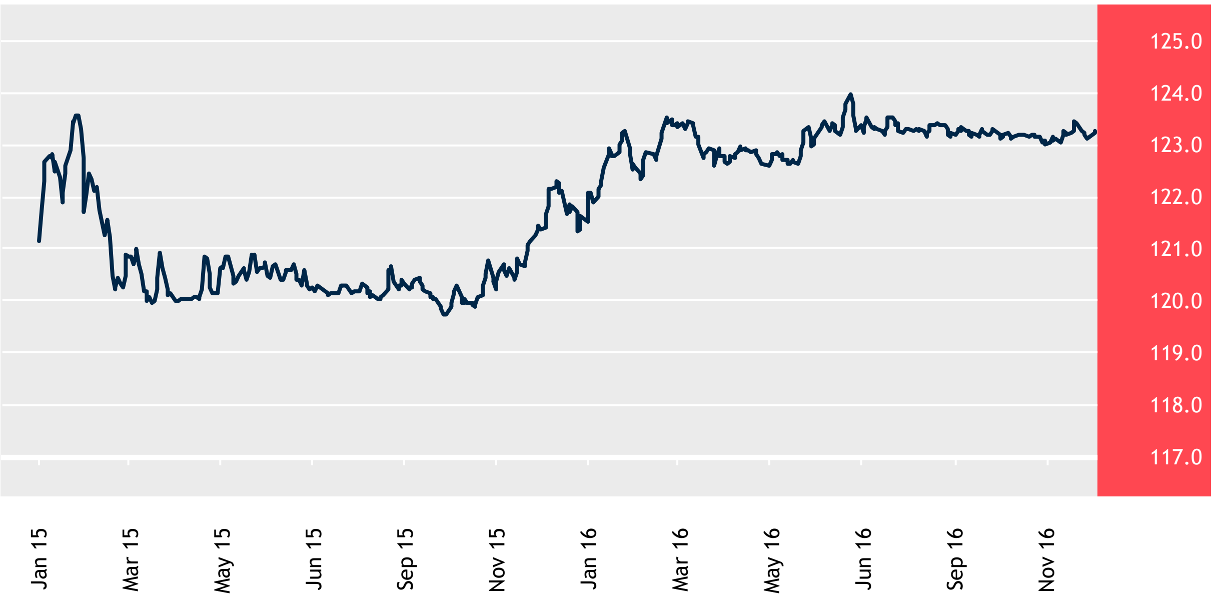


Source: NBS, Republic Statistical Office

Exchange Rates

Over the past year dinar was relatively stable. Dinar to euro exchange rate ranged from RSD 121.51 (January 4, 2016) to RSD 123.95 (June 27, 2016) per EUR 1, while depreciation in 2016 (up to and inclusive of December 7, 2016) equaled 1.3%.

Graph 3. EUR/RSD exchange rate movements



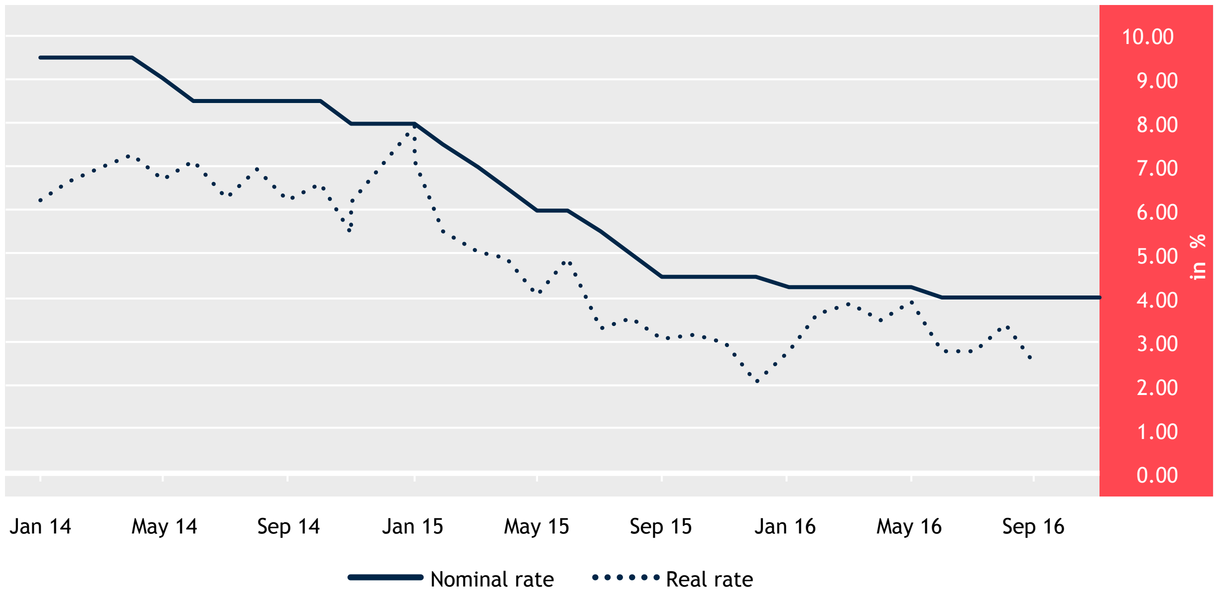
Source: NBS

Relative stability of the dinar has obviously been contributed by the continuing trend of external balancing, i.e., narrowing of the current deficit and inflow of adequate remittances, as well as fiscal balance achieved during 2016. In such circumstances NBS intervened through the net sales of EUR 150 million (up to and inclusive of December 7, 2016).

Monetary Policy

In the circumstances of still relatively low inflation pressures and relative stability of the domestic currency, in 2016 NBS eased the monetary policy by reducing the key policy rate by 0.5 percentage points to 4.0% at its Executive Board session held in December 2016. Bearing in mind the outlook of continuing low inflation trends in the country and abroad and movements of the annual inflation below the target tolerance band of NBS over a prolonged period, at the end of 2016 NBS decided to the reduce the target inflation tolerance band to 3±1.5% (from 4±1.5%).

Graph 4. Movements of NBS nominal and real interest rates



Source: NBS, calculation by ABSE

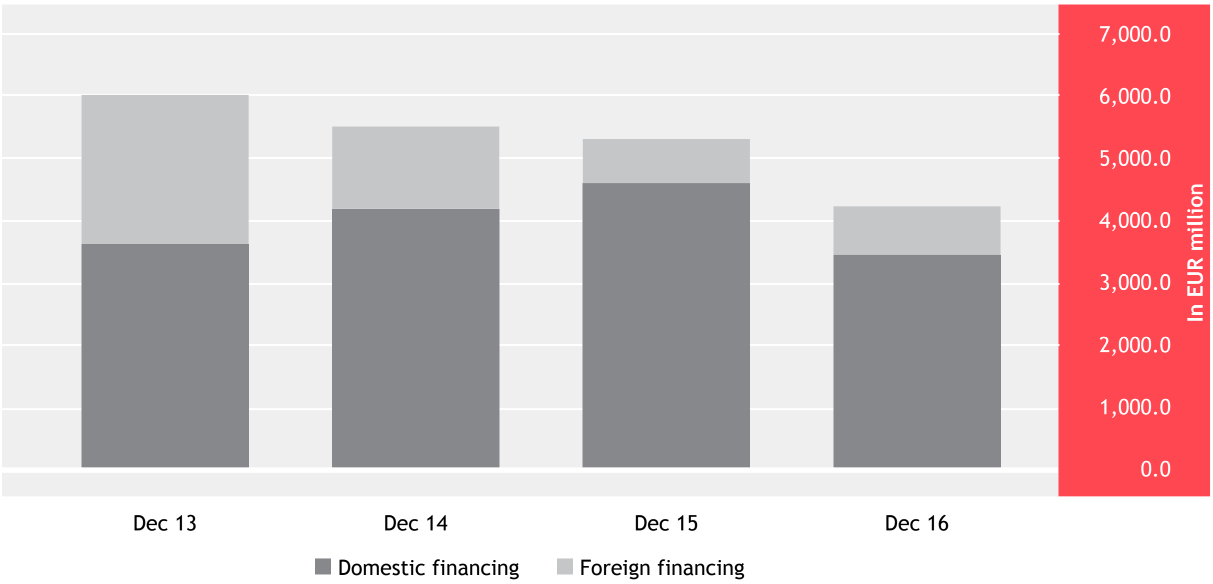
Fiscal Policy and Public Debt

In 2016 the fiscal deficit recorded intensive contraction, which is in line with the implementation of fiscal consolidation measures. The consolidated deficit for the period from January through October 2016 was reduced to only 0.2% of GDP (compared to 3.7% of GDP in 2015.). This contraction was primarily driven by revenues higher by 9.1% year-on-year, which exceeded the growth of expenditures of 4.7%. Revenue growth mostly resulted from improved collection of excise and income tax revenues (+19.1% and +8.5% year-on-year, respectively).

In line with the aforedescribed fiscal adjustment the overall the overall state’s need for funding decreased: the overall state’s need for financing the consolidated fiscal deficit and current portion of the previously issued debt totaled about EUR 3.7 billion for the period from January through October 2016 (compared to EUR 4.1 billion for the same period in 2015).

For the most part the government obtained funding through the issues of debt in domestic market, where about EUR 3 billion of debt was issued in 2016, while EUR 460 million was obtained from foreign debt markets.

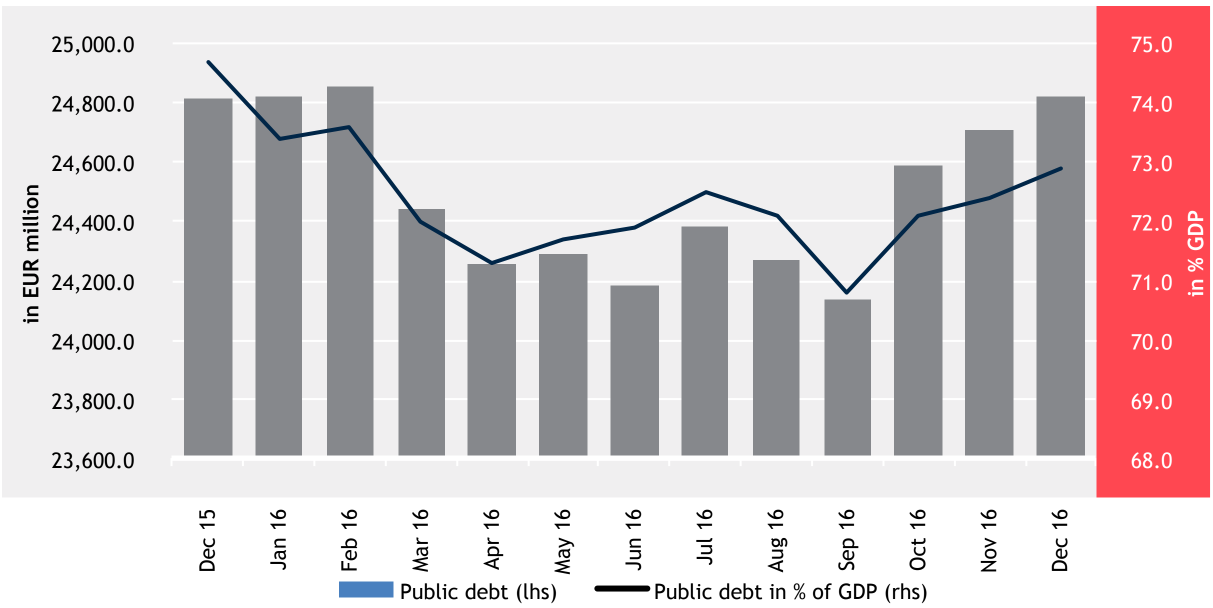
Graph 5. Funding obtained through debt issues in domestic and foreign debt markets



Source: Ministry of Finance

Given the decreased government's need for financing deficit and current portion of the previously issued debt as well as accelerated economic growth, the share of public debt in GDP remained stable at 70-71%, whereas at the end of 2015 it was about 75% of GDP.

Graph 6. Republic of Serbia's public debt and it share in GDP

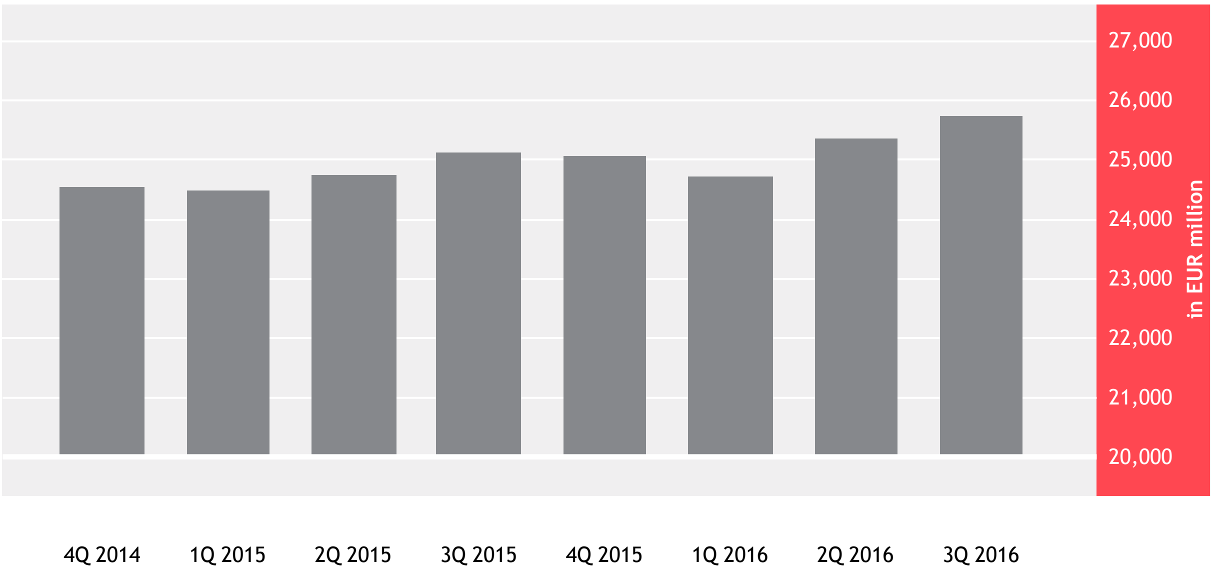


Source: Ministry of Finance

Banking Sector

In line with the accelerated economy credit activity of the Serbian banking sector slightly picked up during the past year, which reflected on the increase of the total banking sector balance sheet assets, which reached EUR 25.7 billion at the end of September 2016 or EUR 670 million up in comparison to the end of 2015.

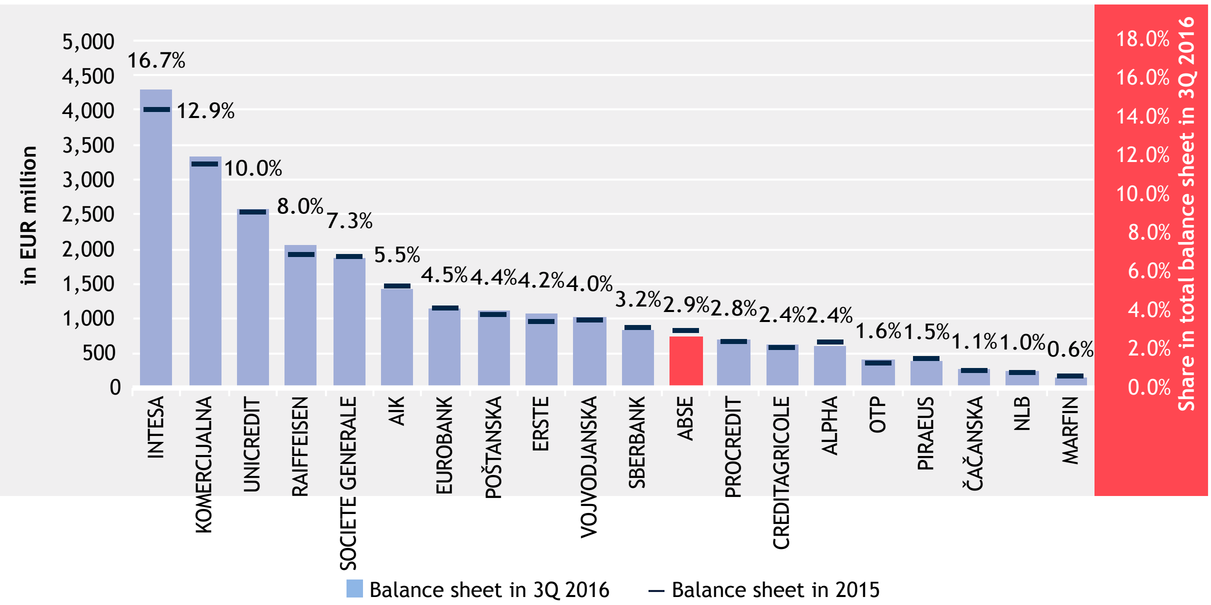
Graph 7. Banking sector total balance sheet assets



Source: NBS

Measured by the total balance sheet assets, Addiko Bank was ranked at number 12 at the end of Q3 2016, one down as compared to the end of 2015, while its market share dropped to 2.9% from 3.3%. At the same time, the share of Addiko Bank in the total bank loans extended to customers equaled 3.4% (3.3% at the end of 2015), whereas it share in the total customer deposits remained the same as at the end of 2015 (2.6%).

Graph 8. Balance sheet assets of 20 largest banks in domestic market and their respective shares in the total banking sector balance sheet assets



Source: NBS; calculation by ABSE

Concurrently with the relatively mild increase in the balance sheet assets, interest rates in domestic banking market remained stable at historically low levels.

In such circumstances, having reached EUR 1.1 billion in the first three quarters of 2016, the banking sector operating revenues decreased by 7% compared to the same period in 2015. However, given the decrease of the operating expenses by some 2% and significant drop of net impairment losses per financial assets and credit risk-weighted off-balance sheet items, the banking sector's net operating income totaled about EUR 265 million for the first three quarters of 2016 (EUR 220 million for the first three quarters of 2015).

That is why the banking sector profitability (measured as return on equity – ROE) rose to 6.7% against 5.5% at the end of Q3 2015 and 1.6% at the end of 2015.

At the end of Q2 2016 non-performing loans (NPL) in Serbia amounted to 20.2% of the total loans (according to NBS records), down by 1.4 percentage points compared to the end of 2015.

3. Corporate Social Responsibility and Environmental Protection

According to its strategy of corporate social responsibility in business, Addiko Bank a.d. Beograd invests considerable funds into projects aiming at improvement of conditions in local communities in which it operates, as well as at advancement of sports, culture, education, health care and environment.

Addiko Bank's corporate social responsibility is reflected in its responsible relations to its employees and the responsibility of the Bank's employees to their working environment.

Adherence to the principles of the UN Global Banking Arrangement, where je Addiko Bank is a participant and an active member, represents a strong foundation of the Bank's activities in this segment.

During 2016, the year in which the Bank's new brand was introduced and a turning point made in business, corporate social responsibility was, among other matters, within the Bank's focus. Immediately upon announcement of the new brand, the Bank donated considerable funds to the athletic team of the Paralympic Committee, who at that time were preparing for the ultimate competition – Paralympics in Rio de Janeiro. These athletes broke a world record and won gold, silver and bronze medals. Furthermore, the Bank supported the White Cross Race, a traditional cross country race which is one of the oldest sports events in Serbia.

In 2016 Addiko Banka also supported cultural events and activities, i.e., supported Atelje 212, a theatre with an outstanding reputation in these parts in the year of its anniversary.

The Bank continued to assist health care through partnership with BelHOSPICE organization involved in support and palliative care of cancer patients. At the charity ball, where the Bank was involved, funds were raised for the work of BelHOSPICE Center and construction of the first stationary hospice in Serbia. Moreover, through donation made to the Clinical Center of Serbia and support to the creation of the Policlinic Contact Center, Addiko Bank helped improve conditions for the treatment of patients in this institution.

The Bank's corporate social responsibility involved donations of furniture and computers and computer equipment to elementary schools, homes for children without parental care and health care institutions in underdeveloped parts of the country.

Through numerous processes within digitalization and software solution implementation, Addiko Bank is striving to reduce paper consumption and printing of various types of documents. Since this is a long-term commitment of the Bank, the plan is to undertake systemic measures and activations intended for employees, to raise their awareness of the importance of forest and their immediate environment preservation, which entails reduction of printed materials.

4. The Bank's Performance

The Bank's balance sheet structure as of December 31, 2016 and comparative data for 2015 are presented in the table below:

Balance sheet

	RSD '000 Dec 31, 2016	% Share Dec 31, 2016	RSD '000 Dec 31, 2015	% Share Dec 31, 2015
ASSETS				
Cash and cash funds held with the central bank	12,290,116	12.62%	14,725,283	14.50%
Pledged financial assets		0.00%	6,278,311	6.18%
Financial assets held for trading	1,208,490	1.24%	564	0.00%
Financial assets available for sale	16,781,879	17.24%	22,411,529	22.08%
Loans and receivables due from banks and other financial institutions	4,625,091	4.75%	782,131	0.77%
Loans and receivables due from customers	60,428,102	62.07%	55,125,545	54.30%
Intangible assets	545,150	0.56%	443,261	0.44%
Property, plant and equipment	776,702	0.80%	813,295	0.80%
Current tax assets	78,242	0.08%	170,730	0.17%
Deferred tax assets		0.00%		0.00%
Non-current assets held for sale	149,267	0.15%	337,905	0.33%
Other assets	471,669	0.48%	432,722	0.43%

	RSD '000 Dec 31, 2016	% Share Dec 31, 2016	RSD '000 Dec 31, 2015	% Share Dec 31, 2015
Liabilities And Equity				
Financial liabilities carried at fair value through profit and loss, held for trading	16,716	0.02%	66,169	0.08%
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,514,208	4.59%	9,644,229	12.15%
Deposits and other liabilities due to customers	67,531,881	88.11%	52,618,560	66.29%
Subordinated liabilities	4,322,188	5.64%	15,709,622	19.79%
Provisions	604,830	0.79%	638,918	0.80%
Deferred tax liabilities	29,661	0.04%	57,702	0.07%
Other liabilities	621,853	0.81%	635,296	0.80%
Total liabilities	**76,641,337**	**100.00%**	**79,370,496**	**100.00%**
Issued (share) capital and share issue premium	21,823,802	22.42%	27,275,922	26.87%
Profit	-	0.00%	1,586,977	1.56%
Loss	(1,278,508)	(1.31%)	(7,932,246)	(7.81%)
Reserves	168,077	0.17%	1,220,127	1.20%
Total equity	**20,713,371**	**21.28%**	**22,150,780**	**21.82%**
Total liabilities and equity	**97,354,708**	**100%.00**	**101,521,276**	**100.00%**

The Bank's income statement structure for the year ended December 31, 2016 and comparative data for 2015 are presented in the table below:

Income statement RSD '000

	2016	2015
Interest income	4,047,443	5,108,008
Interest expenses	(1,067,772)	(1,719,092)
Net interest income	**2,979,671**	**3,388,916**
Fee and commission income	934,579	904,525
Fee and commission expenses	(115,828)	(129,527)
Net fee and commission income	**818,751**	**774,998**
Net gains on the financial assets held for trading	590,140	901,488
Net gains on the financial assets available for sale	56,667	4,382
Net foreign exchange gains and positive currency clause effects	202,096	287,261
Other operating income	168,731	61,261
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(1,561,744)	(7,617,087)
Total operating income (expense)	**3,254,312**	**(2,198,781)**
Staff costs	(1,527,511)	(1,589,579)
Depreciation and amortization charge	(231,027)	(324,958)
Other expenses	(2,772,999)	(3,686,548)
Loss before taxes	**(1,277,225)**	**(7,799,866)**
Current income tax expense	(1,283)	
Deferred tax expenses		(132,380)
Loss for the year	**(1,278,508)**	**(7,932,246)**

5. The Bank's activities

The Bank performs the following activities:

1. deposit activities,
2. credit (lending) activities,
3. foreign exchange operations and exchange transactions,
4. payment transactions,
5. payment card issuance,
6. activities involving securities in accordance with the effective regulations,
7. issuance of guarantees, acceptances and other types of sureties (guarantee operations),
8. purchase, sale and collection of receivables (factoring and forfeiting),
9. insurance agency activities upon obtaining approval of the National Bank of Serbia,
10. technical and financial control of construction and reconstruction of facilities relating project financing,
11. valuation of real estate by certified appraisers for the purposes of the Bank and its clients related to the loans extended, and,
12. provision of services to other members of the Group and other entities in the areas related to the Bank's business activities.

5.1. Operations with Retail Customers (Individuals and Micro Clients)

In 2016 the Bank played an important role in the retail loans market through extension of general-purpose cash loans. In addition, the Bank offered it customers accelerated loan approval process entailing loan disbursement within 24 hours from application. The Bank created an entirely new credit product mix tailored to the customer needs, which included the Fast Cash loans approved at a fixed interest rate for a period of 60 months, loans for consolidated repayment of all liabilities approved for periods of up to 144 months and general-purpose "two-in-one" cash loans.

A combination of good products and accelerated approval processes enabled the Bank's share of 4% in the total financing of the top ten banks in the market.

The largest volume of term deposits was received in November and December during the regular annual "Savings Week" action, when the total of EUR 54 million was deposited at prices that are both competitive and profitable for the Bank.

Monitoring the client needs and somewhat lower interest in term savings deposits, the bank created a new and attractive product demand savings deposits at interest rates approximating interest rates applicable to one-year term savings deposits for the same currency. That is how the Bank retained deposits of its customers at the time of their lack of confidence and motivation to save.

Fundamental changes, such as the branch network rationalization along with strengthening other channels, development of the ATM network, e-banking and m-banking services, change of the Bank's legal name, and implementation of various projects aimed at simplification of services in line with the basic values of the new Addiko brand based on simple, efficient and straightforward banking, a step-change in the strategy and new management, have all ensured achievement of Addiko Bank's plans and maintenance of its clients' loyalty and trust.

After rebranding, Addiko Bank began to present itself to the clients as a new bank in the market developing "straightforward" banking.

The first step was launching new e-bank and m-bank solutions. The next phase meant advancement and improvement of software application support and the required documentation. In addition, the Bank has simplified its product and service mix, focusing on those that are less complex and more useful for the clients.

In accordance with the plans and ambitions of its new owners, in the forthcoming period Addiko Bank and its Sales Management Division will be based on the concept of modern banking, entailing new m-banking solutions, which will allow the clients to use most of the services promptly and easily, whenever and wherever they wish to do so, development of sales agent networks, development of Bank@work sales, acquisition of new clients through digital communication and presentation channels, consumer loans and debt consolidation loans, creating close, long-term and stable partnership with the clients.

The Micro Client Product Management Department will continue to work on simplifying the processes and products for micro clients.

Prior to adoption of the new client segmentation policy, all micro clients were within SME segment.

According to the new policy adopted, the micro client segment comprised of the legal entities, entrepreneurs and agricultural producers with annual operating income at the level of a group of related entities up to EUR 500,000 and where the exposure at the level of a group of related entities amounts up to EUR 150,000, has remained under the remit of the Retail and Micro Sales Management Division, whereas other clients were transferred to the competence of the Corporate, SME and Public Sector Division.

More than 95% of all business entities in Serbia belong to the micro client segment and their estimated aggregate creditworthiness exceeds EUR 1 billion.

5.2. Domestic and Foreign Payment Transactions and Card Operations

Domestic Payment Transactions

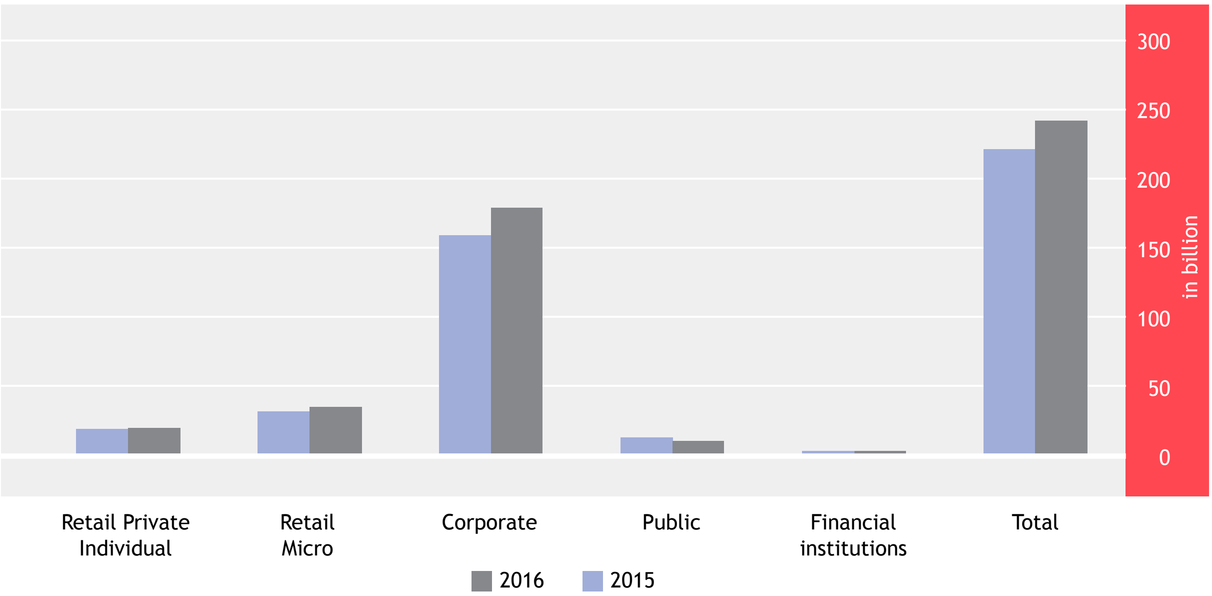
Ukupan broj dugovnih transakcija u prvih devet meseci 2016. godine beleži rast od 1% u odnosu na isti period 2015. godine. Takođe, u 2016. godini je došlo do porasta ukupnog prometa odlaznih transakcija za 9%.

Najveće učešće u broju dugovnih transakcija u platnom prometu u zemlji u 2016. godini ima Retail segment sa 38% transakcija, a najveće učešće u prometu dugovnih transakcija ima corporate segment sa 74%.

Ukupan prihod ostvaren u platnom prometu u zemlji u 2016. godini beleži pad od 10% u odnosu na isti period 2015 godine.

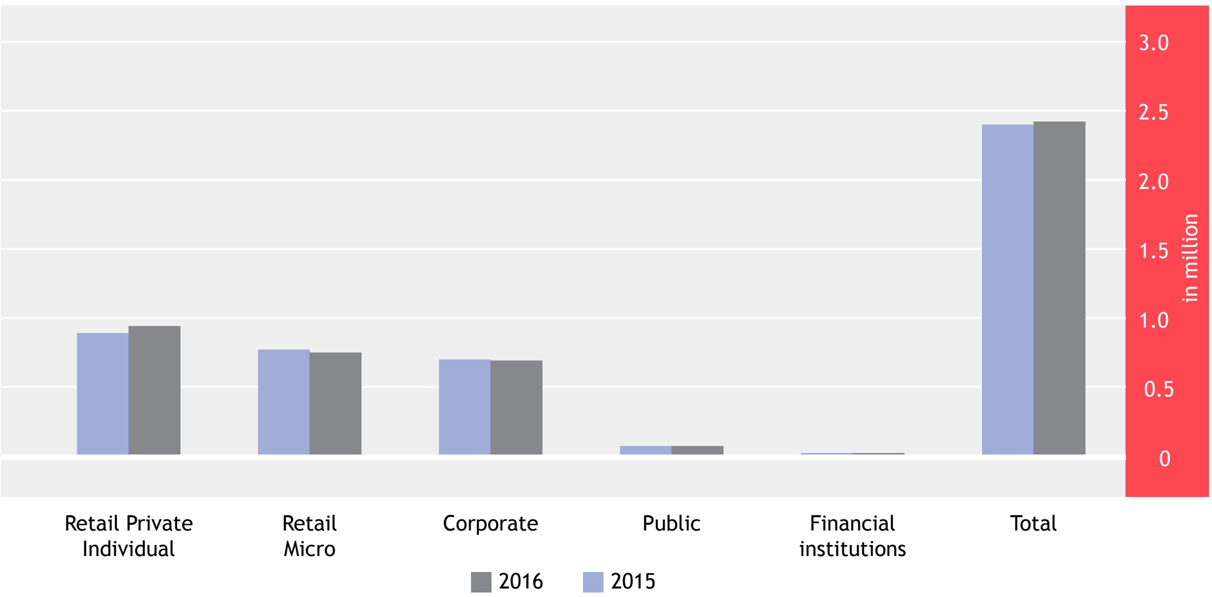
The graph below shows comparative breakdown of the turnover per domestic payment transactions at the end of Q3 2016 and Q3 2015:

Total turnover



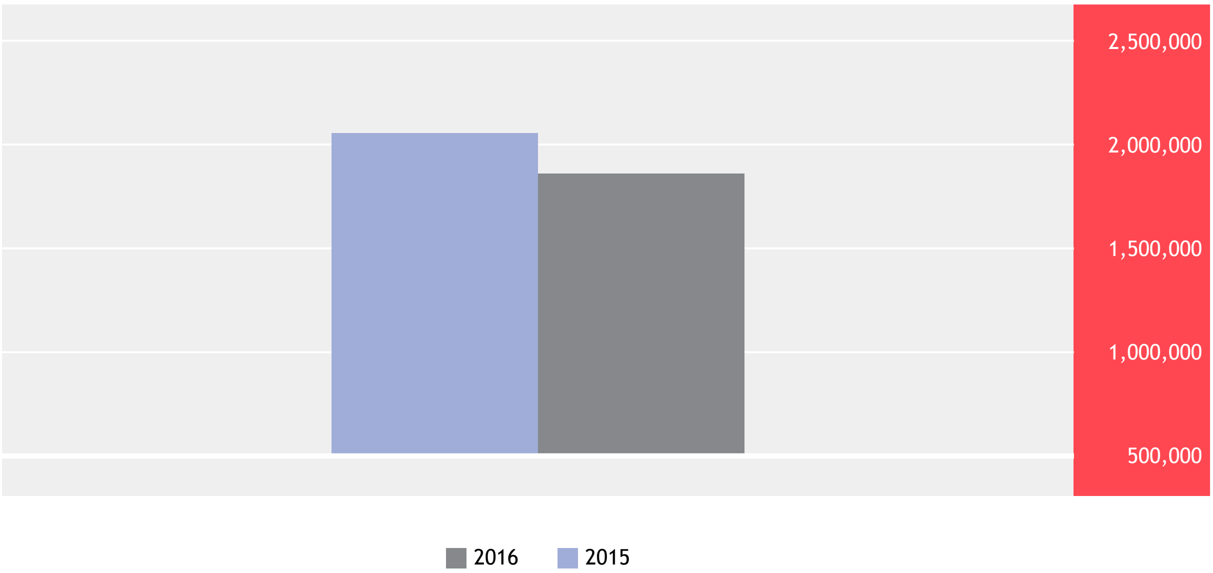
The graph below shows comparative breakdown of the number of domestic payment transactions at the end of Q3 2016 and Q3 2015:

Total number of transactions



The graph below shows comparative breakdown of the fee and commission income earned per domestic payment transactions at the end of Q3 2016 and Q3 2015:

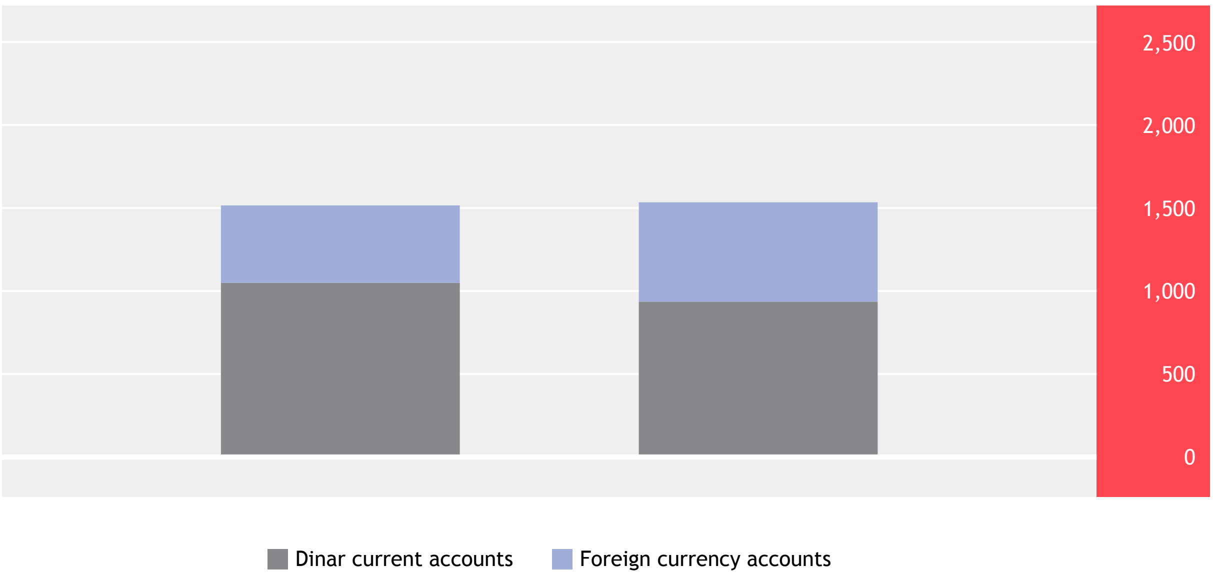
Fee and commission income per domestic payment transactions



Until the end of Q3 2016 12,840 corporate clients had RSD current accounts open with the Bank and 5,458 corporate clients had foreign currency accounts with the Bank for foreign trade operations.

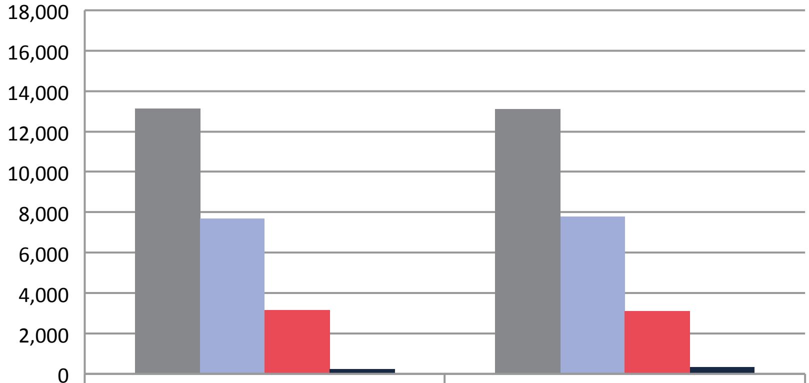
Up to the end of September 2016 the Bank opened 1,535 new accounts for corporate clients, slightly more than in the same period in 2015.

Accounts opened during the year



Data on the total number of RSD accounts of the Bank's corporate clients are shown in the graph below:

Corporate (LE) Accounts - RSD



	09.30.2015	09.30.2016
The number of open accounts - legal entities	13,127	13,107
Number of active accounts - legal entities	7,668	7,794
The number of accounts blocked - forced collection	3,154	3,120
Number of blocked accounts - internal blocking	219	324

Foreign Payment Transactions

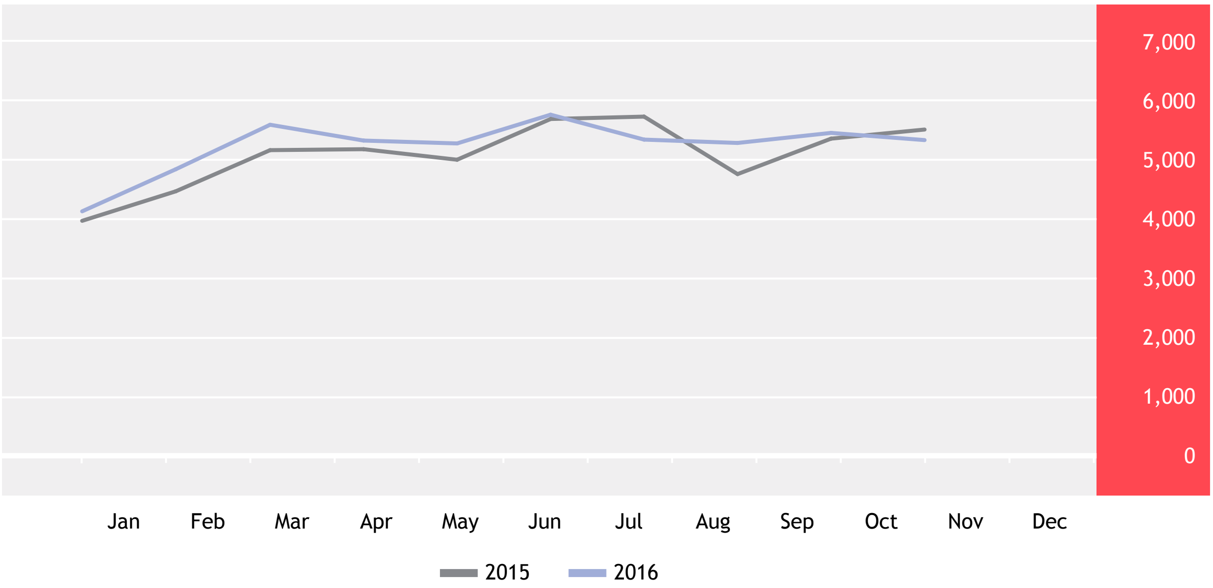
In 2016 the number of foreign payment transfer transactions recorded a growth of 2.98% year on year.

At the same time, the turnover volume per foreign payment transactions increased by 3.03%.

Total fee and commission income from foreign payment transactions earned in 2016 was 5.55% higher than in 2015.

Seasonality in the number of foreign payment transactions showed similar trends in both years observed. In both 2016 and 2015 the number of transactions performed is smaller in the first two months, in March it reached the level which was maintained throughout the year, with more solid stability in 2016 than in 2015.

The graph below shows comparative foreign payment transactions performed in 2016 and 2015:



E-Banking

The shares of corporate e-banking transactions of corporate customers were 61% and 81% in the total number of non-cash domestic payment transactions and the total turnover per non-cash domestic payment transactions, respectively.

The total of 2,351 legal entity clients actively used e-banking services, which accounts for 81% of the total number of legal entities (corporate clients) with activated e-banking services.

At the end of 2016 over 5,406 retail customers (individuals) were using e-banking services, which accounted for 35% of the total number of retail customers with activated e-banking services.

Out of the total number of retail (private individuals) clients who are active e-banking users, 2,416 clients are actively using M-banking services as well.

Card Operations

In 2016 the Bank issued the total of 54,069 payment cards (2015: 35,897). Cards are issued to both legal entities and individuals.

Corporate clients mostly used the Visa Business Silver credit card, the active use of which was about 51.43% on the average during 2016.

Private individuals mostly used the Visa Classic credit card, the active use of which was about 64.15% on the average during 2016.

Breakdown of the net income earned from the activity of our card holders:

Card RSD ’000

	2016	2015
DINA	93	136
MASTERCARD	33,923	25,677
VISA	111,862	92,293
Total income, net	**145,878**	**118,106**

On December 22, 2015 the Bank introduced a new additional service into the existing ATM network for the users of MasterCard/Maestro payment cards issued abroad.

Such clients were offered a service of cash withdrawal at the Bank's daily purchasing exchange rate for transactions from DCC exchange rate list. DCC revenues greatly contributed to the increase of ATM acquiring income per MasterCard.

In December 2016 Addiko Bank a.d., Beograd allowed DINERS CLUB card holder to withdraw cash from its ATM network.

Breakdown of the net income earned from the activity of third party card holders within our /ATM ACQUIRING/ network:

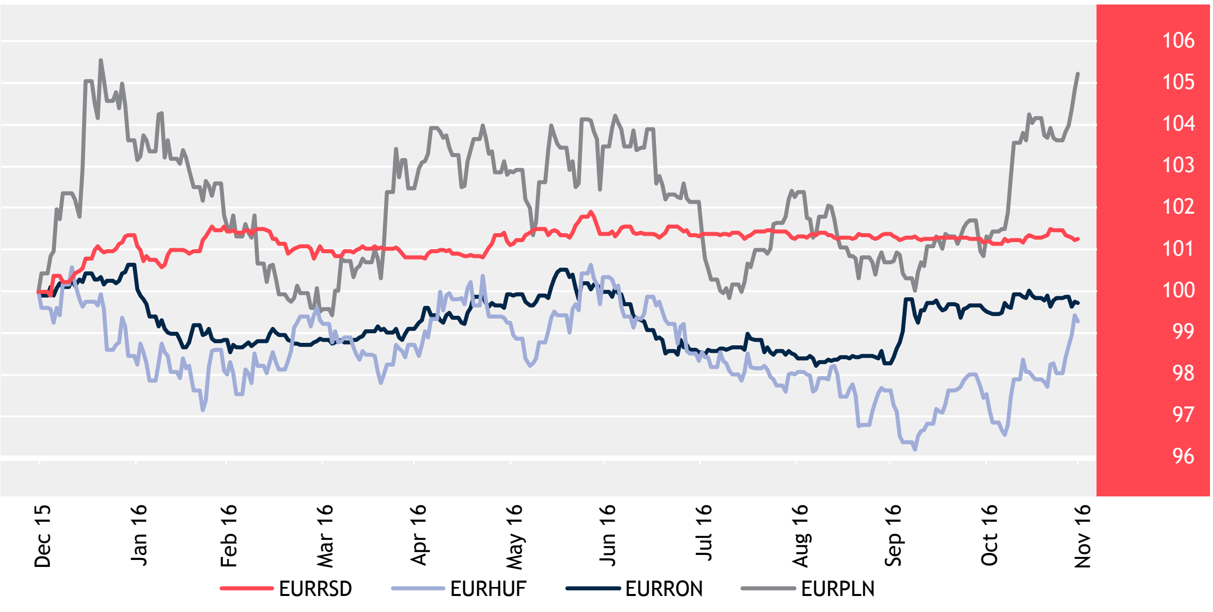
Card	2016	2015
		RSD '000
DINA	2,367	2,125
MASTERCARD	46,896	15,083
VISA	21,357	18,127
Total income, net	**70,620**	**35,335**

5.3. Operations of BSM & Treasury Department

During 2016, Addiko Bank a.d., Beograd maintained its stable position in the financial and interbank markets in the Republic of Serbia.

Movements of the EUR/RSD currency pair was characterized by relative stability in comparison to other currencies within the region within the free floating exchange rate regime. Thus, up to and inclusive of December 7, 2016, dinar to euro exchange rate ranged from RSD 121.51 (January 4, 2016) to RSD 123.95 (June 27, 2016) per EUR 1, while depreciation in 2016 equaled 1.3%.

The graph below illustrates the movements of exchange rates for currencies within the region of Central and Eastern Europe:



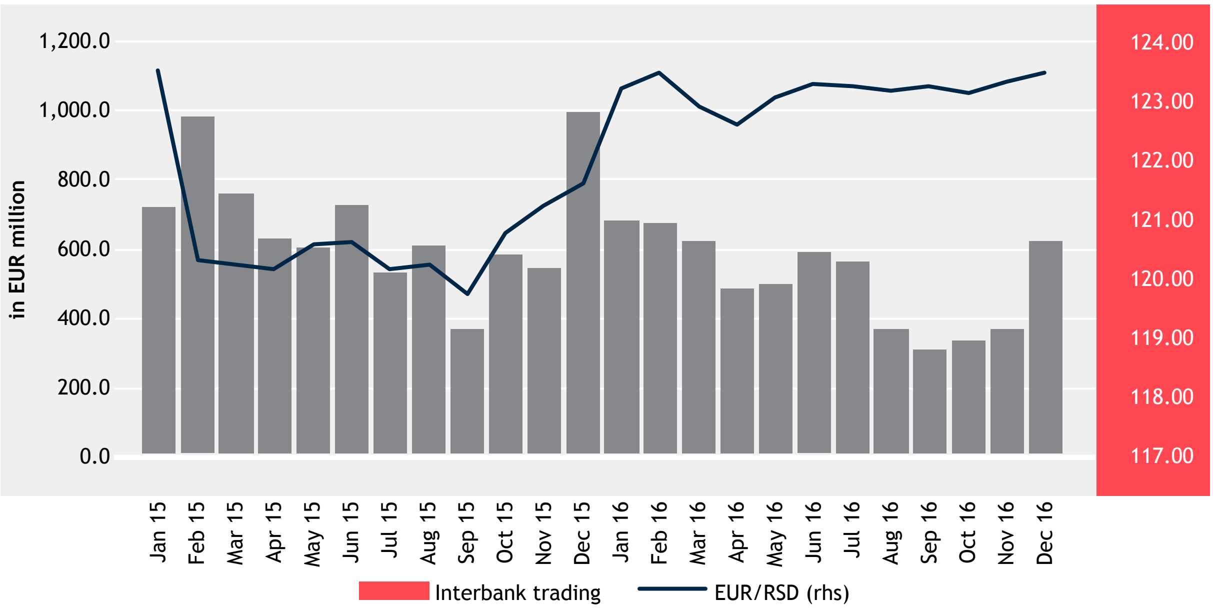
Source: Bloomberg, calculation by ABSE (BSM & Treasury Department)

Relative stability of the dinar has obviously been contributed by the continuing trend of external balancing, i.e., narrowing of the current deficit and inflow of adequate remittances, as well as fiscal balance achieved during 2016 and major NBS interventions in the interbank foreign exchange market.

In order to mitigate the exchange rate volatility, NBS intervened through the net sales of EUR 150 million in 2016 (up to and inclusive of December 7, 2016), with net sales predominant in the first half of the year (total net sales of EUR 820 million), net purchases prevailing in the second half of the year (total net purchase: EUR 620 million).

At the same time, the volume of trade in the interbank foreign exchange market declined significantly in 2016 compared to prior years, totaling EUR 5.5 billion in the period from January to November 2016, which was 20% lower than in the same period of 2015.

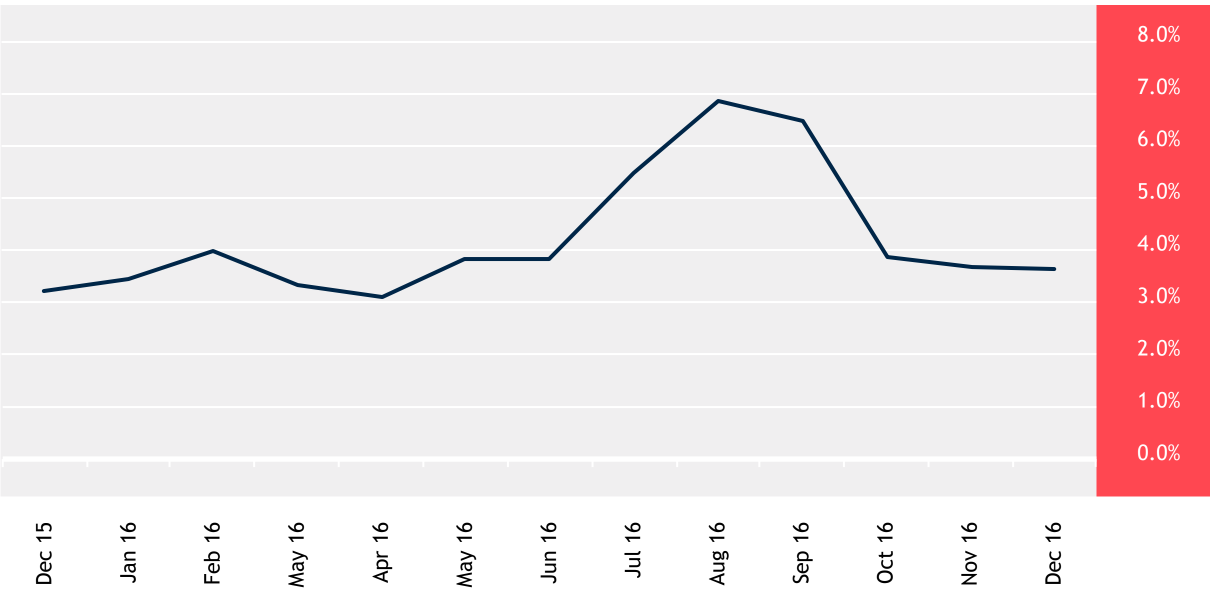
The graph below show the volume of trading in the interbank foreign exchange market in 2016:



Source: NBS

In 2016, Addiko Bank a.d., Beograd recorded gradual increase in the interbank foreign exchange market share, reaching 3.88% (against 3.22% at the end of 2015).

The graph below shows the share of Addiko Bank the interbank foreign exchange market:

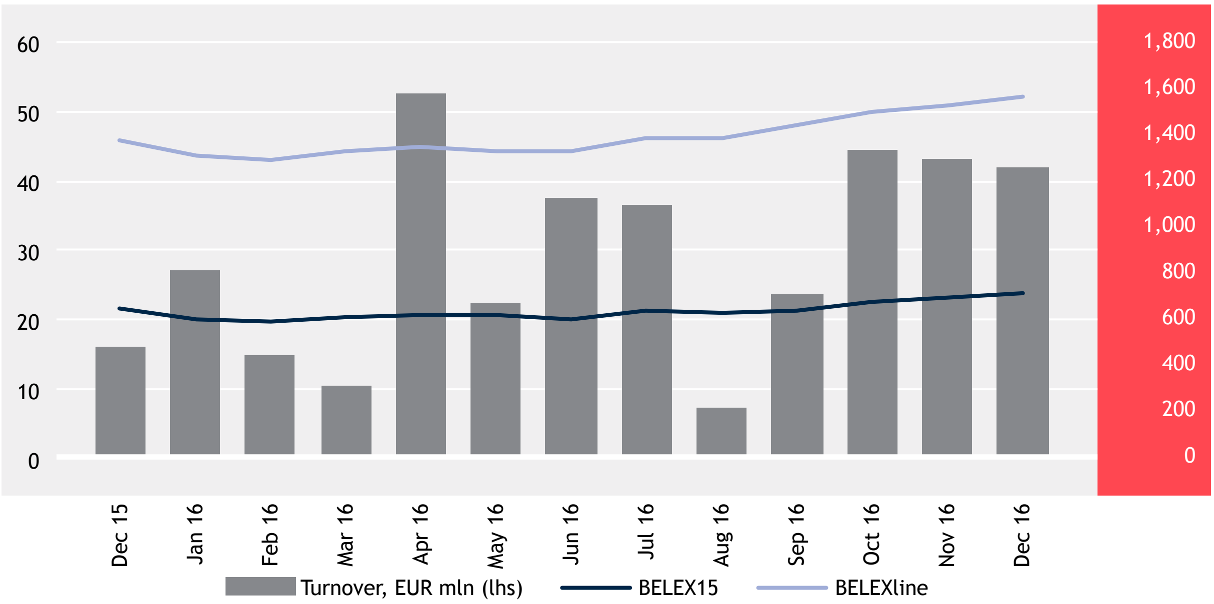


Source: NBS

Capital Market

In 2016 the Belgrade Stock Exchange recorded increased trading volume year on year. The total turnover for the period from January to November 2016 amounted to EUR 320 million, as much as 70% higher than in 2015, yet still far below the level attained before the onset of the global financial crisis (2008: EUR 880 million; 2007: EUR 2.1 billion). In such circumstances, both security indexes of the Belgrade Stock exchange recorded growth - Belex15 by 7.85% and Belexline by 10.97%.

The graph below shows data on trading in the Belgrade Stock Exchange:

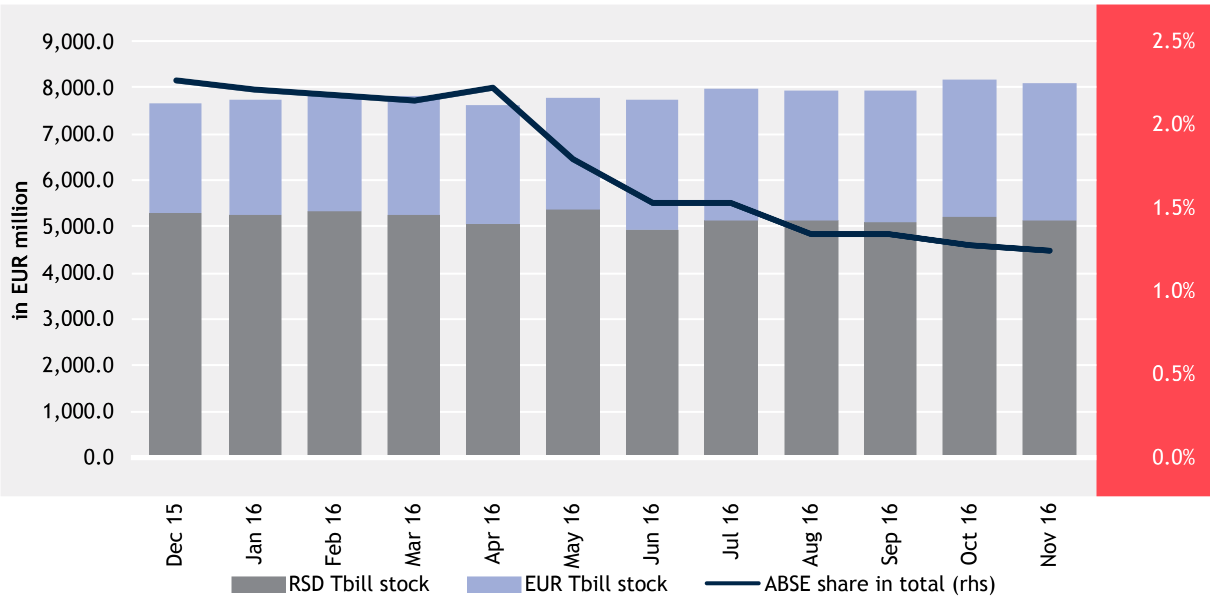


Source: Belgrade Stock Exchange

Treasury Bill Market

In 2016 the volume of issues in the primary market for the Republic of Serbia government securities decreased year on year. This seems to be an effect of the implementation of fiscal consolidation measures, i.e., intensive contraction of the fiscal deficit in 2016. On the other hand, the effect of reduced trading volume in the primary market was somewhat mitigated by the growth of trading volume in the secondary market. In such circumstances, the stock of Treasury bills and government bonds increased by about EUR 400 million compared to EUR 1 billion in 2015.

The graph below shows the balances of outstanding Treasury bills and bonds in the market and market share of Addiko Bank:



Source: RS Public Debt Administration, calculation by ABSE (BSM & Treasury Department)

Fair Value Assessment of Financial Assets

At the end of the year the Bank stated in its portfolio financial assets available for sale relating to the Treasury bills of the Republic of Serbia Ministry of Finance. Treasury bills are debt securities issued by the Ministry of Finance of the Republic of Serbia with the nominal value is 10,000.00 monetary units if denominated in dinars, or 1,000 if denominated in a foreign currency, with maturities from 3 months to 10 years from the issue date. These securities are issued with or without coupons, depending on the auction.

Treasury bills of the Ministry of Finance are sold at discounted value as of the purchase date. At the maturity date of the Treasury bills, the Ministry of Finance pays the owner of the bills their discounted value plus interest.

The market value of the Republic of Serbia debt securities is calculated by discounting all future cash flows of the nominal value of the securities by the relevant interest rate published on the website of the Treasury Department of the Ministry of Finance.

In 2016 the Bank purchased bonds issued by the European Bank for Reconstruction and Development (EBRD) through the issue underwriter Raiffeisen Bank a.d. Beograd. These are long-term coupon RSD-denominated bonds with a floating rate of 3-month BELIBOR + 0.4% p.a. The interest is payable quarterly. The securities were purchased at the nominal value.

Fair value of financial instruments traded in an active market (such as traded securities and securities available for sale) is based on quoted market prices as of the reporting date. Quoted market prices used for the Bank's financial assets represent the current bidding prices.

Breakdown of investments in securities available for sale is provided in the table below:

	2016	2015
Investments in discount FX Treasury bills of the Republic of Serbia		**6,404,496**
Investments in coupon FX Treasury bills of the Republic of Serbia	11,682,691	9,357,433
Total in foreign currencies	**11,682,691**	**15,761,929**
Investments in RSD Treasury bills of the Republic of Serbia	3,762,267	6,649,600
Investments in RSD investment units of banks	614,864	
Investments in long-term RSD bonds of foreign banks	722,057	
Total in RSD	**5,099,188**	**6,649,600**
Total financial assets available for sale	**16,781,879**	**22,411,529**

In 2016 the Bank increased its portfolio of securities held for trading.

Fair value of financial instruments traded in an active market (such as trading securities) is based on quoted market prices as of the reporting date. Quoted market prices used for the Bank's financial assets represent the current bidding prices.

Breakdown of investments in securities held for trading is provided in the table below:

RSD '000

	2016	2015
Receivables arising from changes in the fair value of derivatives	**38,658**	**564**
Liabilities arising from changes in the fair value of derivatives	16,716	66,169
Net fair value of derivatives	**21,942**	**(65,605)**
Receivables arising from changes in the fair value of derivatives	38,658	564
Investments in the Republic of Serbia FX Treasury bills	1,009,162	
Investments in the Republic of Serbia RSD Treasury bills	160,670	
Total securities held for trading	**1,169,832**	
Total financial assets held for trading	**1,208,490**	**564**

5.4. The Bank's Development Planning Strategy

On October 30, 2014 a decision was made on the sale of the network of Hypo Alpe Adria banks operating in the territory of South Eastern Europe to the US-based Advent International Fund in partnership with the European Bank for Reconstruction and Development.

On December 22, 2014 Advent International and EBRD executed the Agreement on Takeover of Hypo Group Alpe Adria AG, Klagenfurt. The decision on the new owner was made in line with the European Commission's Resolution adopted in September 2013. On July 17, 2015 the sale transaction was completed and all the terms of the December 2014 Agreement were fulfilled.

After this acquisition was completed, Addiko Group AG has endeavored to adapt the Bank's organizational structure and its operations to the requirements of the new owners, Advent International Corporation and EBRD.

The new owners are committed to betterment and servicing retail clients – individuals, SMEs, public sector and corporate clients in Serbia, Croatia, Slovenia, Bosnia and Herzegovina and Montenegro with the objective to position the Group within top five banks in the region.

The three major aspects the Bank will be working on in the upcoming year are processes and organization, approach to the clients and efficiency improvement and cost control.

In addition to efforts put into improvement of the product mix offered to the clients, the Bank will make investments in the existing processes in order to make them more effective, faster and better suited to the clients' needs, as well as in improving digital product mix and branch network optimization.

The goal is to lay the foundation for revenue increase through adoption of more client-centric crediting policies and through process acceleration, as well as cut-down of costs in order to improve profitability.

In the segment of deposit products, the Bank continued with its price and product mix optimization. To this end, the Bank's website has been updated in accordance with the new standards of Addiko Group.

With regard to credit products, one of the key tasks was to align the products with the new Bank's strategy and new crediting policy. The new strategy has significantly optimized the structure of products, which is based on the key principles of the banking practice, simple communication, focus on the relevant and increased efficiency.

A number of initiatives were started to improve the crediting process, where the Serbian Bank has been selected as the Pilot Bank within the Group for the project of developing an application solution for loan request processing (APS).

Furthermore, new acquisition channels have been introduced, such as the Refinancing Loan Microsite and MAP Assistant through which clients can make appointments in the Bank's branch offices.

5.5. Research and Development Activities

Research and development activities are performed within the independent Economic Research function directly responsible to the Bank's Executive Board, whose task is to provide the management and other organizational units of the Bank with necessary analyses and information for the decision making process and planning. By monitoring macroeconomic trends within the banking sector and individual industries in the country and in the region of South East Europe, this function contributes to decision making and development of quantitative methods for projections of future trends in these areas.

Following completion of the privatization process in 2015, in line with the new ownership structure and the new business, strategy, Addiko Group decided to commence its future operations as a new brand – Addiko Bank and with new visual identity. Rebranding was thus one of the key strategic projects of the Group in 2016. It is a strong and clear signal that the Group has changed and that it will continue to change for the better.

The Group has not only changed its name and logo, but has undergone a comprehensive fundamental change in order to be able to better implement the higher professional standards and introduce more efficient banking operations.

Rebranding was launched on July 11, 2016 in Austria, Croatia, Slovenia, Serbia and Montenegro, while in both subsidiary banks in Bosnia and Herzegovina the process was completed on October 31, 2016.

The goal of the rebranding process was to create a credible, relevant and recognizable new brand incorporating the Group's corporate and business conduct values. Addiko Bank brand is at the same time a symbol of the Group's efforts put into creation of a new and modern bank for provision of straightforward banking services to its clients. Focus on the substance, efficiency and simple communication are the pillars of the Group's financial operations.

6. Risk Management Policies

Risk management policies of the Bank are aimed at minimization of risks the Bank is exposed to in its operations by following and applying the principles and procedures of risk management, ensuring that all aspects of the Bank's business are stable and as little as possible susceptible to negative internal and external factors and that the Bank's risk profile at all times meets the requirements of the prudent banking business.

The Bank bases its risk profile on the capital adequacy level that provides risk coverage required by statutory regulations.

Moreover, the Bank monitors exposures to other risks arising from the Bank's operations and environment not required by statutory regulations on the capital adequacy ratio.

The Bank's risk management policies govern the management of all relevant risks (explained hereinafter) to which the Bank is exposed. The Bank's risk management policies and procedures are in compliance with statutory regulations of the National Bank of Serbia ("NBS"), and policies, procedures and other relevant documents of Addiko Group.

The approach to the management of individual Bank's risks is defined under effective regulations of the Republic of Serbia and internal regulations of the Bank. Targeted capital adequacy level is based on the principle that the Bank's capital adequacy ratio should be in line with the scope, type and complexity of the Bank's operations and, in addition to the risks contained within the NBS regulations, provide a buffer for other risks arising from the Bank's operations and environment to which the Bank is exposed. Risk management includes risk identification, risk measurement/assessment, undertaking of measures for mitigating risks and risk monitoring.

Risk management is performed by:

1. the Bank's bodies and other committees stipulated by the Law – the Board of Directors, Executive Board, Audit Committee, Assets & Liabilities Committee (ALCO) and Credit Committees;
2. working groups and committees of the Bank's Executive Board – Risk Committee, Operations Committee and Operational Risk Committee;
3. the Bank's organizational units – Risk Control Department, Corporate Risk Management Division, Retail Risk Management and Collection, BSM & Treasury Department, Compliance Department and other units, as appropriate.

The Bank's Board of Directors defines the strategy and policies for risk management which are executed by the Executive Board. The Executive Board adopts procedures for risk identification, measurement, assessment and management, analyses efficiency of their application and reports to the Board of Directors about those activities.

The relevant risks the Bank is exposed to in its operations are the following:

a) Financial risks:
    - market risks (foreign exchange risk, interest rate risk, price risk),
    - credit risk,
    - liquidity risk;
b) Other risks:
    - country risk,
    - compliance risk,
    - operational risk.

6.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank. The Bank's credit risk depends on the creditworthiness of tis borrowers, their regularity and timeliness in liability settlement and quality of collaterals securitizing the Bank's loans and receivables.

Credit Risk Management

Credit risk management is performed by:
1. the Bank's bodies and other committees stipulated by the Law – the Board of Directors, Executive Board, Audit Committee, and Credit Committees;
2. working groups and committees of the Bank's Executive Board – Risk Committee;
3. the Bank's organizational units – Risk Control Department, Corporate Risk Management Division, Retail Risk Management and Collection, and other units, as appropriate.

Credit Risk Assessment

The Bank performs credit risk assessment in compliance with uniform standards of Addiko Group, which is in line with both domestic statutory regulations and internal policies and procedures for customer rating. The criteria for classification and rating of the Bank's customers are fully in accordance with the effective NBS Decision on Classification.

The assessment includes qualitative and quantitative risk assessment, i.e. overall financial analysis, creditworthiness evaluation and credit rating of customers.

The quantitative analysis is based on an assessment of client's creditworthiness, which includes an analysis of the balance sheet structure, liquidity ratios, indebtedness, efficiency, profitability, cash flows, credit limits, and the assessment of client's future business in the upcoming period (for the duration of the loan term). The qualitative indicators are based on assessment of development of the industry and sector the client operates in, assessment of applied accounting policies and assessment of strategic and economic factors characteristic for the client within the relevant industry.

The assessment of customer creditworthiness is performed within internally developed tools/systems for specific categories of financing. (There are specific systems applied for corporate loans "CO", small and medium-sized enterprises "SC", private individuals "PI Scorecard" and "Retail Behavior Rating", commercial real estate "RE", local government units "MU", countries "CT", banks "BN", insurance companies "IN" and project financing "PJ".) Expert tool "EX: is used to rate clients that cannot be rated through any of the aforesaid tools due to certain specificities, as well as WebFER "WF" tool for automatic assignment of class 5 rating to the clients in default for over 90 days). The rating tools rely on "hard" and "soft" facts, and reflect both financial and non-financial data on the client.

The Bank's clients are assigned ratings from classes 1 to 5 (and sub-classes A to E) so that ratings 1A to 3E represent standard ratings, while 4A to 4E represent sub-standard ratings. Clients assigned class 5 rating are default status clients.

Commitments and contingent liabilities are interest-bearing and they are assessed in the same manner, by evaluating all the qualitative and quantitative performance indicators.

Credit Risk Measurement, Impairment and Provisioning Policy

A financial asset is deemed to be impaired if there is at least one identified piece of objective evidence that an asset has suffered impairment.

The Bank applies the following groups of indicators in order to provide objective evidence of impairment:
- default in settlement of material debt of over 90 days;
- significant doubt about the customer's creditworthiness;
- restructuring due to deterioration in the customer's financial situation (forbearance);
- partial or total write-off of receivables;
- sale of a portion of or full receivable due to deterioration in the customer's financial situation; and
- insolvency/bankruptcy.

An impairment loss is the difference between the carrying value of the loan (exposure) stated in the Bank's books and the present value of the expected future cash flows.

Loans and receivables are written off if determined to be irrecoverable, i.e., if payments (cash flows) are no longer expected.

The process of impairment assessment is divided into two steps:

1. checking whether there is objective evidence of impairment, and
2. determining of the amount of impairment, if any.

Determining of impairment for loans demands separation of individually significant loans from those that are not individually significant.

The method of collective impairment assessment is used for:

- individually significant exposures where no loss event was identified individually (i.e. there was no increase in credit risk);
- receivables for which the amount of impairment allowance for balance sheet assets and provisions for losses on off-balance sheet items calculated at the individual level equals zero;
- all insignificant exposures (small values).

For the purpose of collective assessment of impairment, the Bank uses the model based on concepts of the actual losses incurred and loss identification period, where all the parameters for calculation of the required provision based on the historical data, determined by experts or derived from the customer rating model.

The most important criterion for determining the method to be used for assessment of individual risk provisions is whether the total amount of exposure is significant at the individual level or not. The Bank treats an exposure as individually significant if total gross exposure of a group of related entities at the Bank level exceeds EUR 150,000 without reduction for collateral value.

The Bank's policy for detection of the default status and default status exit sets out criteria that must be fulfilled as well as the period upon expiry of which the customer may be relieved from the default status. Most commonly the period in which customers must not be in delay in liability settlement lasts three months. Upon expiry of the three months, if the requirements for the recovery are met, the customer is reassigned the initial rating (rating assigned according to the most recent financial statements).

The Bank uses the following types of collaterals:

1) mortgages over business and residential premises,
2) sureties of legal entities and individuals,
3) pledge liens over immovable and movable property,
4) pledges of securities,
5) bank and corporate guarantees,
6) earmarked deposits.

Factors affecting the collateral value appraisal:

a) collateral holding period,
b) the most recent appraised value of collateral (as per internal or external appraisal),
c) net realizable value of collateral (net of taxes, fees and commissions).

In order to assess impairment for future cash flow from collateral realization, the Bank assesses the value of collateral and time to collection. The haircut that the collateral value is reduced for represents the adjustment up to the amount recoverable in the process of collection from collateral foreclosure.

The Bank endeavors to reduce risk by obtaining collaterals, wherever possible. Different forms of financial and non-financial assets appear as collaterals, such as deposits, securities, guarantees, mortgages, pledged inventory and receivables. Collateral value is usually determined upon establishment as well as annually, based on statistical data or once every three years through appraisal performed by an independent appraiser in instances of immovable assets (real estate) or movable assets, while some collateral types such as deposits or securities are revalued on a monthly basis.

Through voluntary sale, court and out-of-court enforcement as well as bankruptcy procedures, the Bank sells collaterals serving as security for non-performing loans. The method of sale depends on the client cooperation, client legal status and collateral legal status.

6.2. Foreign Exchange Risk

Market risk management policies, procedures and work instructions of the Risk Control Department define the activities of foreign exchange risk control.

General activities pertaining to foreign exchange risk management include:

- foreign exchange risk identification,
- foreign exchange risk measurement,
- foreign exchange risk control,
- foreign exchange risk monitoring and
- reporting.

Foreign exchange risk is the risk from negative effects on the financial result and capital of the Bank due to changes in foreign exchange rate. The Bank is exposed to foreign exchange risk arising from both the banking book and trading book items.

The foreign exchange risk ratio is monitored as the total net open foreign exchange position relative to the Bank's capital. The foreign exchange risk ratio is calculated in accordance with the Decision of the National Bank of Serbia defining capital adequacy for banks. Currency matching of the Bank's assets and liabilities is maintained so that the Bank's total net open foreign exchange position at the end of each business day does not exceed the level prescribed by governing bylaws.

The Accounting and Reporting Department calculates on a daily basis the Bank's total net open foreign exchange position and f foreign exchange risk ratio in accordance with the Decision of the National Bank of Serbia defining capital adequacy for banks.

Based on thus determined net open position of the Bank, in coordination with Addiko Group and based on Addiko Group's methodology and tools, the Risk Control Department calculates on a daily basis VaR of the open foreign exchange position by J.P.Morgan - Geometric StDev. - Monte-Carlo method with the confidence interval of 99% and time horizon of one day, which must range within the internally prescribed limits.

In addition to the standardized Addiko Group's scenarios for changes in the value of EUR currency, stress testing is performed at least once a month in order to assess the potential effect of change in the value of the local currency of +/- 5% or +/- 10% to the income statement, i.e. the Bank's financial result before tax.

Had RSD depreciation/appreciation by 5%/10% against EUR, USD and CHF, and other currencies aggregately been recorded as at December 31, 2106 with the existing open foreign exchange position of the Bank (with all other variables unaltered), the effect on the Bank's income statement would be positive/negative by about RSD 9.6 million/RSD 19.3 million, mostly due to the foreign exchange gains/losses on translation of receivables and payables denominated in foreign currencies.

In order to protect itself against the foreign exchange risk, the Bank executes derivative agreements and contracts loans with foreign currency clause index.

In accordance with the Decision on Capital Adequacy of Banks (Official Gazette of RS, nos. 46/2011, 6/2013, 51/2014 and 85/2016), the Bank is to maintain its foreign exchange risk ratio, i.e., currency matching of assets and liabilities, in such a manner that the Bank's total net open foreign exchange position, including absolute value of the net position in gold, does not exceed 20% of its capital at the end of each working day.

Throughout 2016 the Bank's foreign exchange risk ratio was in compliance with the regulations of the National Bank of Serbia. As at December 31, 2015, due to recording of allowance for impairment, the foreign exchange risk ratio exceeded the prescribed amount, but in the course of 2016 the Bank aligned its operations with the statutory regulations and the prescribed index was within the prescribed limits throughout the period.

The effect of possible exchange rate fluctuations against RSD (with other variables held constant) on the capital from the perspective of the Bank's foreign exchange risk ratio, which is determined pursuant to the Decision on Capital Adequacy of Banks, is provided in the following table:

Exchange rate change 2016	Bank's foreign exchange risk ratio as of December 31, 2016 after changes in exchange rates 2016	Exchange rate change 2015	Bank's foreign exchange risk ratio as of December 31, 2015 after changes in exchange rates 2015
	(% of capital)		(% of capital)
+5%	1.40	+5%	30.2
-5%	1.30	-5%	27.3
+10%	1.50	+10%	31.6
-10%	1.20	-10%	25.9

* *The table above shows exchange rate change of +5%/+10% (RSD depreciation) and exchange rate change of -5%/-10% (RSD appreciation) and their effect on capital from the perspective of the Bank's foreign exchange risk ratio determined pursuant to the Decision on Capital Adequacy of Banks.*

The assumptions used in calculation of the sensitivity analysis scenario in 2016 for the income statement before tax and capital are the same as the assumptions applied in sensitivity analysis scenario for 2015.

In order to protect itself against foreign exchange risk, the Bank executes derivative agreements and contracts loans with foreign currency clause index.

6.3. Interest Rate Risk

Interest rate risk is the risk of negative effects on the financial result and capital of the Bank due to changes in interest rates. The Bank is exposed to this risk per items maintained in the banking book.

The Bank specifically analyses and manages exposure arising from the following types of interest risk:

a) maturity mismatching risk (for items with fixed interest rate) and repricing risk (for items with variable interest rate) for individual items in assets and liabilities, and for the Bank's off-balance sheet items;
b) yield curve risk exposure arising from change in the shape and inclination of the yield curve;
c) basis risk exposure arising from different reference interest rates with interest-sensitive items with similar characteristics in terms of maturity or repricing;
d) optionality risk exposure arising from contractual provisions related to interest-sensitive items (loans with the possibility of early repayment, deposits with the possibility of early withdrawal, etc.).

Other responsibilities related to interest rate risk are carried out through the following committees established by the Bank, in line with the law, regulations and enactments of the National Bank of Serbia:

- Audit Committee
- Assets and Liabilities Committee (ALCO).

In accordance with NBS Decision on Risk Management by Banks and the Addiko Group methodology, via GAP analysis applied to balance sheet items of assets and liabilities of the Bank, as well as interest-sensitive off-balance sheet items from the banking book (Interest Sensitivity Gap Balance), the Risk Control Department measures, i.e. assesses, at the monthly level, negative effects of interest rate change on the financial result (income statement) and the economic value of the Bank.

Exposure to interest rate risk in the banking book and assessment of effects of this rate on the Bank's financial result (income statement) is determined in accordance with the earning approach based on the Delta approach where the result shows solely delta (change) of interest income calculated by the predefined movement/change of interest rate. The calculation takes into consideration only interest-sensitive items from the banking book while interest sensitivity gap balance is the calculation basis. Likewise, there is no dynamic overview (the planned new operations are not included, the aspect of loan maturity date is not included, no transfer among risk categories – fixed, variable and UFN).

In order to assess potential consequences of interest rate changes on the net interest income, scenarios with predefined assumptions on interest rate movement are implemented as follows:

- three-month and six-month interest rate movement with Forward 3m/6m interest curve by currency available through Bloomberg;
- stress scenario for parallel interest rate movement by 200 bp*;
- three-month and six-month local projection of interest rate movement by currency.

The interest rate gap analysis is conducted by the Risk Control Department once a month, and the results are reported to the Executive Board and ALCO on a monthly basis, and to the Board of Directors and Audit Committee on a quarterly basis.

The table below shows sensitivity of the Bank's income statement to the aforesaid reasonably possible changes in interest rates for the period of up to one year as of the reporting date, with all other variables held constant:

Total interest income (ind+ufn+fix) RSD '000

	Total	EUR	USD	CHF	RSD	MISC
FWD 6M	(26,385)	(18,942)	(8,077)	(199)	919	(86)
FWD 3M	(17,337)	(12,063)	(5,588)	(119)	492	(60)
Projection GBSMT 3M	(901)	399	(779)	5	(786)	260
Parallel movement + 200 bps	(91,330)	(124,121)	(23,698)	(2,050)	59,053	(515)
Projection GBSMT 6M	(1,921)	(511)	(736)	5	(941)	262

**1% = 100 basis points (bp)*

6.4. Equity Price Risk

The Bank is exposed to the risk of changes in the prices of equity securities, since the Bank's investments are classified in the statement of the financial position (balance sheet) as available for sale. At the proposal of the Executive Board, the Bank's Board of Directors adopts appropriate market risk management policies. In turn, at the proposal the Risk Control Department (and BSM and Treasury Department) the Executive Board adopts the related supporting procedures and manuals for identification, measurement/assessment, mitigation and monitoring of market risks. These policies, procedures and manuals are based on the principles of the Bank and Addiko Group pertaining to the market risk management and control and in compliance with the minimum standards and criteria prescribed by NBS.

Management of the price risk in debt and equity securities the Bank is exposed to is the responsibility of the Executive Board of the Bank. ALCO proposes to the Executive Board actions aimed at efficient and successful management of other market risks. For monitoring and control of the price and other market risks arising out of the banking book and trading book, once a year, the Bank defines a set of limits, as follows: volume/position limit, stop-loss limit p.a. and VaR limit (1-day, 99%). The limits for the trading book and banking book are defined at least once a year in coordination with Addiko Group, at the request/proposal of the BSM & Treasury Department, containing the business strategy of the BSM & Treasury Department within each of the aforesaid books. The request also contains the evaluation, i.e. the comments by the Risk Control Department regarding the proposed positions and limits, starting from the capital level and other parameters and ratios. The request for operating limits in the banking book and trading book is approved by the Bank's Executive Board and forwarded to Addiko Group. According to the standard of the Parent Bank, the positions and limits are defined in the same way for the Market Risk Steering Book, which in the case of the Bank contains the following: interest rate risk portfolio and FX portfolio whose positions and limits are used for strategic operations.

Within the Market Risk Steering Book, in 2016, the Bank operated and had limits established for the Interest rate risk portfolio and FX portfolio.

In 2016, in accordance with the Group and local strategy, procedures and approved limits, the Bank did not have equity investments in other legal entities based on share trading at the Belgrade Stock Exchange (directly), but throughout 2016 it has investment fund units carried in the banking book.

In 2016 the Bank continued to apply elements of additional credit risk protection in financial derivative trading process with Addiko Group through mutual collateralization (between the Bank and Addiko Group) in accordance with the executed Master Agreement for Financial Derivatives Transactions and Collateral Addendum to the aforesaid Master Agreement for Financial Derivatives Transactions," which are aligned with the ISDA standards (International Swaps and Derivatives Association).

In that respect the Bank continued applying the same internal process established in 2014, including the accompanying enactments that regulate the process in more detail, which were also adopted in 2014.

6.5. Liquidity Risk

Liquidity risk is the possibility of adverse effects on financial result and capital of the due to the Bank's inability to fulfil its liabilities when these fall due as a result of:

- withdrawal of existing sources of financing and/or inability of securing new sources of financing (funding liquidity risk), or
- difficulties in converting assets into liquid funds due to market disturbances (market liquidity risk).

The Banks' liquidity management implies maintaining sufficient amounts of assets for settling due liabilities, ensuring regular and undisturbed operations with minimal costs. This implies the Bank's obligation to provide and maintain liquidity reserve in its regular operations for emergencies and unforeseen circumstances.

Accordingly, the Bank has defined the area of liquidity risk control and management by a set of bylaws and enactments (strategies, policies, procedures, etc.), which are aligned with the legislation and bylaws of the National Bank of Serbia governing liquidity management and with other Bank's policies and relevant bylaws, as well as with standards of Addiko Group, where the Bank is a member.

The objective of the liquidity risk strategy is to set out general parameters for prudent and ongoing management of the liquidity risk inherent in the Bank's business model.

This Strategy defines:

- adequate identifying, defining, analyzing, measuring, monitoring, reporting and limiting the Bank's overall appetite for liquidity risk, with the aim of ensuring sustainable development of the Bank's operations;
- ensuring that the liquidity risk structure is formed in accordance with available capital and liquidity, thus supporting its protection and value preservation for the Bank's shareholders;
- organizational framework for daily management and decision-making regarding liquidity risk;
- efficient liquidity management (including data quality) and forward looking approach that observes the defined early warning signals for the purpose of establishing liquidity adequacy on a long-term basis.

In conformity with the responsibilities and competences defined in the regulations and enactments of the National Bank of Serbia, the Bank's Board of Directors defines the Bank's strategy and goals in line with the criteria prescribed for risks and the result, while the Executive Board has overall competence for the Bank's operations and implementation of the strategy and policies for risk management and the strategy for capital management.

Other responsibilities in respect of liquidity risk are exercised by the following committees, in line with the legislation, regulations and enactments of the National Bank of Serbia:

- Audit Committee
- Assets and Liabilities Committee (ALCO).

The basic instruments and indicators for monitoring and measuring short-term and long-term liquidity are the following:
- preparation and execution of cash flow plans in a defined timeframe (at least one month);
- daily movements of liquidity ratios prescribed by the National Bank of Serbia (and calculated and delivered by the Accounting and Reporting Department);
- movements of liquidity ratios (including stress scenario ratios) defined internally by the Risk Control Department and the Group;
- analysis of developments and projections of compliance of cash flows (GAP analysis) in certain time intervals;
- analysis, monitoring and limitation of negative net cash flows against available liquidity reserve under both normal conditions and a range of stress scenarios.

For a comprehensive liquidity risk assessment, several stress scenarios are in use. Stress sensitivity is used to calculate stress effects on the cash flows, as well as on the liquidity reserve. Stress analysis is performed for various timeframes and levels of unforeseen events.

For the purpose of analyzing the effects of potential (negative) movements of the liquidity position, i.e. creating a number of liquidity stress scenarios, the Risk Control Department, in cooperation with the BSM & Treasury Department providing minimum information on availability and time lag of the liquidity potential and the responsible Finance Controlling Department, defines/updates on a weekly basis the projected cash flows for a period of up to a year and determines the liquidity flows sensitivity to the disturbances entailed by the scenarios. The stress scenario methodology is developed in cooperation with Addiko Group. For quantitative and qualitative measurement, monitoring, control and reporting on long-term liquidity, in the aggregate separately for major currencies, the Risk Control Department applies the methodologies defined internally and/or in coordination with Addiko Group and its standards.

In line with the Decision of the National Bank of Serbia on Risk Management by Banks, the Bank is obligated to maintain the prescribed liquidity levels. The ratio between the sum of the first-ranking liquid receivables and the second-ranking liquid receivables, on one hand, and the sum of the Bank's demand deposit liabilities or liabilities without agreed maturity and liabilities with maturity within one month from the day of liquidity ratio calculation, on the other hand, must be maintained by the Bank so that it equals:

a) at least 1.0 when calculated as an average of liquidity ratios for all working days in a month;
b) not below 0.9 for more than three consecutive working days;
c) at least 0.8 when calculated for one working day.

In accordance with the same Decision, since December 24, 2012 the Bank has also been monitoring the rigid (or cash) liquidity ratio, which represents first-ranking receivables relative to the sum of the Bank's demand deposit liabilities or liabilities without agreed maturity and liabilities with maturity within one month from the day of liquidity ratio calculation. The Bank shall maintain the level of the rigid (cash) liquidity ratio so that it equals:

a) at least 0.7 when calculated as an average of the liquidity ratio for all working days in a month,
b) not below 0.6 for more than three consecutive working days,
c) at least 0.5 when calculated for one working day.

A critically low level of liquidity of the Bank is the liquidity level whose ratio is lower than the above ratios. If the Bank establishes a critically low liquidity level, it is required to inform the National Bank of Serbia thereof no later than the following day.

In the course of 2016 and 2015 the Bank did not record any critically low liquidity levels. The Bank's liquidity ratios were in full compliance with the requirements of the National Bank of Serbia.

Racio likvidnosti

	2016	2015
As of December 31	2.30	1.93
Average for December	1.97	1.63
Maximum for the year	2.74	2.82
Minimum for the year	1.31	1.25

Comparative rigid liquidity ratios for 2016 and 2015 are provided in the table below:

Rigid liquidity ratio

	2016	2015
As of December 31	1.95	1.61
Average for December	1.63	1.42
Maximum for the year	2.51	2.52
Minimum for the year	1.12	1.05

6.6. Other Risks

- Compliance Risk

Compliance risk is the result of a failure to align the operations with the laws and by-laws, internal enactments, procedures for the prevention of money laundering and financing of terrorism and standard professional rules and codes, good business practices and the Bank's business ethic. Three major compliance risks are the following:

a) a risk of sanctions of the regulator – the risk resulting from business irregularities which may lead to the regulator imposing measures against the Bank under the conditions and as provided for under the legislation;
b) a risk of financial losses – the risk resulting from all risks the Bank is exposed to, particularly due to non-compliance with the legislation and internal enactments and inadequate application of strategies and policies, i.e., due to management of the Bank resulting in the financial loss for any reason; and
c) a reputation risk – the risk arising from non-compliance with the legislation and internal enactments disrupting the business reputation and trust of the clients.

- Operational Risk

Operational risk is the risk of occurrence of negative effects on the financial result and capital of the Bank due to failures in work of employees (unintentional and intentional), inappropriate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to occurrence of unpredicted external events.

The Bank applies two approaches to operational risk identification and evaluation: reactive approach to risk assessment based on occurrence and proactive approach through scenario analysis (SA) and risk assessment (RA) as qualitative assessment tools.

The goal of managing operational risk in the Bank is to achieve a proactive approach (e.g. risk management) instead of the reactive approach (e.g. loss management).

The Bank measures, i.e. assesses the exposure to operational risk, considering the possibility, i.e. frequency of its occurrence, as well as its potential effect on the Bank, focusing on the events highly unlikely to occur, but capable of causing considerable material losses.

The Bank applies the following methods and tools to support operational risk management:

- Loss database for systematic collection of data on losses due to operational risk throughout the organization;
- Qualitative assessments (scenarios and risk assessments) to identify and assess the risks occurring within business processes;
- Regular reporting on operational risk.

All the Bank's employees are obligated to take active part in identifying and reporting on operational risk related losses.

Identification of operational risks shall be performed and assessed so as to allow defining appropriate actions for avoiding, mitigating, transferring or accepting the risks, including the priorities for implementing the safeguards.

The goal is to reduce losses as much as possible, in accordance with the allocated resources and budget. The Bank will propose actions to minimize operational risk if it deems that the benefit arising from the actions taken will not exceed the costs of their implementation, as well As That It Will Contribute To The Bank's Efficiency.

7. Capital Management

The strategic goals of the Bank with respect to capital management are as follows:
- ensuring sufficient capital to meet the minimum regulatory capital requirements in compliance with the regulations of the National Bank of Serbia;
- ensuring sufficient capital to support the Bank's aptitude for risk assumption and satisfy internal capital needs;
- ensuring going concern concept, providing return on equity to the shareholders and benefits for other interested parties;
- ensuring strong capital base, as support for further sustainable development of the Bank's operations;
- capital allocation in line with the Bank's strategic goals, including optimization of return on internal and regulatory capital.

The Bank's capital management is compliant with the effective relevant legislation and regulations of the National Bank of Serbia governing banking operations. In addition, capital management also complies with the requirements of Addiko Group, where the Bank is a member.

The Bank's Board of Directors defines and approves the Strategy for Capital Management, which constitutes the Bank's basic document for capital management.

The Bank's Executive Board has formed a working body – the Risk Management Committee. The Risk Management Committee monitors, analyses and implements simulations and stress tests related to changes in the Bank's capital in the forthcoming period, such as changes in the regulatory capital, capital adequacy and internal capital (calculated based on the internal capital adequacy assessment process – ICAAP). The Risk Management Committee proposes to the Executive Board of the Bank measures for managing the Bank's capital.

For the purpose of maintaining adequate level and structure of available internal capital that may support the expected growth of loans and receivables, future sources of funding and their use, risks to which the Bank is exposed and may be exposed in the forthcoming period, as well as any changes in minimum capital requirement set forth by the Decision on Capital Adequacy of Banks, the Bank establishes a capital management plan. Taking into account the aforesaid elements, including guidelines under the Decision on Risk Management by Banks, the Bank performs capital planning quantification.

The Capital Management Plan comprises:
- strategic objectives and period for their achievement, taking into consideration the influence of the macroeconomic environment and phases of business cycle;
- manner of organizing available internal capital management process;
- process and procedures for planning the adequate level of available internal capital;
- manner of achieving and maintaining the adequate level of available internal capital; and
- contingency plan in the event of emergencies that may affect the amount of available internal capital.

Under the Decision on Capital Adequacy of Banks (Official Gazette of RS nos. 46/2011, 6/2013, 51/2014 and 85/2016) (the "Decision"), the Bank is required to maintain at all times its capital in RSD equivalent amount of EUR 10,000,000, using the official middle exchange rate of NBS. The Bank is required to maintain its capital adequacy ratio at a level that cannot be lower than 12%.

The Bank must maintain its capital at all times at the level required for the coverage of all risks it is exposed to or may be exposed to in its operations, no less than the sum of the following capital requirements:
- capital requirement for credit risk and counterparty risk for all business activities and capital requirement for settlement/delivery risk for the trading book activities (hereinafter: credit risk capital requirement);
- capital requirement for price risk for the trading book activities;
- capital requirement for FX risk and commodity risk for all Bank's business activities;
- capital requirement for operational risk for all Bank's business activities.

A bank whose capital adequacy ratio is higher than or would be higher than 12% due to distribution of profit by less than 2.5 percentage points, may distribute profit only through allocation to the elements of its core capital.

As of December 31, 2016 the Bank's adequacy ratio calculated in accordance with NBS defined rules equaled 23.03% and was well above the prescirbed minimum of 12%.

Pursuant to the Law on Banks, the Bank is required to ensure in its operations that its capital at all times amounts to the minimum of EUR 10 million in RSD equivalent at the official middle exchange rate.

The Bank's capital calculated as of December 31, 2016 amounted to RSD 14,300,059 thousand or EUR 115.8 million and was well above the prescribed minimum of EUR 10 million.

At the end of 2015 the sole shareholder of Addiko Bank a.d., Beograd was Hypo Group Alpe Adria AG, which on July 8, 2016 changed its legal name to Addiko Bank AG, headquartered at the address of Wipplingerstrasse 34/4 Vienna, Austria under Decision of the Commercial Court in Vienna no. FN 350921k.

During 2016 there was no increase in the share capital. Hence, the total number of shares outstanding paid in was 8,758,742 and the nominal (par) value per share amounted to RSD 2,000.

The Bank did not repurchase its own shares and had no subscribed capital not paid in.
The Bank's shareholders as at December 31, 2016 and 2015 were

December 31, 2016

Shareholder	Share count	Equity interest %	Amount in RSD '000
Addiko Bank AG	8,758,742	100%	17,517,484
Total	**8,758,742**	**100%**	**17,517,484**

December 31, 2015

Shareholder	Share count	Equity interest %	Amount in RSD '000
Hypo Group Alpe Adria AG	8,758,742	100%	17,517,484
Total	**8,758,742**	**100%**	**17,517,484**

8. Events After the Reporting Period

There have been no significant events after the reporting period that would require disclosures in the notes to the accompanying financial statements of the Bank for FY 2016.

9. Organizational Structure of the Bank

The Bank's Board of Directors defines the internal organization, i.e., organizational structure of the Bank, which enables assignment of duties, competences and responsibilities of the employees in the manner that prevents conflicts of interest and ensures transparent and documented process of making and implementing decisions.

Human Resources

As of December 31, 2016 the Bank had 639 employees (December 31, 2015: 753 employees). The structure of the Bank's employees per professional qualifications:

Professional qualifications

	2016	2015
University graduates	299	332
College graduates	48	46
Secondary school graduates	292	374
Non-qualified		1
Total	**639**	**753**

The Bank's organization includes:

- organizational forms of the Bank's activities into functional units where one or more activities from the Bank's scope of work are performed;
- organizational structure at an appropriate level of the Bank's organization as well as top-down to the lowest organizational unit and mutual functional dependence of the units;
- scope of work (description of activities) for each organizational unit of the Bank.

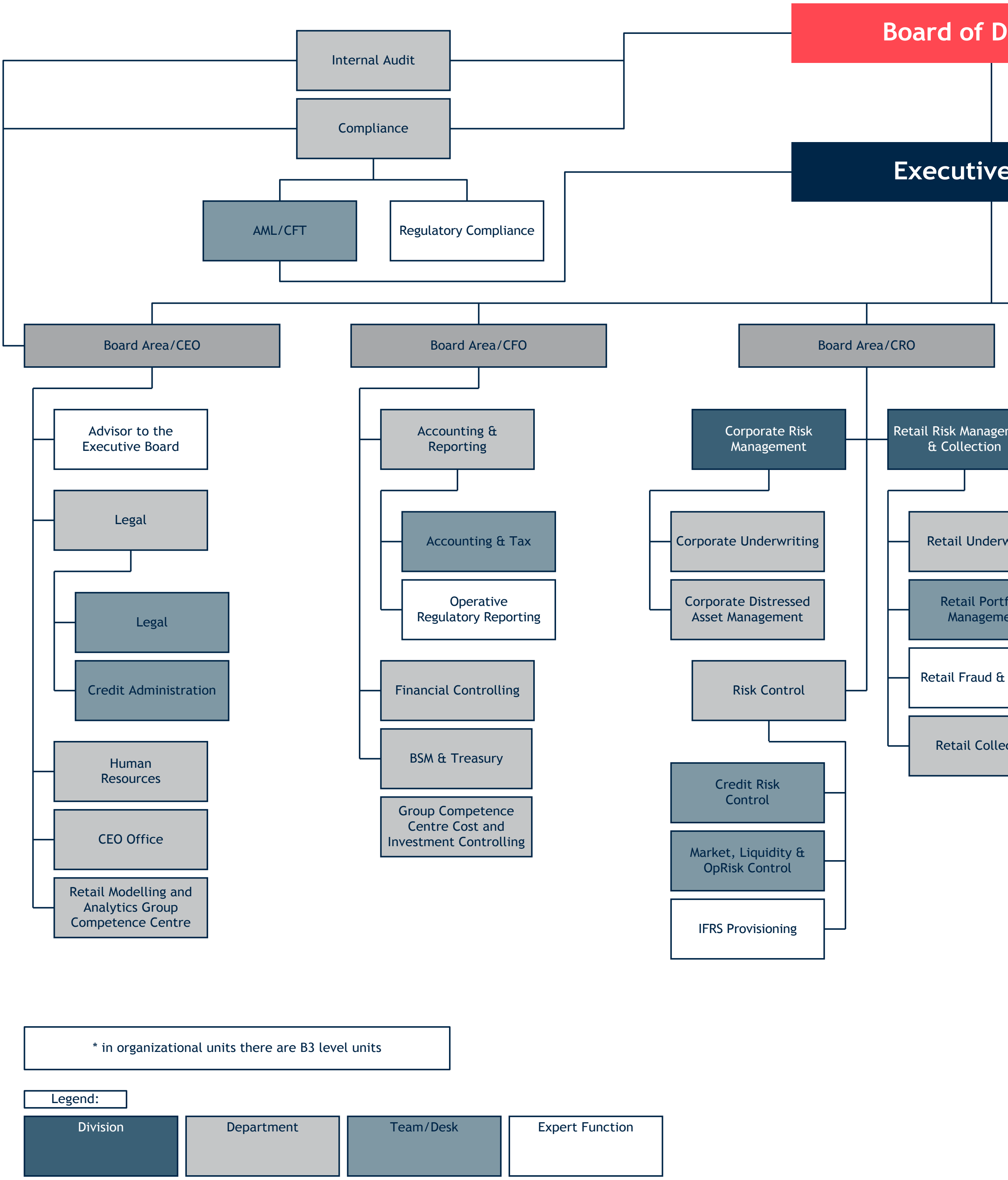
The current Bank's organization has enabled adequate successful development of the Bank in the period of specific market conditions for both commercial business entities and banks.

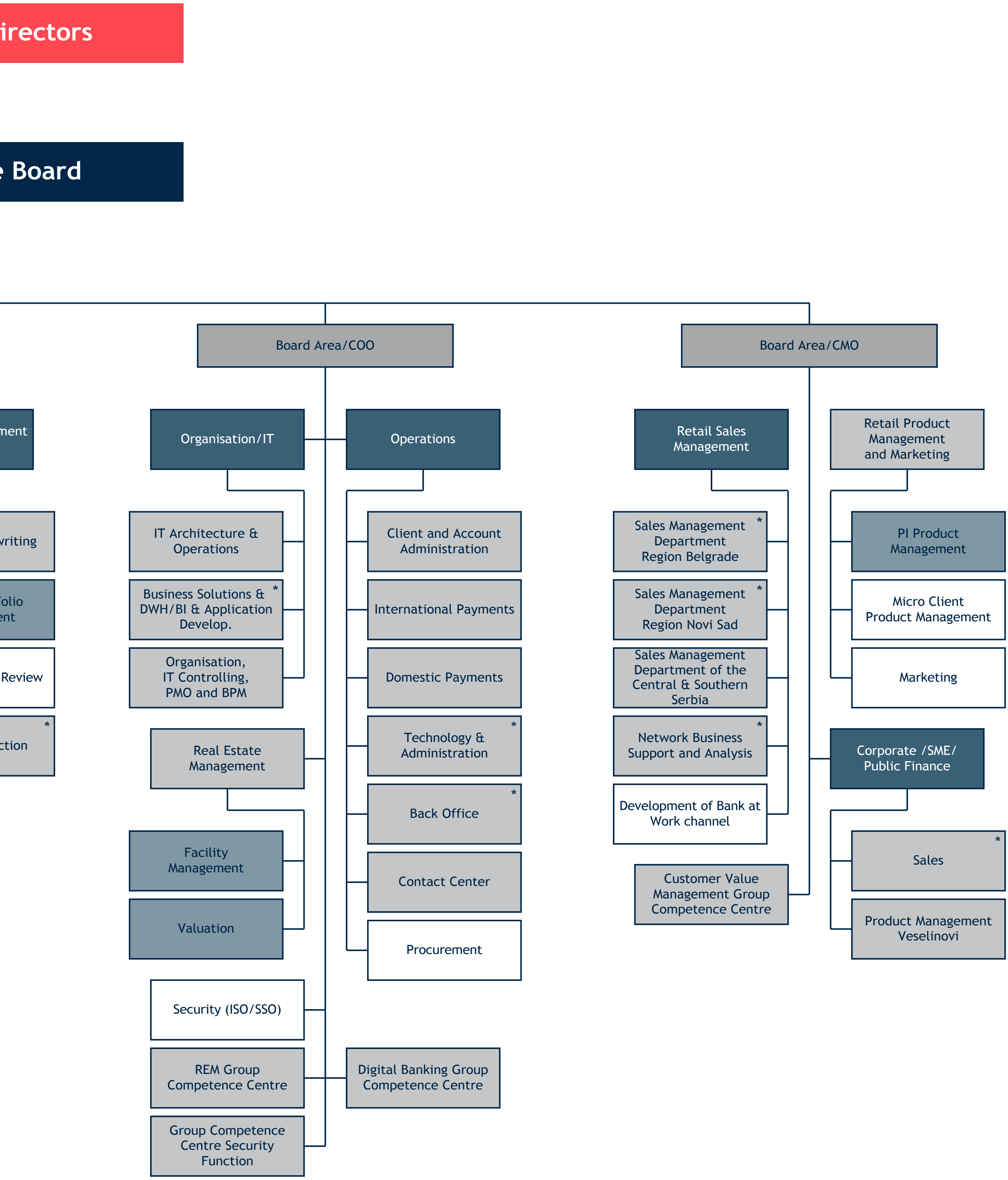
The Bank is equipped with all technical appliances and devices for the use of computer and office equipment. Front office computers and computer equipment are owned by the Bank.

On the whole, in terms of both human and technical resources, the Bank complies with all the banking business standards.

Organizational Chart

The Bank's organizational chart as of December 31, 2016 is presented on the following page:

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Real Estate Management
Technology & Administration *
Network Business Support and Analysis *
Corporate /SME/ Public Finance
Back Office *
Development of Bank at Work channel
Facility Management
Sales *
Contact Center
Customer Value Management Group Competence Centre
Valuation
Procurement
Product Management Veselinovi
Security (ISO/SSO)
REM Group Competence Centre
Digital Banking Group Competence Centre
Group Competence Centre Security Function

10. The Bank's Branch Offices

The Bank operates through its Head Office located in Belgrade and forty-one branch offices.

The Bank's organizational units – branch offices are not legal entities and have no independent transaction accounts but operate via the Bank's unique account. They are entitled to execution of contracts and performance of other legal affairs and transactions within their scope of business and within authorizations granted to them by the Bank's relevant bylaws.

The Bank's branch offices perform the following activities: collection of deposits, payment transfer operations, operations involving bills of exchange and other securities; finance and accounting operations; collection of funds from retail clients to foreign currency savings accounts, current and gyro accounts foreign exchange operations, as well as lending activities.

The list of the Bank's business units – branch offices as of December 31, 2016 is provided in the table below:

№	City/Town	Address	Area in m²
1	Ekspozitura Ušće	Bulevar Mihajla Pupina 6, Novi Beograd	4,056.92
2	Ekspozitura Novi Sad	Bulevar oslobođenja 18, Novi Sad	348.56
3	Ekspozitura Pančevo	Generala Petra Aračića 5, Pančevo	185.00
4	Ekspozitura Bečej	Trg oslobođenja 4, Bečej	591.50
5	Ekspozitura Zrenjanin	Svetozara Markovića 2, Zrenjanin	389.67
6	Ekspozitura Bačka Palanka	Kralja Petra I br. 33, Bačka Palanka	347.66
7	Ekspozitura Subotica	Korzo br. 15, Subotica	406.00
8	Ekspozitura Vršac	Dvorska br. 1, Vršac	300.00
9	Ekspozitura Kikinda	Kralja Petra I br. 41, Kikinda	200.00
10	Ekspozitura Sombor	Kralja Petra I br. 24, Sombor	279.23
11	Ekspozitura Sremska Mitrovica	Kralja Petra I br. 46 ,Sremska Mitrovica	141.88
12	Ekspozitura Šabac	Pop Lukina br. 2 , Šabac	289.00
13	Ekspozitura Čačak	Pivarska br. 2,Gradsko šetalište bb, Čačak	166.00
14	Ekspozitura Kruševac	Trg Kosovskih junaka 1, Kruševac	170.75
15	Ekspozitura Kragujevac	Dr Zorana Đinđića 11b, Kragujevac	143.10
16	Ekspozitura Jagodina	Kneginje Milice 15, Jagodina	196.00
17	Ekspozitura Leskovac	Bulevar Oslobođenja 53, Leskovac	141.00
18	Ekspozitura Užice	Dimitrija Tucovića 38, Užice	204.00
19	Ekspozitura Terazije	Terazije br. 45, Beograd	343.00
20	Ekspozitura Plaza	Bulevar Zorana Đinđića br. 8a, Novi Beograd,	420.34
21	Ekspozitura Vasina	Vase Čarapića 16-18, Beograd	419.00
22	Ekspozitura Hill	Trgovačka br. 2, Beograd, Žarkovo	556.00
23	Ekspozitura Niš Dušanova	Cara Dušana bb, Niš	292.83
24	Ekspozitura Požarevac	Trg Radomira Vujovića 12, Požarevac	276.25
25	Ekspozitura Kraljevo	Omladinska 6, Kraljevo	113.51
26	Ekspozitura Vranje	Lenjinova br.12, Vranje	90.00
27	Ekspozitura Vojvode Stepe	Vojvode Stepe 114-116, Beograd	210.00
28	Ekspozitura Resavska	Resavska br. 26, Beograd	124.00
29	Ekspozitura Zemun	Gospodska br. 11, Beograd-Zemun	127.00
30	Ekspozitura Immo centar	Gandijeva br. 21, Novi Beograd,	152.09
31	Ekspozitura Bulevar I	Bulevar kralja Aleksandra br. 100-104, Beograd	264.79
32	Ekspozitura Bežanijska kosa	Partizanske avijacije 14, Novi Beograd	324.80
33	Ekspozitura Zorana Đinđića	Bulevar Zorana Đinđića 25, Niš	107.00
34	Ekspozitura Gornji Milanovac	Karađorđeva 8-10, Gornji Milanovac	183.00
35	Ekspozitura NIS Naftagas	Narodnog fronta br. 12, Novi Sad	205.00
36	Ekspozitura Despota Stefana	Despota Stefana 95, Beograd	169.00
37	Ekspozitura Lazarevac,	Karađorđeva 45, Lazarevac	97.62
38	Ekspozitura Vidikovac	Patrijarha Joanikija 28b, Beograd	96.03
39	Ekspozitura Obrenovac	Miloša Obrenovića 129, Obrenovac	327.24
40	Ekspozitura Zaplanjska	TC Stadion, Zaplanjska 32, Beograd	164.46
41	Ekspozitura Paraćin	Kralja Petra I br.30,Paraćin	70.00
		Total area	**13,689.23**

The Bank owns buildings with premises for performance of its operations at 7 locations: Branch Office Bežanijska Kosa, Branch Office Hypo Hill Belgrade, Branch Office Stepa Stepanović Belgrade, Branch Office Bečej, Office Branch Bačka Palanka, Branch Office Subotica and Branch Office Kruševac.

All other business premises are rented.

Đorđe Lazović Head of Accounting and Reporting Department (appointed on March 1, 2017)	Rade Vojnović Executive Board Member	Ivan Radojčić Executive Board Chairperson