KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Belgrade
Serbia

Tel.: +381 (0)11 20 50 500
Fax: +381 (0)11 20 50 550
www.kpmg.com/rs

T R A N S L A T I O N

Independent Auditors' Report

TO THE SHAREHOLDERS OF

BANCA INTESA A.D. BEOGRAD

Report on separate financial statements

We have audited the accompanying separate financial statements of Banca Intesa a.d. Beograd ("the Bank"), which comprise the separate balance sheet as at 31 December 2015, the separate income statement, separate statement of other comprehensive income, separate statement of changes in equity and separate cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, we consider internal control relevant to the preparation and true and fair view of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2015, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In accordance with the Law on Accounting of the Republic of Serbia, the Bank is responsible for the preparation of the accompanying separate annual business report. Our responsibility is to express an opinion on consistency of the separate annual business report with the separate financial statements for year ended 31 December 2015. In this regard, we performed procedures in accordance with International Standards on Auditing 720 – *The Auditor's responsibilities relating to other information in documents containing audited financial statements*, which are limited to the assessment of consistency of the annual business report with the financial statements.

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

Belgrade, 17 February 2016 KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 17 February 2016 KPMG d.o.o. Beograd

(L.S.)

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

Dušan Tomić
Certified Auditor

SEPARATE BALANCE SHEET as of 31 December 2015

in thousand RSD	Note	31. Decembre 2015.	31. Decembre 2014.
Assets			
Cash and balances with Central Bank	16	98,939,321	78,553,461
Financial assets at fair value through profit and loss held for trading	17	1,431,783	174,934
Financial assets initially carried at fair value through profit and loss	17	70,974	78,970
Financial assets available for sale	17	78,048,825	57,704,967
Loans and receivables from banks and other financial organizations	18	36,168,380	70,432,011
Loans and receivables from customers	18	257,848,609	253,346,248
Investments in subsidiaries	17	962,496	962,496
Intangible assets	19	818,694	801,047
Property, plants and equipment	20	8,718,461	6,239,234
Investment property	20	224,358	230,628
Current tax assets	14	79,396	298,079
Deferred tax assets	14	220,561	224,804
Non-current assets held for sale and discontinued operations	20	256,254	256,058
Other assets	21	4,011,057	3,654,344
TOTAL ASSETS		**487,799,169**	**472,957,281**
LIABILITIES			
Financial liabilities at fair value through profit and loss held for trading	22	74,358	19,668
Deposits and other liabilities due to banks, other financial organizations and central bank	23	31,095,062	36,710,183
Deposits and other liabilities due to customers	23	331,331,668	306,563,411
Provisions	24	1,729,001	1,647,473
Current tax liabilities	14	679,444	-
Other liabilities	25	8,291,692	22,807,141
TOTAL LIABILITIES		**373,201,225**	**367,747,876**
EQUITY			
Shares capital	26	41,759,627	41,759,627
Profit	26	24,559,933	15,416,228
Reserves	26	48,278,384	48,033,550
TOTAL EQUITY		**114,597,944**	**105,209,405**
TOTAL LIABILITIES AND EQUITY		**487,799,169**	**472,957,281**

Belgrade, 17 February 2016

Rada Radović	Alessio Cioni	Draginja Đurić
Head of Accounting Department	Deputy President of the Executive Board	President of the Executive Board

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

SEPARATE INCOME STATEMENT for the period from 1 January to 31 December, 2015

in thousand RSD	Note	2015	2014
Interest income	3	25,419,472	27,838,612
Interest expenses	3	(5,209,044)	(6,775,049)
Net interest income		**20,210,428**	**21,063,563**
Fee and commission income	4	8,556,828	8,430,918
Fee and commission expenses	4	(3,113,026)	(2,781,856)
Net fee and commission income		**5,443,802**	**5,649,062**
Net profit on financial assets held for trading	5	213,419	155,267
Net profit on financial assets initially carried at fair value through profit and loss	6	23,176	36,493
Net profit/(loss) on financial assets available for sale	7	(991)	14,333
Net profit on foreign exchange differences and foreign currency clause	8	3,778,711	2,170,666
Other operating income	9	1,321,130	473,056
Impairment losses from financial assets and credit risk off-balance sheet items	10	(7,778,192)	(9,168,698)
Net operating income		**23,211,483**	**20,393,742**
Salaries, wages and other personal expenses	11	(5,464,282)	(4,707,674)
Depreciation expenses	12	(912,862)	(892,860)
Other expenses	13	(7,151,711)	(7,696,902)
Profit before income tax		**9,682,628**	**7,096,306**
Income tax	14	(1,098,049)	(287,603)
Profit after Tax		**8,584,579**	**6,808,703**
Basic earnings per share (in RSD)	15	40,273	31,942

Belgrade, 17 February 2016

Rada Radović Head of Accounting Department	Alessio Cioni Deputy President of the Executive Board	Draginja Đurić President of the Executive Board

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME from 1 January to 31 December 2015

RSD thousand	**2015**	**2014**
Profit for the period	**8,584,579**	**6,808,703**
Components of comprehensive income that cannot be reclassified to profit or loss:		
Increase/(Decrease) of revaluation reserve on the valuation of intangible assets and tangible assets	(559,126)	-
Components of comprehensive income that may be reclassified to profit or loss:		
Positive/(negative) effects of changes in fair value of financial assets available for sale	803,960	(486,486)
Total positive/(negative) comprehensive income	244,834	(486,486)
Total positive result for the period	**8,829,413**	**6,322,217**

Belgrade, 17 February 2016

Rada Radović	Alessio Cioni	Draginja Đurić
Head of Accounting Department	Deputy President of the Executive Board	President of the Executive Board

SEPARATE STATEMENT OF CHANGES IN EQUITY for the period from 1 January to 31 December 2015

RSD thousand	Shares capital and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Profit	Total equity
Balance as of 1 January 2014	21,327,058	20,432,569	47,484,121	1,035,915	8,607,525	98,887,188
Negative effects of changes in fair value of financial assets available for sale	-	-	-	(486,486)	-	(486,486)
Current year profit	-	-	-	-	6,808,703	6,808,703
Balance as of 31 December 2014	21,327,058	20,432,569	47,484,121	549,429	15,416,228	105,209,405
Balance as of 1 January 2015	21,327,058	20,432,569	47,484,121	549,429	15,416,228	105,209,405
Positive effects of changes in fair value of financial assets available for sale				803,960		803,960
Transfer of revaluation reserve on the valuation of intangible assets and tangible assets	-	-	-	(559,126)	559,126	-
Current year profit	-	-	-	-	8,584,579	8,584,579
Balance as of 31 December 2015	21,327,058	20,432,569	47,484,121	794,263	24,559,933	114,597,944

Belgrade, 17 February 2016

Rada Radović	Alessio Cioni	Draginja Đurić
Head of Accounting Department	Deputy President of the Executive Board	President of the Executive Board

SEPARATE CASH FLOW STATEMENT for the period from 1 January 1 to 31 December 2015

RSD thousand	2015	2014
Cash receipts from operating activities	**36,307,383**	**36,228,070**
Interest receipts	23,936,033	24,933,881
Fee and commission receipts	8,605,096	8,600,044
Receipts from other operating income	3,765,378	2,692,133
Receipts from dividends and equity investments	876	2,012
Cash payments from operating activities	**(19,038,056)**	**(18,922,740)**
Interest payments	(3,212,872)	(3,719,820)
Fee and commission payments	(3,071,747)	(2,755,291)
Payments to and on behalf of employees	(5,511,233)	(4,838,817)
Taxes, contributions and other duties paid	(373,662)	(615,836)
Payments for other operating expenses	(6,868,542)	(6,992,976)
Net operating cash flows before changes in placements and deposits	**17,269,327**	**17,305,330**
Decreases in placements and increases in deposits and other liabilities	**4,881,285**	**64,914,634**
Decrease in loans and receivables from banks, other financial organizations, central bank and customers	-	35,887,038
Increase in deposits and other liabilities due to banks, other financial organizations, central bank and customers	4,881,285	29,027,596
Increases in placements and decreases in deposits and other liabilities	**(71,476,901)**	**(13,268,356)**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	(53,089,559)	-
Increase in financial assets initially carried at fair value through profit and loss, financial assets held for trading and other securities not held with investment purposes	(18,367,675)	(13,254,238)
Decrease in financial liabilities initially carried at fair value through profit and loss and financial liabilities held for trading	(19,667)	(14,118)
Net cash generated from/(used in) operating activities before taxes	**(49,326,289)**	**68,951,608**
Income tax paid	(195,679)	(433,284)
Net cash generated from/(used in) operating activities	**(49,521,968)**	**68,518,324**
Cash inflows from investing activities	**146,948**	**154,187**
Inflow from investments in investment securities	69	-
Inflow from sale of intangible assets and property, plant and equipment	146,879	129,834
Inflow from sale of investment property	-	24,353
Cash outflows from investing activities	**(3,656,633)**	**(1,054,409)**
Purchase of intangible assets and property, plant and equipment	(3,656,633)	(1,038,237)
Purchase of investment property	-	(16,172)
Net cash outflow from investing activities	**(3,509,685)**	**(900,222)**
Cash inflows from financing activities	**52,564,175**	**57,162,406**
Proceeds from received loans	52,564,175	57,162,406
Cash outflows from financing activities	**(55,799,934)**	**(67,793,128)**

Outflow from received loans	(55,799,934)	(67,793,128)
Net cash outflow from financing activities	**(3,235,759)**	**(10,630,722)**
Total cash inflows	**93,899,791**	**158,459,297**
Total cash outflows	**(150,167,203)**	**(101,471,917)**
Net increase/(decrease) in cash	(56,267,412)	56,987,380
Cash and cash equivalents at beginning of the year	**79,926,194**	**21,421,677**
Foreign exchange gains	2,715,851	1,629,691
Foreign exchange losses	(2,547,844)	(112,554)
Cash and cash equivalents at end of the year	**23,826,789**	**79,926,194**

Belgrade, 17 February 2016

Rada Radović Head of Accounting Department	Alessio Cioni Deputy President of the Executive Board	Draginja Đurić President of the Executive Board

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

for the period from 1 January to 31 December 2015

Content:

1. CORPORATE INFORMATION

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

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

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

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

During 2012, the Bank’s Assembly adopted amendments to the Memorandum on Association and the Article of Association, with the approval of the National Bank of Serbia, which is registered with the Decision of the Serbian Business Registers Agency no. BD 85268/2012 dated 27 June 2012. In this way the Bank duly complied with the Law on Companies of the Republic of Serbia ("Off. Gazette of RS", no. 36/2011 and 99/2011).

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

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

As of 31 December 2015, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b. The Bank network consists of associated organizational units as follows: 4 regional centres and 170 branches.

The Bank had 3,010 employees as of 31 December 2015 (31 December 2014: 3,025 employees).

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

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

The financial statements of the Bank for 2015 (further: the financial statements) have been prepared in accordance with International Financial Reporting Standards (further: IFRS).

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

Standards and interpretations which have been applied for the first time as of the current period are as follows:
- Amendment to IAS 19 Employee Benefits, Contribution plans (valid for financial periods as of 1 July 2014);
- Annual improvements Cycle, 2010-2012 Cycle (valid for financial periods as of 1 July 2014);
- Annual improvements Cycle, 2011-2013 Cycle (valid for financial periods as of 1 July 2014).

During the period in which the financial statements had been approved, following standards and interpretations were issued, which are to be applied in the following period:
- IFRS 9 Financial instruments (valid for financial periods as of 1 January 2018)

In accordance with IFRS 9, financial assets are to be classified in one of two categories at the initial recognition: financial assets at amortized cost and financial assets at fair value. Financial assets are to be carried at amortized cost, if the following two criteria are met: assets are related to business model with aim to collect contractual cash flow and contract terms provide collection of cash flows, which comprise only principal amount and interest on the remaining principal on specific dates. All other assets are to be carried at fair value. Profit and loss from valuation of financial assets at fair value are to be recognized within the income statement, except when valuating equity investments with no trading purpose, in which case IFRS 9 allows, at initial recognition, that all changes of fair value are recognized within the other comprehensive income and this could not be changed later. Amount initially recognized within the other comprehensive income could not be recognized later within the income statement.

- IFRS 15 Revenue from Contracts with Customers (valid for financial periods as of 1 January 2017);
- IFRS 14 Regulatory Deferral Accounts (valid for financial periods as of 1 January 2016);
- Amendment to IFRS 11 Joint Arrangements – Accounting for acquisitions of Interests in joint operations accounting, (valid for financial periods as of 1 January 2016);
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of acceptable methods of depreciation and amortization (valid for financial periods as of 1 January 2016);
- Amendment to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (valid for financial periods as of 1 January 2016);
- Amendment to IFRS 10 Consolidated financial statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (valid for financial periods as of 1 January 2016);
- Annual improvements Cycle, 2012-2014 Cycle (valid for financial periods as of 1 July 2016).

The Bank's Management is currently in the process of analysing effects of listed standards and interpretations to the Bank's financial statements, as well as the date they will become valid.

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

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

The enclosed financial statements are individual, since they include receivables, liabilities, operating results, changes in equity and the Bank's cash flow, excluding its subsidiary – Intesa Leasing d.o.o., Beograd, in which the Bank has 100% property. In accordance with IFRS 10, the Bank is excluded from preparation of consolidated financial statements in accordance with IFRS. The Bank recognized this investment in subsidiary at cost. Total asset of subsidiary is 1,92 % of total Bank`s assets as at 31 December 2015.

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

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

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

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

2.2. Comparative data

Accounting policies and estimates applied in the preparation of the financial statements are consistent with the accounting policies and estimates applied in the preparation of the annual financial statements of the Bank for the year 2014.

2.3. Significant Accounting Estimates and Judgments

Use of Estimates

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

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

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

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

2.3. Significant Accounting Estimates and Judgments (continued)

Impairment of financial assets

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

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

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

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

Useful Lives of Intangible Assets, Property and Equipment

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

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

Impairment of Non-Financial Assets

As of balance sheet date Bank’s management reviews the carrying amounts of the Bank’s intangible assets and property, plant and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires from management to make subjective judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Provisions for legal proceedings

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

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

2.3. Significant Accounting Estimates and Judgments (continued)

Provisions for legal proceedings (continued)

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

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

Deferred tax assets

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

Retirement and Other Post-Employment Benefits

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

2.4. Interest Income and Expenses

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

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

The loan origination fee, which is a part of the effective interest rate, is recorded within “Interest income“. Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and amortized to interest earned on loans and advances over the life of the loan, using the straight-line method, which approximates the effective yield.

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

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

2.4. Interest Income and Expenses (continued)

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

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

2.5. Fee and Commission Income and Expenses

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

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

2.6. Foreign Currency Translation

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

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

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

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

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

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

2.7. Financial Instruments

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

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

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

2.7. Financial Instruments (continued)

Derecognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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

2.7.1. Financial Assets at Fair Value through Profit or Loss

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

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

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

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

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

2.7. Financial Instruments (continued)

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

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

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

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

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

2.7.2. Loans and receivables

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

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

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

2.7. Financial Instruments (continued)

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

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

Impairment of financial assets and provisions for risks

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

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

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

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

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

2.7. Financial Instruments (continued)

2.7.2. Loans and receivables (continued)

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that takes into account credit risk characteristics. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist at the balance sheet date. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Uncollectable receivables write-off

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

Exceptionally, receivables that do not fulfil the above mentioned requirements may be written-off if such decision is made by the appropriate authority, Asset Quality Committee, in accordance with the authorizations delegated by the Board of Directors.

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

2.7. Financial Instruments (continued)

2.7.3. Renegotiated Loans

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

2.7.4. Financial assets Held-to-Maturity

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

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

As of 31 December, the Bank has no financial assets classified within this category and didn't invest in these assets during 2015.

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

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

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

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

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

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

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

2.7. Financial Instruments (continued)

2.7.5. Financial assets available for sale (continued)

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

2.7.6 Deposits from banks and customers

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

2.7.7. Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Borrowings are classified as current liabilities, unless the Bank has unconditional right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.7.8. Operating liabilities

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

2.8. Offsetting financial instruments

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

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

Special reserves for estimated losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia’s “Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items” (“Official Gazette of the Republic of Serbia“, no. 94/2011, 57/2012, 123/2012, 43/2013 and 135/2014,14/2015 and 38/2015).

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

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

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

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

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

Calculated special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.7.2. and charged to the income statement (Note 10).

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

2.10. Cash and balances with Central Bank

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

2.11. Consolidated financial statements

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

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

As of 31 December 2015, the Bank owns 100% of capital of Intesa Leasing d.o.o., Beograd and therefore has the full control over it. Equity investment in the aforementioned subsidiary is stated at cost, less allowance for impairment (Note 17(c)).

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

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

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

2.11. Consolidated financial statements (continued)

2.11.1 Investments in associates

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

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

The Bank has no investments in associates or joint ventures.

2.12. Intangible Assets

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

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

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

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

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

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

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

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

2.13.1. Property, plant and equipment and Investment property

As of 31 December 2015, property, plant and equipment (further: Fixed assets) are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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

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

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

2.13.1. Property, plant and equipment and Investment property (continued)

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

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

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

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

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

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

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

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

2.13.2 Fixed assets held for sale

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

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

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

- carrying amount
- fair value less costs to sell.

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

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

2.14. Impairment of non-financial assets

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

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

2.15. Finance Leases

Bank as a Lessee

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

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

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

2.16. Operating Leases

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

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

2.17. Provisions and Contingencies

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

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

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

2.17. Provisions and Contingencies (continued)

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

2.18. Equity

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

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

2.19. Employee benefits

(a) Employee taxes and Contributions for Social Security

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

.(b) Termination Benefits arising from Restructuring

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

(c) Other Employee Benefits - Retirement Benefits

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

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

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

2.20. Taxes and contributions

(a) Income Tax

Current Income Tax

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

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

Deferred income tax

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

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

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

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

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

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

2.20. Taxes and contributions (continued)

(a) Income Tax (continued)

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

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

(b) Taxes and contributions not related to operating result

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

2.21. Funds Managed on Behalf of Third Parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 27). The Bank is not exposed to any risk in respect of repayment of these placements.3. INTEREST INCOME AND INTEREST EXPENSES

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

		RSD thousand
	2015	**2014**
Interest income		
– Central bank and other banks	1,254,542	1,647,126
– Holding companies	84	299
– Corporate	9,438,316	10,738,649
– Households	9,597,971	9,267,928
– Public sector	4,672,987	5,810,891
– Foreign banks and financial organizations	9,911	13,771
– Foreign entities	292,098	103,217
– Other customers	153,563	256,731
Total	**25,419,472**	**27,838,612**
Interest expenses		
– Central bank and other banks	(122,957)	(143,619)
– Holding companies	(6)	(8)
– Corporate	(1,506,497)	(1,984,143)
– Households	(2,067,690)	(3,166,406)
– Public sector	(721,593)	(420,870)
– Foreign banks and financial organizations	(324,986)	(567,713)
– Foreign entities	(215,872)	(270,667)
– Other customers	(249,443)	(221,623)
Total	**(5,209,044)**	**(6,775,049)**
Net interest income	**20,210,428**	**21,063,563**

As of 31 December 2015, total interest income on impaired loans amounts RSD 2,578,355 thousand (31 December 2014: RSD 2,897,750 thousand).

3. INTEREST INCOME AND INTEREST EXPENSES (continued)

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

RSD thousand

	2015	2014
Interest income		
Loans	19,890,082	20,876,496
REPO transactions	230,254	857,380
Obligatory reserves	620,743	582,546
Deposits	358,285	111,245
Securities	4,010,704	4,658,676
Other placements	309,404	752,269
Total	**25,419,472**	**27,838,612**
Interest expenses		
Loans	(596,351)	(849,367)
Deposits	(4,389,931)	(5,877,798)
Securities	(220,554)	(44,782)
Other interest expenses	(2,208)	(3,102)
Total	**(5,209,044)**	**(6,775,049)**
Net interest income	**20,210,428**	**21,063,563**

4. FEE AND COMMISSION INCOME AND EXPENSES

RSD thousand

	2015	2014
Fee and commission income		
Fee for banking services:		
– Domestic payment transaction services	2,326,617	2,457,002
– International payment transaction services	647,103	591,824
– Loan operations	145,459	166,698
– Cards operations	2,788,959	2,621,620
	5,908,138	**5,837,144**
Commissions related to issued guaranties and letter of credits	616,037	647,907
Current accounts maintenance	1,421,074	1,353,954
Fees slips, EDB and Telekom	302,829	303,754
Other fee and commission	308,750	288,159
Total	**8,556,828**	**8,430,918**
Fee and commission expenses		
Payment services fee:		
– Domestic	(204,464)	(199,595)
– International	(129,203)	(120,228)
National Bank of Serbia’s fee and commission	(76,734)	(73,427)
Credit Bureau’s fees	(149,062)	(145,469)
Cards operations fee	(2,382,001)	(2,104,052)
Other fees and commissions	(171,562)	(139,085)
Total	**(3,113,026)**	**(2,781,856)**
Net fee and commission income	**5,443,802**	**5,649,062**

5. NET PROFIT ON FINANCIAL ASSETS HELD FOR TRADING

RSD thousand

	2015	2014
Change in value income		
- currency swap	257,799	173,866
- forward	6,438	1,068
- debt securities	25,711	-
Total income	**289,948**	**174,934**
Change in value expenses		
- currency swap	(71,672)	(17,067)
- forward	(2,686)	(2,600)
- debt securities	(2,171)	-
Total expenses	**(76,529)**	**(19,667)**
Net profit	**213,419**	**155,267**

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

RSD thousand

	2015	2014
Income from change in value of financial assets initially carried at fair value through profit and loss		
- gold and silver	15,330	14,481
- equity securities	23,078	28,817
Total income	**38,408**	**43,298**
Expenses from change in value of financial assets initially carried at fair value through profit and loss		
- gold and silver	(15,232)	(6,805)
Total expenses	**(15,232)**	**(6,805)**
Net profit	**23,176**	**36,493**

7. NET PROFIT/ (LOSS) ON FINANCIAL ASSETS AVAILABLE FOR SALE

RSD thousand

	2015	2014
Gains on sales		
- debt securities	1,853	17,084
Total gains	**1,853**	**17,084**
Losses on sales		
- debt securities	(2,844)	(2,751)
Total losses	**(2,844)**	**(2,751)**
Net profit/(loss)	**(991)**	**14,333**

8. NET PROFIT ON FOREIGN EXCHANGE RATE AND FX CONTRACTS

RSD thousand

	2015	2014
Income from positive exchange rate differences	41,169,816	38,736,244
Income from positive exchange rate differences related to FX contracts	13,313,252	14,793,225
Total income	**54,483,068**	**53,529,469**
Expenses on negative exchange rate differences	(39,717,553)	(45,826,658)
Expenses on negative exchange rate differences related to FX contracts	(10,986,804)	(5,532,145)
Total expenses	**(50,704,357)**	**(51,358,803)**
Net profit	**3,778,711**	**2,170,666**

9. OTHER OPERATING INCOME

RSD thousand

	2015	2014
Income from reversal of unused provisions of liabilities	185,811	116,130
Property rentals income	57,136	70,475
Gaines on sales of fixed assets and surpluses	15,108	23,221
Reimbursed expenses	17,233	14,789
Income from dividends and equity interests	126,376	2,012
Income from decrease of liabilities	7,105	-
Other income	912,361	246,429
Total	**1,321,130**	**473,056**

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

a) Overview by classes

RSD thousand

	2015	2014
Income from reversal of indirect write-offs of placements	4,893,985	4,636,620
Income from reversal of indirect write-offs of equity investments	-	182
Income from reversal of provisions for off-balance sheet items	426,620	572,304
Income from recovered written-off receivables	436,687	171,117
Total income	**5,757,292**	**5,380,223**
Expenses for indirectly written-off placements of balance sheet assets	(12,837,977)	(13,681,838)
Expenses for indirectly written-off equity investments	(1,398)	-
Expenses for provisions for off-balance sheet items	(508,835)	(714,872)
Expenses for written-off uncollectible receivables	(187,274)	(152,211)
Total expenses	**(13,535,484)**	**(14,548,921)**
Net loss	**(7,778,192)**	**(9,168,698)**

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

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

Movements in the allowance for impairment of balance-sheet items and provisions during the 2015 are presented as follows:

RSD thousand

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

Movements in the allowance for impairment and provisions in 2014	Balance
Opening balance - 31 December 2013	26,550,870
Increase in provisions during the year	14,396,709
Reversal of provisions during the year	(5,208,924)
Increase in provisions due to exchange rate changes	1,023,733
Reversal of provisions due to exchange rate changes	(80,520)
Transfer to off-balance	(5,166,076)
Transfer from off-balance	40,041
Reversal of provisions due to passage of time (unwinding)	(1,473,095)
Closing balance - 31 December 2014	**30,082,738**

11. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

RSD thousand

	2015	2014
Net salaries	3,425,028	3,400,976
Tax on employee benefits	428,068	427,944
Contributions on employee benefits	1,584,882	851,607
Expenses for temporary and occasional work	4,981	4,741
Other personal expenses	20,990	22,076
Expenses for provisions for pensions and other provisions for employees	333	330
Total	**5,464,282**	**4,707,674**

12. DEPRECIATION AND AMORTIZATION

RSD thousand

	2015	2014
Depreciation and amortization:		
– Amortization of intangible assets (Note 19)	380,370	367,583
– Depreciation of fixed assets and investment property (Note 20)	532,492	525,277
Total	**912,862**	**892,860**

13. OTHER EXPENSES

RSD thousand

	2015	2014
Material, energy and spare parts	376,965	324,100
Professional services	732,835	663,140
Advertising, marketing and entertainment expenses	384,565	425,324
Mail and telecommunication expenses	325,279	325,785
Insurance premiums	1,913,932	1,650,526
Maintenance of property, plant and equipment	420,448	401,215
Rental cost	1,147,672	1,092,241
Fees and commissions	173,691	181,346
Taxes and contributions	106,154	880,298
Physical-technical security	251,151	208,249
General and administrative expenses	352,009	299,294
Losses on write-offs, disposals and shortage of property, equipment and intangible assets	7,078	754
Other expenses	757,136	217,742
Losses on sales of other placements	-	3,156
Expenses for provisions for liabilities	202,796	102,290
Impairment of the fixed assets, investment property and intangible assets	-	921,442
Total	**7,151,711**	**7,696,902**

14. INCOME TAX

(a) Components of Income Tax

The components of income tax expenses are:

RSD thousand

	2015	2014
Current income tax	1,093,806	433,284
Gains from deferred tax assets and reduction of deferred tax liabilities	(11,948)	(147,898)
Loss from reduction of deferred tax assets and creation of deferred tax liabilities	16,191	2,217
Total	**1,098,049**	**287,603**

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

	2015	2014
Profit before tax	**9,682,628**	**7,096,306**
Income tax at the rate of 15%	**1,452,394**	**1,064,446**
Tax effects of expense reconciliation – permanent differences	76,654	24,833
Tax effects of revenue reconciliation – permanent differences	(667,886)	(845,002)
Tax effects of depreciation differences recognized for tax and statutory reporting – temporary differences	22,412	27,310
Tax effects of expenses that will be recognized in subsequent period – temporary differences	9,137	143,609
Tax credits on investments in fixed assets	201,095	18,039
Other (capital gains)	-	49
Income tax stated in the income statement	**1,093,806**	**433,284**
Effective tax rate	**11.30%**	**6.11%**

14. INCOME TAX (Continued)

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2015, the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions. Consequently, the tax base increased for the amount of provisions totalling RSD 203,129 thousand (31 December 2014: RSD 102,620 thousand), due to:

- Provisions for litigations in accordance with IAS 37 „Provisions, Contingent Liabilities and Contingent Assets“ in the amount RSD 202,406 thousand (31 December 2014: RSD 58,680 thousand), permanent differences;
- Provisions for restructuring in accordance with IAS 37 „Provisions, Contingent Liabilities and Contingent Assets“ in the amount RSD 390 thousand (31 December 2014: RSD 43,610 thousand), temporary differences;
- Provisions in accordance with IAS 19 „Employee benefits” in the amount of RSD 333 thousand (31 December 2014: RSD 330 thousand), temporary differences

In accordance with the abovementioned the bank made an adjustment on the revenue side by excluding interest income generated by debt securities issued by the Republic, local government and the National Bank of Serbia from the tax base, for a total of RSD 4,143,435 thousand (31 December 2014: RSD 5,520,022 thousand).

(c) Deferred Tax Assets

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

Effects of the temporary differences stated in 2015, relate to:

- reduction based on the difference between accounting and tax depreciation in the amount of RSD 13,241 thousand,
- reduction based on derivatives carrying amount from previous year, in the amount of RSD 2,950 thousand, and
- increase based on the difference between calculated taxes booked in current period and paid in the subsequent period, in the amount of RSD 11,948 thousand.

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

RSD thousand

	2015	2014
Balance as of 1 January	224,804	79,122
Effect of temporary differences credited to income statement	(4,243)	145,682
Balance as of 31 December	**220,561**	**224,804**

Finally a set amount Current tax liabilities shown in the balance sheet at 31 December 2015 amounted to 679.144 thousand (31 December 2014, there were no liabilities), and was created by decreasing the amount of current income tax liability for the amount of prepaid income taxes for 2015, paid during 2015.

15. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit by the weighted average number of shares during the year. As of 31 December 2015 the Bank has no preferred shares.

	2015	2014
Net profit	8,584,579	6,808,703
Weighted average number of ordinary shares during the year	213,159	213,159
Basic earnings per share in RSD (no decimals)	**40,273**	**31,942**

16. CASH AND BALANCES WITH CENTRAL BANK

(a) Cash and balances with Central Bank

		RSD thousand
	2015	**2014**
In RSD		
Gyro account	5,005,042	30,600,441
Cash on hand	4,978,800	4,944,928
Surplus liquidity deposits	25,000,000	-
Receivables for calculated interest, fee and commission based on cash and balances with the Central Bank	16,293	24,894
Accruals related to cash and balances with the Central Bank	1,417	-
	35,001,552	**35,570,263**
In foreign currency		
Cash on hand	2,351,224	2,287,685
Other monetary assets	26,222	1,162,986
Obligatory reserves with NBS	61,508,078	39,480,380
	63,885,524	**42,931,051**
Gold and precious metals	52,245	52,147
Gross balance as of 31 December	**98,939,321**	**78,553,461**
Less: Allowance for impairment		
- In RSD	-	-
- In foreign currency	-	-
	-	**-**
Balance as of 31 December	**98,939,321**	**78,553,461**

Obligatory dinar reserves with the National Bank of Serbia

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

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

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

As of 31 December 2015, calculated obligatory reserves in dinars was RSD 23,940,056 thousand (31 December 2014: RSD 25,605,102 thousand) and in accordance with the above mentioned National Bank of Serbia's Decision.

On 31 December 2015, interest rate applied on the average amount of the allocated obligatory reserves in dinars, which does not exceed the amount of calculated obligatory reserves, was 1,75% per annum.

Foreign currency obligatory reserves with the National Bank of Serbia

In accordance with the Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015, 102/2015), The Bank calculated foreign currency obligatory reserves on 31 December 2015. by applying 22% on the amount of the average daily balance of the liabilities in foreign currency, while 50% is applied on the average daily balance of EUR indexed dinar liabilities denominated in foreign currency during the preceding calendar month with contractual maturity of up to 730 days (with the exceptions defined by the Decision), while 15% is applied for the liabilities in foreign currency, and 50% is applied on the EUR indexed dinar liabilities denominated in foreign currency with contractual maturity of over 730 days. Therefore, 62% of the calculated foreign currency obligatory reserves is allocated based on the balance of the liabilities in foreign currency and based on the balance of EUR indexed dinar liabilities denominated in foreign currency with contractual maturity up to 730 days, as well as 70% of the calculated foreign currency obligatory reserves based on the balance of the same kind of liabilities denominated in foreign currency with contractual maturity of over 730 days to the National Bank of Serbia's foreign currency accounts in euros.

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

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

As of 31 December 2015, calculated foreign currency obligatory reserves was EUR 259,659,577.83 (31 December 2014: EUR 316,231,918.00) and in accordance with the above mentioned National Bank of Serbia's Decision.

(b) Overview of the differences between Cash stated in Cash Flow Statement and balance-sheet item Cash and balances with Central Bank as of 31st December 2015

RSD thousand

	Balance sheet	Statement of cash flows	Difference
In RSD			
Gyro account	5,005,042	5,005,042	-
Cash on hand	4,978,800	4,978,800	-
Surplus liquidity deposits	25,000,000	-	25,000,000
Receivables for calculated interest, fee and commission based on cash and balances with the Central Bank	16,293	-	16,293
Accruals based on cash and assets with the central banks	1,417	-	1,417
	35,001,552	**9,983,842**	**25,017,710**
In foreign currency			
Cash on hand	2,351,224	2,351,224	-
Other cash assets	26,222	26,222	-
Obligatory reserves with NBS	61,508,078	-	61,508,078
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	11,375,790	(11,375,790)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	37,466	(37,466)
	63,885,524	**13,790,702**	**50,094,822**
Gold and other precious metals	52,245	52,245	-
Balance as of 31 December 2015	**98,939,321**	**23,826,789**	**75,112,532**

Overview of the differences between Cash stated in Cash Flow Statement and balance-sheet item Cash and balances with Central Bank as of 31st December 2014

	Balance sheet	Cash flows	Difference
In RSD			
Gyro account	30,600,441	30,600,441	-
Cash on hand	4,944,928	4,944,928	-
Receivables for calculated interest, fee and commission based on cash and balances with the Central Bank	24,894	-	24,894
	35,570,263	**35,545,369**	**24,894**
In foreign currency			
Cash on hand	2,287,685	2,287,685	-
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	40,843,387	(40,843,387)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	34,620	(34,620)
Other monetary assets	1,162,986	1,162,986	-
Obligatory reserves with NBS	39,480,380	-	39,480,380
	42,931,051	**44,328,678**	**(1,397,627)**
Gold and other precious metals	52,147	52,147	-
Balance as of 31 December 2014	**78,553,461**	**79,926,194**	**(1,372,733)**

17. FINANCIAL ASSETS CLASSIFICATION

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

RSD thousand

	2015	2014
In RSD		
Financial derivatives	264,237	174,934
	264,237	**174,934**
In foreign currency		
Debt securities held for trade	1,167,546	-
	1,167,546	**-**
Total	**1,431,783**	**174,934**

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

INVESTMENT IN SUBSIDIARIES AND FINANCIAL ASSETS HELD FOR TRADING AND AVAILABLE FOR SALE

RSD thousand

	2015				2014			
	Financial assets initially carried at fair value through Profit and Loss	**Financial assets available for sale**	**Investments in subsidiaries**	**Total**	**Financial assets initially carried at fair value through Profit and Loss**	**Financial assets available for sale**	**Investments in subsidiaries**	**Total**
– shares and equity investment	43,864	49,361	962,496	1,055,721	40,090	49,594	962,496	1,052,180
– debt securities issued by the Republic of Serbia	-	64,005,610	-	64,005,610	-	55,496,651	-	55,496,651
- accrued interest on debt securities issued by the Republic of Serbia	-	13,227,677	-	13,227,677	-	2,195,338	-	2,195,338
	43,864	**77,282,648**	**962,496**	**78,289,008**	**40,090**	**57,741,583**	**962,496**	**58,744,169**
Difference from the cost	27,110	794,263	-	821,373	38,880	(9,695)	-	29,185
	27,110	794,263	-	821,373	38,880	(9,695)	-	29,185
Gross balance	**70,974**	**78,076,911**	**962,496**	**79,110,381**	**78,970**	**57,731,888**	**962,496**	**58,773,354**
Less: Allowance for impairment	-	(28,086)	-	(28,086)	-	(26,921)	-	(26,921)
Balance as of 31 December	**70,974**	**78,048,825**	**962,496**	**79,082,295**	**78,970**	**57,704,967**	**962,496**	**58,746,433**

(c) SHARES, EQUITY INVESTMENT AND INVESTMENT IN SUBSIDIARIES

	2015	2014
	RSD thousand	
Investment in subsidiaries:		
INTESA LEASING DOO BEOGRAD – 100% shares	962,496	962,496
Less: Allowance for impairment	-	
	962,496	**962,496**
Financial assets initially carried at fair value through profit and loss:		
INTESA SANPAOLO SPA	43,864	40,090
Difference from the market value	27,110	38,880
	70,974	**78,970**
Financial assets available for sale:		
KOSMAJ-MERMER AD MLADENOVAC	37	37
ALMA MONS DOO, NOVI SAD	30	30
BANCOR CONSULTING GROUP DOO NOVI SAD	34	267
PAN-TRGOVINA DOO NOVI SAD	466	466
IMK 29. NOVEMBAR AD SUBOTICA - U STEČAJU	15,073	15,073
AGENCIJA VEEDA DOO VRANJE	29	29
MENTA DOO PADEJ	5,814	5,814
PANON CRVENKA AD KELEBIJA	25,729	25,729
RAZVOJNA BANKA VOJVODINE AD NOVI SAD - U STEČAJU	1,566	1,566
TRŽIŠTE NOVCA AD BEOGRAD	583	583
MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA BONDS	66,031,242	57,691,989
BONDS OF THE REPUBLIC OF ITALY	11,202,045	-
Difference from the cost	794,263	(9,695)
Less: Allowance for impairment	(28,086)	(26,921)
	78,048,825	**57,704,967**
Balance as of 31 December	**79,082,295**	**58,746,433**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

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

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

RSD thousand

	2015	2014
In RSD		
Loans under reverse repo transactions	10,000,000	-
Receivables for calculated interest	2,453	2,730
Current account loans	51	79
Loans approved and due with one day (overnight)	-	700,000
Liquidity and current assets loans	801,900	11,840
Investment loans	698,168	333,157
Other loans	795,532	3,192,666
Receivables arising from purchased placements - forfeting	10,862	14,952
Other placements	1,960,300	605,531
Deferred income on receivables carried at amortized cost using the effective interest rate	(4,524)	-
Accrued interest calculated on the basis of loans, deposits and other investments	42	10,312
	14,264,784	**4,871,267**
In foreign currency		
Foreign currency accounts	11,392,196	40,918,812
Cheques	37,466	34,620
Receivables for calculated interest	-	11
Loans approved and due with one day (overnight)	243,252	795,713
Other loans	2,853	1,620
Other non-purpose deposits	7,242,210	2,413,133
Special-purpose deposits	4,865	4,838
Other placements	3,010,141	21,520,623
Accrued interest calculated on the basis of loans, deposits and other investments	1,607	181
	21,934,590	**65,689,551**
Gross loans	**36,199,374**	**70,560,818**
Less: Allowance for impairment		
– in RSD	(3,044)	(36,037)
– in foreign currency	(27,950)	(92,770)
	(30,994)	**(128,807)**
Balance as of 31 December	**36,168,380**	**70,432,011**

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

(b) LOANS AND RECEIVABLES FROM CUSTOMERS

RSD thousand

	2015	2014
In RSD		
Receivables for calculated interest	3,453,635	4,546,743
Accrued fee and commission	49	-
Current account loans	4,977,468	5,258,275
Consumer loans	1,138,735	1,613,378
Liquidity and current assets loans	20,910,083	25,352,364
Export loans	155,470	154,616
Investment loans	80,761,882	69,555,871
Mortgage loans	50,317,772	47,969,445
Cash loans	18,442,624	16,121,278
Other loans	89,182,533	92,712,518
Receivables arising from purchased placements - forfeiting	501,163	555,986
Receivables based on factoring without the right of recourse and reverse factoring	2,507,411	716,329
Receivables based on factoring with the right of recourse	300,075	909,531
Placements based on acceptances, endorsements and payments made under guarantees	419,021	589,620
Placements on ceded receivables on other grounds	2,367,076	3,868,008
Other placements	-	8,715
Deferred income on receivables carried at amortized cost using the effective interest rate	(747,526)	(822,203)
Accrued interest calculated on the basis of loans, deposits and other investments	570,406	641,773
	275,257,877	**269,752,247**
In foreign currency		
Receivables for calculated interest	148,421	133,700
Loans for payment of import of goods and services in foreign currency	6,682,918	9,030,423
Loans for the purchase of immovable property in the country approved to a natural person	25,729	4,973
Other loans	851,711	2,046,515
Placements based on acceptances, endorsements and payments made under guarantees	1,036,039	1,030,350
Accrued interest calculated on the basis of loans, deposits and other investments	47,830	44,004
	8,792,648	**12,289,965**
Gross placements	**284,050,525**	**282,042,212**
Less: Allowance for impairment		
– in RSD	(25,586,094)	(28,198,535)
– in foreign currency	(615,822)	(497,429)
	(26,201,916)	**(28,695,964)**
Balance as of 31 December	**257,848,609**	**253,346,248**

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

(c) Overview by the type of client

RSD thousand

	2015			2014		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	11,665,501	1,490,284	13,155,785	4,207,758	663,508	4,871,266
– Holding companies	-	46	46	3	1,776	1,779
– Corporate	22,307,014	131,007,875	153,314,889	26,445,531	130,094,739	156,540,270
– Households	3,280,662	94,585,413	97,866,075	6,592,629	84,517,799	91,110,428
– Public sector	117,915	10,764,002	10,881,917	167,775	14,294,914	14,462,689
– Foreign banks and financial organizations	1,109,000	-	1,109,000	-	-	-
– Foreign entities	(16,641)	303,836	287,195	34,763	297,609	332,372
– Other customers	1,794,465	11,113,289	12,907,754	1,255,423	6,049,285	7,304,708
Total in RSD	**40,257,916**	**249,264,745**	**289,522,661**	**38,703,882**	**235,919,630**	**274,623,512**
In foreign currency						
Loans and receivables						
– Central bank, banks and other financial sector and insurance	2,059,516	2,852	2,062,368	2,070,401	1,623	2,072,024
– Holding companies	-	124	124	-	507	507
– Corporate	203,912	4,117,787	4,321,699	3,005,576	4,953,117	7,958,693
– Households	59,144	672,462	731,606	11,589	718,013	729,602
– Public sector	5,695	604,888	610,583	7,450	1,815,589	1,823,039
– Foreign banks and financial organizations	19,872,221	-	19,872,221	63,617,528	-	63,617,528
– Foreign entities	1,843,273	1,282,006	3,125,279	1,101,408	662,000	1,763,408
– Other customers	1,301	2,057	3,358	-	14,717	14,717
Total in foreign currency	**24,045,062**	**6,682,176**	**30,727,238**	**69,813,952**	**8,165,566**	**77,979,518**
Gross loans and deposits	**64,302,978**	**255,946,921**	**320,249,899**	**108,517,834**	**244,085,196**	**352,603,030**
Less: Allowance for impairment- banks and other financial organizations	(28,267)	(2,727)	(30,994)	(107,210)	(21,597)	(128,807)
Less: Allowance for impairment- customers	(4,386,413)	(21,815,503)	(26,201,916)	(7,072,736)	(21,623,228)	(28,695,964)
	(4,414,680)	(21,818,230)	(26,232,910)	(7,179,946)	(21,644,825)	(28,824,771)
Balance as of 31 December	**59,888,298**	**234,128,691**	**294,016,989**	**101,337,888**	**222,440,371**	**323,778,259**

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

(c) Overview by the type of client

Short-term loans have been granted to companies for funding business activities within the following sectors: trade and services, manufacturing, construction, agriculture and food industry, as for the other purposes, with interest rates ranging between 6% and 15% per annum on RSD loans, as well as between 3% and 12% per annum on loans with currency clause and foreign currency loans.

Interest rates on the long-term loans to legal entities in RSD have been ranging between 6,5% and 15%, and on RSD long-term loans with currency clause, as well as on foreign currency loans ranging have been between 3% and 8% per annum.

Short-term loans to retail customers, have been approved with interest rates ranging from 5% per annum for loans with currency clause and from 9,95% to 23% per annum for loans with no currency clause.

Short-term loans to small business customers, have been approved with interest rates ranging from 6,1% to 26,4% per annum for loans with no currency clause and from 2,5% do 16% per annum for loans with currency clause.

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

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

Long-term loans to small businesses have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 2,6% do 14% per annum for currency clause loans, as well as from 6% do 21,5% for the loans with no currency clause.

19. INTANGIBLE ASSETS

RSD thousand

	Licenses	Software	Intangible assets in progress	Total
COST				
Balance as of 1 January 2014	**487,455**	**1,760,311**	**56,744**	**2,304,510**
Additions during the year	-	206,155	242,154	448,309
Transfers	-		(206,155)	(206,155)
Disposals and write offs	-	(10,116)	-	(10,116)
Balance as of 31 December 2014	**487,455**	**1,956,350**	**92,743**	**2,536,548**
Additions during the year	-	443,325	424,585	867,910
Transfers	-	-	(469,893)	(469,893)
Balance as of 31 December 2015	**487,455**	**2,399,675**	**47,435**	**2,934,565**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2014	**327,540**	**1,050,494**	**-**	**1,378,034**
Amortization (Note 12)	46,589	320,994	-	367,583
Transfers	-	(10,116)	-	(10,116)
Balance as of 31 December 2014	**374,129**	**1,361,372**	**-**	**1,735,501**
Amortization (Note 12)	42,028	338,342	-	380,370
Transfers	**-**	**-**	**-**	**-**
Balance as of 31 December 2015	**416,157**	**1,699,714**	**-**	**2,115,871**
Net carrying amount as of:				
– 31 December 2015	**71,298**	**699,961**	**47,435**	**818,694**
– 31 December 2014	**113,326**	**594,978**	**92,743**	**801,047**

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

a) Property, plant and equipment and Investment property

RSD thousand

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Total property, plant and equipment	Investment property
COST						
Balance as of 1 January 2014	**5,679,886**	**4,206,825**	**668,462**	**1,129,059**	**11,684,232**	**251,686**
Additions during the year	-	-	-	662,424	662,424	-
Transfers from construction in progress	340,468	352,855	129,786	(1,745,464)	(922,355)	-
Corrections	(5,978)	-	-	-	(5,978)	5,978
Disposals and write offs		(705,216)	(58,347)	-	(763,563)	(6,837)
Balance as of 31 December 2014	**6,014,376**	**3,854,464**	**739,901**	**46,019**	**10,654,760**	**250,827**
Additions during the year	-	-	-	3,072,769	3,072,769	-
Transfers from construction in progress	2,594,336	315,835	39,846	(2,974,806)	(24,789)	-
Disposals and write offs	-	(334,465)	(50,994)	-	(385,459)	-
Balance as of 31 December 2015	**8,608,712**	**3,835,834**	**728,753**	**143,982**	**13,317,281**	**250,827**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2014	**972,896**	**3,118,870**	**487,654**	**-**	**4,579,420**	**11,365**
Depreciation (Note 12)	109,589	330,480	78,837	-	518,906	4,869
Transfers	(3,965)			-	(3,965)	3,965
Disposals and write offs		(620,507)	(58,328)	-	(678,835)	
Balance as of 31 December 2014	**1,078,520**	**2,828,843**	**508,163**	**-**	**4,415,526**	**20,199**
Depreciation (Note 12)	113,115	362,117	86,132	-	561,364	6,270
Allowance of purchase value of equipment used		35,142			35,142	
Disposals and write offs	-	(327,075)	(50,995)	-	(378,070)	-
Balance as of 31 December 2015	**1,191,635**	**2,863,885**	**543,300**	**-**	**4,598,820**	**26,469**
Net book value as of:						
– 31 December 2015	**7,417,077**	**971,949**	**185,453**	**143,982**	**8,718,461**	**224,358**
– 31 December 2014	**4,935,856**	**1,025,621**	**231,738**	**46,019**	**6,239,234**	**230,628**

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

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

As of 31 December 2015, the Bank has title deeds for property it owns and has no buildings pledged as collateral. As of 31 December 2015, the carrying value of equipment under finance lease amounts to RSD 36,160 thousand (31 December 2014: RSD 39,747 thousand).

Based on the Contract, concluded on 27th of November, 2015, Banca Intesa boughtfrom Delta holding, Generali insurance, Generali reinsurance and Delta Sport, business properties situated in Milentija Popovica 7b street and in Milentija Popovica 7v street,so Bank has become the unique owner of the real-estate properties on the cadastral parcels 2309/20, KO Novi Beograd. Building number 1, situated in Milentija Popovica 7b street, has total building area 13,667 m2, while Building 2, in Milentija Popovica 7v street,has 2,082 m^2 of building area.

Acting in accordance with IAS 36 “Impairment of Assets”, The Bank analysed the market value of the fixed assets. Using external and internal sources of information, in order to analyse the existence of impairment of assets, the Bank’s management concluded that there were no indications of impairment of the Bank’s assets at the balance sheet date.

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

RSD thousand

The address of the investment property	Area (m^2)	ZONE	Price per m2 in 2015, according to local tax authorities' data for sales of property made in 2014 (for property tax determination)	MARKET VALUE according to local tax authorities' prices	Acquisition cost as of 31 December 2015	Total depreciation as of 31 December 2015	Net carrying amount as of 31 December 2015
NOVI SAD, MAKSIMA GORKOG no.2	46.09	first	140	6,456	5,978	4,264	1,714
VRBAS, KUCURA	26	second	17	436	1,116	263	853
NIŠ, VIZANTIJSKI BULEVAR no. 76	41.58	fourth	105	4,358	4,138	1,047	3,091
ZRENJANIN, KRALJA ALEKSANDRA I no.3	104.26	first	57	5,892	6,346	2,107	4,239
NOVA VAROS, Karadjordjeva no.81	49.8	first	55	2,749	3,392	1,109	2,283
NOVI BEOGRAD, MILENTIJA POPOVICA 5/V	175	first extra	371	64,908	49,278	4,107	45,172
BEOGRAD, USTANICKA no. 69	1,847	second	202	372,725	180,579	13,572	167,007
			TOTAL	**457,523**	**250,827**	**26,469**	**224,358**

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

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

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

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

	2015	2014
Non-current fixed assets held for sale	256,254	256,058
Non-current fixed assets held for sale and assets from discontinued operations	**256,254**	**256,058**

At the end of 2015, The Bank has following non-curent fixed assets held for sale that are located in the Republic of Serbia:

- Jagodina, Kneginje Milice
- Beograd, Sime Igumana 2-4 office space, area 500 m²
- Beograd Sime Igumana 2-4 business premises, area 46 m²
- Novi Beograd, Goce Delčeva 36, office space, area 1,824

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

21. OTHER ASSETS

RSD thousand

	2015	2014
Trade receivables	207,528	1,421
Other receivables from operating activities which determine income	125,500	-
Receivables from employees	4,497	3,819
Receivables for taxes paid in advance, except income tax	1,380	665
Advances paid	23,473	136,810
Other receivables from operating activities	2,213,344	2,223,383
Assets received through collection of receivables	309,892	1,235
Other assets	597,067	835,858
Interest receivables related to other assets:		
– in RSD	1,604	1,359
Fee and commission receivables related to other assets:		
– in RSD	167,432	177,187
– in foreign currency	11,411	19,450
Accrued interest expenses:		
– in RSD	2,915	4,859
– in foreign currency	28,069	27,916
Accrued other expenses:		
– in RSD	369,146	311,665
– in foreign currency	4,388	4,298
Other accruals:		
– in RSD	23,157	-
– in foreign currency	6	3
Total other assets	**4,090,809**	**3,749,928**
Less: Allowance for impairment	(79,752)	(95,584)
Balance as of 31 December	**4,011,057**	**3,654,344**

21. OTHER ASSETS (Continued)

Other receivables from operations as of 31 December 2015 amounting to RSD 2,213,344 thousand mostly relate to receivables in RSD with respect to payment cards - Other receivables in RSD from other cards issuers - Master Card, VISA and DINA in the amount of RSD 1,231,090 thousand (31 December 2014: RSD 1,341,756 thousand).

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

RSD thousand

	2015	2014
Difference from nominal value of other placements in RSD held for trading – currency derivatives money exchange - swap	71,672	17,068
Difference from nominal value of other placements in RSD held for trading – currency derivatives money exchange - forward	2,686	2,600
Balance as of 31 December	**74,358**	**19,668**

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

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

RSD thousand

	2015	2014
In RSD		
Transaction deposits	2,246,142	629,830
Deposits underlying granted loans	5,323	6,813
Special-purpose deposits	1,961	1,299
Other deposits	434,219	2,422,680
Deposits and loans due within one day (overnight)	-	100,000
Borrowings	-	500,000
Other financial liabilities	487,079	2,059,359
Interest liabilities	4,676	494
Fee and commission liabilities	6	7
Total in RSD	**3,179,406**	**5,720,482**
In foreign currency		
Transaction deposits	1,114,738	535,638
Deposits underlying granted loans	2,919	2,661
Special-purpose deposits	107,471	8,545
Other deposits	362,452	847,104
Borrowings	25,036,955	28,654,790
Other financial liabilities	1,374,971	1,014,283
Interest liabilities	48,014	70,544
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(131,864)	(143,864)
Total in foreign currency	**27,915,656**	**30,989,701**
Total	**31,095,062**	**36,710,183**

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

(b) DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

RSD thousand

	2015	2014
In RSD		
Transaction deposits	74,068,994	56,306,019
Savings deposits	2,094,773	2,500,494
Deposits underlying granted loans	299,901	1,337,894
Special-purpose deposits	2,810,694	2,934,358
Other deposits	17,470,871	20,572,811
Deposits and loans due within one day (overnight)	633,786	490,990
Borrowings	22,691	-
Interest liabilities	138,332	229,159
Total in RSD	**97,540,042**	**84,371,725**
In foreign currency		
Transaction deposits	113,513,901	85,805,897
Savings deposits	91,517,874	100,666,831
Deposits underlying granted loans	6,057,816	7,526,368
Special-purpose deposits	1,419,251	1,900,664
Other deposits	11,991,708	17,976,441
Borrowings	7,322,906	6,230,536
Other financial liabilities	846,122	613,884
Interest liabilities	1,122,048	1,471,065
Total in foreign currency	**233,791,626**	**222,191,686**
Total	**331,331,668**	**306,563,411**

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

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

RSD thousand

	2015			2014		
	Short-term(up to one year)	Long-term (more than one year)	Total	Short-term(up to one year)	Long-term (more than one year)	Total
In RSD						
Transaction deposits	76,315,136	-	76,315,136	56,935,849	-	56,935,849
Saving deposits	2,094,108	665	2,094,773	2,499,832	662	2,500,494
Deposits related to granted loans	160,032	145,192	305,224	203,220	1,141,486	1,344,706
Special-purpose deposits	2,430,207	382,449	2,812,656	2,791,507	144,150	2,935,657
Other deposits	17,445,854	459,236	17,905,090	22,986,799	8,692	22,995,491
Overnight deposits and loans	633,786	-	633,786	590,990	-	590,990
Borrowings	-	22,691	22,691	500,000	-	500,000
Other financial liabilities	487,079	-	487,079	2,059,360	-	2,059,360
Interest liabilities	142,914	94	143,008	229,471	182	229,653
Fee and commission liabilities	6	-	6	7	-	7
Total in RSD	**99,709,122**	**1,010,327**	**100,719,449**	**88,797,035**	**1,295,172**	**90,092,207**
In foreign currency						
Transaction deposits	114,628,639	-	114,628,639	86,341,535	-	86,341,535
Saving deposits	70,153,798	21,364,077	91,517,875	78,404,117	22,262,713	100,666,830
Deposits related to granted loans	3,820,765	2,239,971	6,060,736	4,496,940	3,032,089	7,529,029
Special-purpose deposits	1,454,110	72,612	1,526,722	1,825,184	84,026	1,909,210
Other deposits	12,018,210	335,949	12,354,159	18,712,786	110,760	18,823,546
Borrowings	-	32,359,861	32,359,861	-	34,885,325	34,885,325
Other financial liabilities	2,221,092	-	2,221,092	1,628,166	-	1,628,166
Interest liabilities	1,170,061	-	1,170,061	1,541,610	-	1,541,610
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(131,864)	-	(131,864)	(143,864)	-	(143,864)
Total in foreign currency	**205,334,811**	**56,372,470**	**261,707,281**	**192,806,474**	**60,374,913**	**253,181,387**
Total	**305,043,933**	**57,382,797**	**362,426,730**	**281,603,509**	**61,670,085**	**343,273,594**

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

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

RSD thousand

	2015			2014		
	Short-term(up to one year)	Long-term (more than one year)	Total	Short-term(up to one year)	Long-term (more than one year)	Total
In RSD						
– Central bank, banks and other financial sector and insurance	2,793,783	348,000	3,141,783	5,692,653	-	5,692,653
– Holding companies	878	-	878	3,693	24	3,717
– Corporate	58,672,331	614,497	59,286,828	52,147,499	1,190,378	53,337,877
– Households	24,057,032	4,035	24,061,067	21,089,155	2,551	21,091,706
– Public sector	6,869,472	38,921	6,908,393	1,418,740	91,606	1,510,346
– Foreign banks and financial organizations	37,624	-	37,624	27,829	-	27,829
– Foreign entities	365,210	-	365,210	240,092	-	240,092
– Other customers	6,912,792	4,874	6,917,666	8,177,374	10,613	8,187,987
Total in RSD	**99,709,122**	**1,010,327**	**100,719,449**	**88,797,035**	**1,295,172**	**90,092,207**
In foreign currency						
– Central bank, banks and other financial sector and insurance	2,329,116	2,919	2,332,035	1,878,353	2,661	1,881,014
– Holding companies	11,393	-	11,393	194	-	194
– Corporate	37,655,830	1,741,876	39,397,706	39,212,374	1,803,089	41,015,463
– Households	154,430,288	21,633,433	176,063,721	141,204,011	22,591,467	163,795,478
– Public sector	5,078,294	7,341,880	12,420,174	3,790,379	6,414,813	10,205,192
– Foreign banks and financial organizations	546,664	25,036,955	25,583,619	453,898	28,654,790	29,108,688
– Foreign entities	3,601,101	562,378	4,163,479	3,817,703	883,296	4,700,999
– Other customers	1,682,125	53,029	1,735,154	2,449,562	24,797	2,474,359
Total in foreign currency	**205,334,811**	**56,372,470**	**261,707,281**	**192,806,474**	**60,374,913**	**253,181,387**
Balance as of 31 December	**305,043,933**	**57,382,797**	**362,426,730**	**281,603,509**	**61,670,085**	**343,273,594**

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

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

On the corporate transaction deposits the Bank has been paying interest within the range up to 70% of the annual reference interest rate depending on currency and the amount of deposit.

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

On term deposits in RSD and foreign currency, the Bank has been paying interest within the range from 0,5% to 7% per annum, depending on maturity period and currency.

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

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

Long-term retail deposits in foreign currency are deposited at interest rates ranging from 0,5% to 1,25% per annum, depending on maturity period and currency.

Long-term borrowings have been granted to the Bank with interest rates ranging from 0.5% to 5.5% per annum.

Interest rate on long-term borrowings in foreign currency has been ranging from EURIBOR 3M – 0.01% to EURIBOR 6M + 6.45%, depending on maturity period and currency.

24. PROVISIONS

		RSD thousand
	2015	**2014**
Provisions for off-balance sheet exposures (a)	1,261,061	1,171,777
Provisions for employee benefits:		
– restructuring (b)	44,544	55,868
– long-term retirement benefits and unused days of vacation (c)	150,916	150,583
Provisions for litigations (Note 30 (a))	272,480	269,245
Balance as of 31 December	**1,729,001**	**1,647,473**

		RSD thousand
	2015	**2014**
Movements in provisions for losses on off-balance sheet items		
Opening balance	1,171,777	997,786
Release of provisions	(426,620)	(572,304)
Release of provisions - exchange rate	(28,078)	(2,537)
Increase of provisions	508,835	714,872
Increase of provisions – exchange rate	36,530	33,960
Sale of receivables	(1,383)	-
Balance as of 31 December	**1,261,061**	**1,171,777**
Movements in provisions for restructuring		
Opening balance	55,868	55,028
Release of provisions directly from provisions	(11,714)	(42,770)
Increase of provisions	390	43,610
Balance as of 31 December	**44,544**	**55,868**

Movements in provisions for employee benefits for restructuring and long-term retirement benefits and unused days of vacation		
Opening balance	150,583	150,253
Increase of provisions	333	330
Balance as of 31 December	**150,916**	**150,583**
Movements in provisions for litigations		
Opening balance	269,245	328,539
Release of provisions through profit and loss	(185,811)	(116,130)
Release of provisions directly from provisions	(13,360)	(1,844)
Increase of provisions	202,406	58,680
Balance as of 31 December	**272,480**	**269,245**

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

24. PROVISIONS (Continued)

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

c) Long-term provision for retirement benefits has been recognized at year ended on the basis of an independent actuary's calculation, in the amount of present value of estimated future cash outflows. Present value of estimated future cash outflows is calculated at discounted rate of 6.0% p.a. as an adequate rate in accordance with IAS 19, reflecting the long-term rate of return on high quality debt securities, Republic of Serbia bonds and treasury bonds of the National Bank of Serbia.

The provision was determined in accordance with the Bank's Collective Agreement, as well as in accordance with the assumption on average salary increase rate of 7% per annum over the period for which the provision has been formed.

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

- average gross salary in the Bank and
- number of unused days of vacation.

25. OTHER LIABILITIES

RSD thousand

	2015	2014
Net salaries and compensations	212,750	199,695
Taxes, VAT, contributions and other duties payable, excluding income tax liability	145,070	136,168
Vendor liabilities	1,076,036	796,893
Advances received	1,783,739	243,729
Other liabilities	1,468,065	1,365,417
	4,685,660	**2,741,902**
Accruals and deferred income		
Accrued liabilities for other expenses:		
– in RSD	2,835	3,557
– in foreign currency	4,353	3,537
Deferred interest income:		
– in RSD	76,550	125,577
Other deferred income:		
– in RSD	74,848	74,008
– in foreign currency	32,462	12,789
Other deferrals		
– in RSD	2,268,869	4,567,085
– in foreign currency	943,506	15,129,276
	3,403,423	**19,915,829**
Long-term finance lease liabilities (a)	37,650	48,681
Total	**8,126,733**	**22,706,412**
Other tax liabilities	164,959	100,729
Balance as of 31 December	**8,291,692**	**22,807,141**

Other liabilities in 2015 and 2014 are mostly comprised of balances at suspense and temporary accounts and accrued liabilities accounts.

Other accruals in foreign currency in 2015 and 2014 are mostly comprised of balances at other accruals accounts – Sales of foreign currency.

(a) Financial liabilities for leased equipment as of 31 December 2015 and 2014 are as follows:

RSD thousand

	2015		2014	
Minimal lease payments	**Present value**	**Future value**	**Present value**	**Future value**
Up to 1 year	13,690	15,239	15,612	48,786
From 1 to 5 years	23,960	25,326	33,069	7,359
	37,650	**40,565**	**48,681**	**56,145**

26. EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2015 consists of shares capital, other capital, share premium, reserves, revaluation reserves and current and previous year profit.

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

		RSD thousand
	2015	**2014**
Share capital – ordinary shares	21,315,900	21,315,900
Other capital	11,158	11,158
Share premium	20,432,569	20,432,569
Reserves from profit	47,484,121	47,484,121
Fair value reserves	794,263	(9,695)
Revaluation reserves	-	559,125
Retained earnings	15,975,354	8,607,525
Current year profit	8,584,579	6,808,703
Balance as of 31 December	**114,597,944**	**105,209,406**

/i/ Share capital

As of 31 December 2015 the total number of the Bank's registered shares amounts to 213,159 ordinary shares with nominal value of RSD 100 thousand per share.

During 2015, shareholding structure of the Bank was changed and it reflects in the fact that the minority shareholder International Finance Corporation (IFC) sold its entire stake to majority shareholder Intesa Sanpaolo Holding International SA. After this change the Bank has two shareholders, Intesa Sanpaolo Holding International S.A. and Intesa Sanpaolo S.p.A.. Shareholders' structure as of 31 December 2015 is presented as follows:

Shareholder	**Number of shares**	**Nominal share value (RSD thousand)**	**Share in %**
Intesa Sanpaolo Holding International S.A., Luxembourg	180,731	18,073,100	84,787
Intesa Sanpaolo S.p.A., Italy	32,428	3,242,800	15.213
Total	**213,159**	**21,315,900**	**100.00**

/ii/ Share premium

Share premium in the amount of RSD 20,432,569 thousand as of 31 December 2015 (31 December 2014: RSD 20,432,569 thousand) is the result of the Bank's status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of RSD 2,989,941 thousand, as well as the result of the 4th, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

/iii/ Reserves

	2015	RSD thousand 2014
Reserves from profit for estimated losses	47,484,121	47,484,121
Revaluation reserves for changes in value of intangible assets and fixed assets	-	559,125
Revaluation reserves for changes in value of securities available for sale	897,575	142,739
Unrealized losses on securities available for sale	(103,312)	(152,435)
Total	**48,278,384**	**48,033,550**

b) Performance Indicators – Compliance with Legal Requirements

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

As of 31 December 2015, the Bank was in compliance with all prescribed performance indicators.

Performance indicators	**Prescribed**	**Realized**	
		31 December 2015	**31 December 2014**
Capital	Minimum EUR 10 million	EUR 469 milion	EUR 412 million
Capital adequacy ratio	Minimum 12%	20,72%	19. 40%
Permanent investments indicator	Maximum 60%	15,72%	13.03%
Related parties exposure	Maximum 20%	N/A*	16. 86%
Indicator of large and the largest permissible loans	Maximum 400%	78,60%	108.42%
Liquidity ratio	Minimum 0.8	2,63	2.31
Acid-test ratio (quick ratio)	Minimum 0.5	2,05	1.69
Foreign currency risk indicator	Maximum 20%	0.59%	1.30%
Exposure to a single entity or to a group of related parties	Maximum 25%	19,76%	22. 82%
Bank's investment in non-financial legal entity	Maximum 10%	0,04%	0.04%

* Indicator is not applicable in accordance with law regulation as at 31 December 2015

27. OFF-BALANCE SHEET ITEMS

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

Off-balance sheet items	2015	2014
Off-balance sheet items to be classified	86,243,194	89,658,837
Off-balance sheet items not to be classified	576,127,151	313,056,079
Balance as of 31 December	**662,370,345**	**402,714,916**

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

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

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

	Off-balance sheet items to be classified	Provisions for Off-balance sheet items to be classified	Off-balance sheet items not to be classified	Off-balance sheet items as of 31 December 2014
Funds managed on behalf of third parties (b)	.	.	4,003,849	4,003,849
Guarantees and other irrevocable commitments (d)	61,155,561	(1,171,777)	16,530,011	76,513,795
Derivatives (d)	.	.	90,211,506	90,211,506
Other off-balance sheet items (e)	29,675,053	.	202,310,713	231,985,766
Balance as of 31 December	**90,830,614**	**(1,171,777)**	**313,056,079**	**402,714,916**

b) Funds managed on behalf of third parties

RSD thousand

	2015	2014
Funds managed on behalf of third parties:		
– Short-term	-	-
– Long-term	3,848,872	4,003,849
Balance as of 31 December	**3,848,872**	**4,003,849**

c) Guarantees and other irrevocable commitments

RSD thousand

	2015	2014
Financial guarantees:		
– in RSD	9,190,002	9,482,359
– in foreign currency	12,489,925	13,568,853
	21,679,927	**23,051,212**
Commercial guarantees:		
– in RSD	13,491,893	11,852,670
– in foreign currency	1,416,203	1,751,753
	14,908,096	**13,604,423**
Uncovered letters of credit in foreign currency	220,932	1,138,710
Sureties and Acceptances	1,113	2,190
Sureties	15,538,399	15,487,883
Irrevocable commitments for undisbursed loans	24,211,119	23,209,000
Other irrevocable commitments	20,636	17,590
Collateralized securities	2,539	2,787
	39,994,738	**39,858,160**
Balance as of 31 December	**76,582,761**	**76,513,795**

d) Derivatives

RSD thousand

	2015	2014
Foreign currency SWAP contracts	107,253,699	89,838,929
Foreign currency Forward contracts	3,228,816	372,577
Balance as of 31 December	**110,482,515**	**90,211,506**

e) Other off-balance sheet items

RSD thousand

	2015	2014
Loro guarantees	51,310,582	45,369,040
Foreign currency savings' bonds	302,467	421,487
Suspended interest	10,348,366	9,458,916
Transfer from balance sheet	21,519,235	22,662,235
Revocable commitments for undisbursed loans	26,297,485	29,675,053
Receivables under repurchase agreements	10,000,000	-
Other	351,678,062	124,399,035
Balance as of 31 December	**471,456,197**	**231,985,766**

28. RELATED PARTY DISCLOSURES

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

The Bank enters into business relationship with its Parent company and other members of Intesa Sanpaolo Group. Outstanding balances of receivables and liabilities as of 31 December 2015 and 2014, as well as income and expenses for the years then ended, resulting from transactions with the shareholders and other Bank's related parties within Intesa Sanpaolo Group are presented as follows:

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

28. RELATED PARTY DISCLOSURES (Continued)

2014	Intesa Sanpaolo S.p.A., Itali, England, SAD; Germany; Turkey; Ireland; Romania; Albania	Privredna bank d.d., Zagreb, Hrvatska	Intesa Leasing d.o.o., Beograd	Vseobecna Uverova banka A.S., Slovačka	Banka Koper d.d., Slovenija	Bank of Alexandria, Egipat	Intesa Sanpaolo Banka D.D. Bosna i Hercegovina	Intesa Sanpaolo Card d.o.o., LJubljana	Intesa Sanpaolo Card d.o.o., Zagreb	CIB Bank, Madarska	Soeciete europeenn de banque S.A.	Intesa Sanpaolo Holding International S.A., Luxemburg
Loans and receivables from banks and other financial organizations	5,003,682	598,700	2,644,196	600,562	584,019	-	593,137	-		-	-	-
Loans and receivables from customers	-	-	-	-	-	-	-	-	106	-	-	-
Financial assets held for trading	173,215	-	-	-	-	-	-	-	-	-	-	-
Other assets	11,912	12	14,205	935	-	-	1	-	248	-	-	-
Total assets	**5,188,809**	**598,712**	**2,658,401**	**601,497**	**584,019**	**-**	**593,138**	**-**	**354**	**-**	**-**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central Bank	4,000,838	4,481	2,121,834	-	585	-	98	-		-	-	-
Deposits and other liabilities due to customers	-	-	-	-	-	-	-	-	4,941	-	-	-
Financial liabilities at fair value held for trading	14,944	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	147,755	27,939	48,681	-	62	-	31	14,321	40,811		-	-
Total liabilities	**4,163,537**	**32,420**	**2,170,515**	**-**	**647**	**-**	**129**	**14,321**	**45,752**	**-**	**-**	**-**
Interest income	4,039	-	26,384	-		-	-	-	-	-	6,034	-
Fee and commission income	21,795	797	11,043	1,869	966	-	-	-	44	-	-	-
Net profit on financial assets held for trading	173,215	-	-	-	-	-	-	-	-	-	-	-
Net profit on foreign exchange rate and FX contracts	51,760	182	-	-	-	-	-	-	-	-	-	-
Other operating income	1,333		12,652	-	-	-	-	-	1,609	-	-	-
Total profits	**252,142**	**979**	**50,079**	**1,869**	**966**	**-**	**-**	**-**	**1,653**	**-**	**6,034**	**-**
Interest expenses	(31,754)	(8,274)	(24,443)	(66,301)	-	-	-	-	-	-	-	-
Fee and commission expenses	(49,988)	(1,878)	-	-	(722)	-	(275)	(177,761)	(411,200)	-	-	-
Net profit on financial assets held for trading	(14,944)	-	-	-	-	-	-	-	-	-	-	-
Net profit on foreign exchange rate and FX contracts	(87,062)	-	-	-	-	-	-	-	-	-	-	-
Other expenses	(444,373)	(17,224)	-	-	-	-	-	(12,021)	(41,618)	(3,633)	-	-
Totala expences	**(628,121)**	**(27,376)**	**(24,443)**	**(66,301)**	**(722)**	**-**	**(275)**	**(189,782)**	**(452,818)**	**(3,633)**	**-**	**-**
Off-balance sheet items - derivatives - swaps	29,122,471	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	437,876	-	3,023,958	5,067,952	2,588,234	-	-	-	-	5,181	-	-
Total Off-balance sheet items	**29,560,347**	**-**	**3,023,958**	**5,067,952**	**2,588,234**	**-**	**-**	**-**	**-**	**5,181**	**-**	**-**

28. RELATED PARTY DISCLOSURES (continued)

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

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

a) Gross salaries and other benefits of members of the Executive Board and other key personnel of the Bank, including members of the Board of Directors, during 2015 and 2014, are presented as follows:

RSD thousand

	2015	**2014**
Remunerations to members of the Executive Board, Board of Directors and other key management of the Bank	237,525	218,760
Total	**237,525**	**218,760**

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

RSD thousand

	2015	**2014**
Loans	291,002	217,410
Allowances for impairment	(444)	(355)
Balance as of 31 December	**290,558**	**217,055**

29. RISK MANAGEMENT

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

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

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

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

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

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

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

29. RISK MANAGEMENT (Continued)

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

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

29.1. Credit risk

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

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

Maximal exposure to credit risk

Maximal exposure to credit risk by the type of client as of 31 December 2015 and 2014 are presented as follows:

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

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Maximal exposure to credit risk (Continued)

	Balance sheet assets to be classified	Allowances for impairment for Balance sheet assets to be classified	Balance sheet assets not to be classified	Balance sheet as of 31 December 2014
Cash and balances with Central Bank	1,162,986	.	77,390,475	78,553,461
Financial assets at fair value		.	174,934	174,934
Financial assets initially carried at fair value through profit and loss	78,970	.	.	78,970
Financial assets available for sale	49,576	.	57,655,391	57,704,967
Loans and receivables from banks and other financial organizations	70,121,050	(134,761)	445,722	70,432,011
Loans and receivables from banks	67,368,247	(124,570)	.	67,243,677
Loans and receivables from other financial organizations	2,752,803	(10,191)	445,722	3,188,334
Loans and receivables from customers	282,036,257	(28,690,009)	.	253,346,248
Investments in subsidiaries	962,496	.	.	962,496
Intangible assets	.	.	801,047	801,047
Property, plant and equipment	.	.	6,239,234	6,239,234
Investment property	.	.	230,628	230,628
Current tax assets	.	.	298,079	298,079
Deferred tax assets	.	.	224,804	224,804
Non-current assets held for sale and discontinued operations	12,489	.	243,569	256,058
Other assets	3,536,626	(86,190)	203,908	3,654,344
TOTAL ASSETS	**357,960,450**	**(28,910,960)**	**143,907,791**	**472,957,281**

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

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

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

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

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

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

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

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

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

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

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

Loan concentration risk

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

Derivative financial instruments

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

In accordance with the above mentioned, as of 31 December 2015 and 31 December 2014 the Bank has the following exposures to counterparties:

RSD thousand

	Nominal value	Total exposure
Total 2015	**53,474,129**	**792,540**
Currency (FX) Swap	53,474,129	792,540
Currency(FX) Forward	.	.
Total 2014	**44,934,965**	**624,181**
Currency (FX) Swap	44,827,544	622,142
Currency(FX) Forward	107,421	2,039

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

Risks similar to credit risk

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

Collaterals and other instruments of credit risk protection

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

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

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

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

Assessment of impairment of financial assets

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

Individual assessment of impairment

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

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

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

Collective assessment of impairment

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

The collective assessment of impairment takes into account impairment that is likely to be present in the Bank’s portfolio, even though there is not as yet objective evidence of individual assessment. Impairment losses are estimated based on migration matrices and the probability of collection of receivables overdue by more than 90 days. Migration matrices and probabilities are determined based on monitoring of the multiannual migrations of internal ratings of clients in the Bank’s portfolio.

Special reserves for estimated losses

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

29. RISK MANAGEMENT (Continued)

29.1. Credit risk (Continued)

Maximum Exposure to Credit Risk

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2015 and 2014 is presented in the table below:

RSD thousand

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

RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified*		Total 2014
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Serbia	288,519,451	3,698,162	90,155,149	473,011	382,845,773
Europe	2,064,292	62,367,569	102,416	96,144	64,630,421
America	7,894	698,614	121	.	706,629
Rest of the world	566	603,902	1,192	2,611	608,271
Total	**290,592,203**	**67,368,247**	**90,258,878**	**571,765**	**448,791,094**

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

29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Maximum Exposure to Credit Risk (continued)

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

RSD thousand

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

RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2014
Industry	191,984,402	68,721,614	260,706,016
Trade	46,015,450	13,636,579	59,652,029
Transportation and communication	32,933,566	2,307,760	35,241,326
Construction	20,586,716	8,688,370	29,275,086
Services, tourism and accommodation services	14,935,337	6,416,812	21,352,149
Food and beverage production	13,330,128	8,059,256	21,389,384
Permanent goods production	12,722,013	6,903,003	19,625,016
Agriculture, hunting, fishing and forestry	11,638,855	555,513	12,194,368
Other	39,822,337	22,154,321	61,976,658
Government	**1,176,078**	**.**	**1,176,078**
Banks	**67,368,247**	**571,765**	**67,940,012**
Local Government	**9,959,035**	**996,029**	**10,955,064**
Retail loans	**87,472,688**	**20,541,236**	**108,013,924**
Mortgage loans	48,166,806	.	48,166,806
Other	39,305,882	20,541,236	59,847,118
Total	**357,960,450**	**90,830,644**	**448,791,094**

29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

(b) Portfolio Quality

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

The following table presents the quality of the portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2015 and 2014, based on the Bank's rating system:

RSD thousand

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

* During 2015 a new class – Unlikely to Pay has been introduced, which compared to 2014. includes in most part classes Substandard and Restructured

RSD thousand

	Balance sheet assets to be classified		**Off-balance sheet items to be classified**		**Total 2014**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Category:					
Performing	233,527,787	67,366,282	85,415,040	571,765	386,880,874
Past Due	486,133	.	70,265	.	556,398
Substandard	14,307,035	4	4,412,103	.	18,719,142
Doubtful	40,126,238	1,961	357,511	.	40,485,710
Restructured	2,145,010	.	3,960	.	2,148,970
Total	**290,592,203**	**67,368,247**	**90,258,879**	**571,765**	**448,791,094**

Categories A1, A2 and B1 are performing receivables, however categories Past due, Unlikely to Payand Doubtful are non-performing receivables (impaired receivables).

Assessment of impairment of financial assets

The structure of allowances for impairment as of 31 December 2015 and 31 December 2014, which are determined in accordance with the Bank's internal methodology, is presented as follows:

RSD thousand

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

29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Assessment of impairment of financial assets

RSD thousand

	Allowances for impairment		Provisions		Total 2014
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Category:					
Performing	2,754,931	122,607	521,980	88	3,399,606
Past Due	126,699	.	13,281	.	139,980
Substandard	4,106,517	2	541,860	.	4,648,379
Doubtful	20,772,607	1,961	93,765	.	20,868,333
Restructured	1,025,634	.	803	.	1,026,437
Total	**28,786,388**	**124,570**	**1,171,689**	**88**	**30,082,735**

Ageing analysis of unimpaired loans and receivables from customers

The ageing analysis of loans and receivables from customers past due, but not impaired as well as loans and receivables not yet due, as of 31 December 2015 and 2014 is presented as follows:

RSD thousand

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

RSD thousand

	Balance sheet assets to be classified		Allowances for impairment		Total 2014	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowance for impairment*
Receivables undue:	**219,828,463**	**67,366,283**	**2,451,964**	**122,607**	**287,194,746**	**2,574,571**
Receivables overdue:	**13,699,325**	**.**	**302,968**	**.**	**13,699,325**	**302,968**
01-30 days	10,682,058	.	187,963	.	10,682,058	187,963
31-60 days	1,983,708	.	68,609	.	1,983,708	68,609
61-90 days	754,231	.	40,118	.	754,231	40,118
>90 days[2]	279,328	.	6,276	.	279,328	6,276
Total	**233,527,788**	**67,366,283**	**2,754,932**	**122,607**	**300,894,071**	**2,877,539**

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

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

29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Collateral analysis

Analysis of portfolio balance and off-balance sheet items by the collateral type, as of 31 December 2015 and 2014:

RSD thousand

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

RSD thousand

	Balance sheet assets to be classified	Off-balance sheet items to be classified	Total 2014
Corporate Loans:	**188,759,005**	**68,681,836**	**257,440,841**
Guaranteed by government	28,857,822	.	28,857,822
Guaranteed by bank	84,185	30,500	114,685
Secured by mortgage	65,685,278	12,877,299	78,562,577
Secured by deposit	2,860,990	1,314,503	4,175,493
Unsecured	91,270,730	54,459,533	145,730,263
Loans to government:	**1,176,078**	**.**	**1,176,078**
Unsecured	***1,176,078***	.	1,176,078
Loans to banks:	**67,368,247**	**571,765**	**67,940,012**
Secured	-	.	.
Unsecured	67,368,247	571,765	67,940,012
Loans to local government:	**13,184,431**	**1,035,807**	**14,220,238**
Secured	1,982,176	294,923	2,277,099
Unsecured	11,202,255	740,884	11,943,139
Retail loans:	**87,472,689**	**20,541,236**	**108,013,925**
Secured by residential mortgage	44,300,339	.	44,300,339
Secured by non-residential mortgage	1,511,265	.	1,511,265
Secured by deposit	997,504	156,531	1,154,035
Unsecured	40,663,581	20,384,705	61,048,286
Total	**357,960,450**	**90,830,644**	**448,791,094**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

All collaterals are presented to the amount of receivables. Mortgage must meet the requirements of the National Bank of Serbia in order to be used as a collateral and those requirements are: to be registered, there must be an appraisal for the mortgaged property by the authorized appraiser not older than 3 years, owner of the property cannot be under bankruptcy, appraised value of property reduced by all higher ranked receivables must be greater than the amount of receivables, receivables secured by the mortgage cannot be overdue for more than 720 days.

Collateral Analysis

Loan to value ratio (LTV ratio) for mortgage loans as of 31 December 2015 and 2014:

Mortgage LTV	**2015**	**Mortgage LTV**	2014
< 50%	14,267,556	< 50%	12,933,480
51%-70%	15,874,912	51%-70%	16,748,972
71%-90%	10,724,631	71%-90%	10,756,115
91%-100%	1,469,441	91%-100%	1,597,083
> 100%	6,349,734	> 100%	6,131,156
Total	**48,686,274**	**Total**	48,166,806

Non-performing loan analysis

Balance sheet assets and allowances for impairment (NPL – categories: past due, substandard, doubtful and restructured) as of 31 December 2015 and 31 December 2014 are presented as follows:

RSD thousand

	Balance sheet assets to be classified		**Allowances for impairment**		**Total 2015**	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowances for impairment*
Individual assessment	41,873,534	.	20,051,247	.	41,873,534	20,051,247
Collective assessment	5,905,513	2,003	3,468,718	1,999	5,907,516	3,470,717
Total	**47,779,047**	**2,004**	**23,519,965**	**1,999**	**47,781,050**	**23,521,964**

RSD thousand

	Balance sheet assets to be classified		**Allowances for impairment**		**Total 2014**	
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Balance sheet assets to be classified*	*Allowances for impairment*
Individual assessment	50,807,877	.	21,831,019	.	50,807,878	21,831,019
Collective assessment	6,256,538	1,964	4,200,440	1,963	6,258,502	4,202,403
Total	**57,064,416**	**1,964**	**26,031,459**	**1,963**	**57,066,380**	**26,033,422**

29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Renegotiated loans analysis

Balance sheet assets and allowances for impairment for renegotiated loans as of 31 December 2015 and 2014 are presented as follows:

RSD thousand

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

RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2014
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated Loans:					
Loans	9,815,062	.	1,721	.	9,816,783
Allowances for impairment	(2,350,758)	.	-	.	(2,350,758)
Total	**7.464.304**	**.**	**1,721**	**.**	**7,466,025**

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

Credit Conversion Factor Analysis

Credit Conversion Factors (CCF) for off-balance sheet items in portfolio as of 31 December 2014 and 31 December 2013 are presented as follows:

RSD thousand

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

29. RISK MANAGEMENT (continued)

29.1. Credit risk (continued)

Credit Conversion Factor Analysis (continued)

	Off-balance sheet items to be classified			RSD thousand Total 2014
	Corporate Loans	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
CCF				
0%	29,526,223	218,830	-	29,745,053
20%	-	-	5,356,762	5,356,762
50%	18,278,644	350,935	15,184,355	33,813,934
100%	21,912,894	2,000	-	21,914,894
Total	**69,717,761**	**571,765**	**20,541,117**	**90,830,643**

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

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

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

29.2. Liquidity Risk and Financial Assets Management

Liquidity Risk management is done through monitoring following limits/indicators:
- regulatory liquidity ratio and Narrow regulatory liquidity ratio,
- LCR (Liquidity Coverage Ratio) – CRR/CRD IV regulation (2015) e.g.Basel III standard for monitoring short-term liquidity,
- NSFR (Net Stable Funding Ratio) - Basel III standard for monitoring long-term liquidity,
- amount and structure of liquidity reserves,
- liquidity reserves for daily operations,
- projected cumulative gap up to one week,
- stress test of liquidity - stress LCR indicator.

Further, Risk Management Department regularly reports on following indicators:
- LCR by significant currencies,
- short-term liquidity gap,
- structural liquidity ratio.

In 2015 Regulatory liquidity ratio and Narrow regulatory liquidity ratio were significantly above the limit determined by Law and average regulatory liquidity ratio was three times above required level.

29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

Liquidity ratio

	31 December	Average	Maximum	Minimum
2015	2.63	2.83	3.40	2.24
2014	2.31	3.00	3.60	2.25

Narrow liquidity ratio

	31 December	Average	Maximum	Minimum
2015 (LCR_CRR)	1.953.24	2.473.00	3.623.59	1.592.47
2014 (LCR_BIII)	3.24	3.00	3.59	2.47

LCR is in compliance with CRR/CRD regulation (EU regulation) and represents short-term liquidity position of the Bank (in 2014 LCR indicator was calculated in accordance with Basel III rules). LCR indicator should provide adequate level of highly liquid assets (cash or assets which can be converted into cash with small or without any loss in value) in order to fulfil Bank's needs for liquidity in 30 day period of stress scenario. Limit is defined according to Intesa Group's guidelines and it must not be less than 0.8 (80%).

LCR (Liquidity Coverage Ratio)

	31 December	Average	Maximum	Minimum
2015 (LCR_CRR)	1.953.24	2.473.00	3.623.59	1.592.47
2014 (LCR BIII)	3.24	3.00	3.59	2.47

LCR is monthly reported to ALCO board by the most significant currencies (RSD and EUR), and as of 31 December it is 6.2 for liquidity position in domestic currency and 1.1 for liquidity position in foreign currency (EUR). Considering that USD is the most significant foreign currency at the Group level, the Bank must report monthly on LCR in USD, although USD participation in balance sheet assets is 4.2%.

NSFR (Net Stable Funding Ratio)

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

	31 December	Average	Maximum	Minimum
2015	1.87	1.91	2.12	1.79
2014	2.04	1.70	2.08	1.33

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

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

29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

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

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

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

Structure of the liquidity reserves in total as of 31 December 2014 is presented in the following table (RSD thousand):

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

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

Liquidity reserves	Carrying amount / Fair value	Haircut	Available value
Reserves required by the Central Bank	70,080,821	0%	70,080,821
RSD reserves required by the Central Bank	30,600,441	0%	30,600,441
Foreign currency reserves required by the Central Bank	39,480,380	0%	39,480,380
Cash on nostro accounts at other banks	40,918,812	0%	40,918,812
Other cash and cash equivalents	8,406,942	0%	8,406,942
Available no-load government securities	57,682,312	11%	51,337,258
In RSD	47,846,741	11%	42,583,599
In foreign currency	9,835,571	10%	8,852,014
Total liquidity reserves	177,088,887		170,743,833

Liquidity reserves structure is as follows: Reserves required by the Central Bank in domestic and foreign currency on which 0% haircut is applied, Cash on nostro accounts at other banks, Other cash and cash equivalents (including gold), Government bonds in domestic and foreign currency, on which haircut defined in advance is applied. As of 31 December 2015, haircut on foreign currency securities is 6%, while on dinar securities haircut is 11%.

29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

By the Liquidity policy, calculation of the available liquidity reserves in the stress circumstances demands use of the total amount of reserves. This amount is calculated and reported regularly to the ALCO Board. However, LCR calculation demands use of required reserves in the amount above the amount required for the period. The Parent Bank demands this cautious approach, and when it is applied the available required reserves for LCR calculation are RSD 36,856,196 thousand as of 31 December 2015 ((2014: RSD 15,728,126 thousand).

As of 31 December 2015, foreign currency account's balance is RSD 11,392,196 thousand. Currency structure of the cash on nostro accounts is as follows as of the reporting date: EUR -RSD 7,778,252 thousand (2014: RSD 37,558,966 thousand), USD - RSD 1,518,717 thousand (2014: RSD 302,948 thousand), CHF - RSD 1,407,651 thousand (2014: RSD 541,192 thousand), SEK - RSD 270,052 thousand (2014: RSD 260,606 thousand), RUB - RSD 115,488 thousand (2014: RSD 15,341 thousand), and other currencies RSD 303,034 thousand (2014: RSD 2,239,760 thousand).

As of 31 December 2015, available no-load financial assets issued by the Republic of Serbia were RSD 67,972,631 thousand (2014: RSD 57,682,312 thousand), of which RSD 49,466,834 thousand is in RSD, 15,023,590 thousand is in EUR (2014: RSD 9,835,571 thousand) and RSD 3,482,207 thousand in USD. On 31^{st} of December 2015, available no-load financial assets issued by the Republic of Italy amounts RSD 11,222,483 thousand denominated in euro.

The Central Bank regularly determines haircut rates for different securities issues in RSD, depending on term, type of bonds and initial interest rate. Risk Management Department calculates weighted average of haircut rates, and the fair value of securities available as liquidity reserves is reduced by the calculated amount. As of reporting date, calculated and applied weighted average of haircut rates is 9%.

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

However, calculation of LCR does not include ponders defined this way. Available no-load government financial assets are classified as First line liquidity reserves and a 0% haircut is applied to them in accordance with CRR/CRD IV regulation and Basel III liquidity standard.

29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

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

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	98,921,611	-	-	-	-	17,709	98,939,321
Financial assets at fair value through profit and loss held for trading	-	-	974,228	193,317	-	264,237	1,431,783
Financial assets initially carried at fair value through profit and loss	70,974	-	-	-	-	-	70,974
Financial assets available for sale	43,067	5,616,057	21,240,902	51,170,609	-	(21,810)	78,048,825
Loans and receivables from banks and other financial organizations	33,926,980	54,888	1,789,331	413,154	15,021	(30,993)	36,168,381
Loans and receivables from customers	44,810,747	16,109,747	61,012,163	116,965,395	45,152,473	(26,201,916)	257,848,609
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	818,694	818,694
Property, plant and equipment	-	-	-	-	-	8,718,461	8,718,461
Investment property	-	-	-	-	-	224,358	224,358
Current tax assets	-	-	-	-	-	79,396	79,396
Deferred tax assets	-	-	-	-	-	220,561	220,561
Non-current assets held for sale and discontinued operations	-	-	-	-	-	256,254	256,254
Other assets	-	-	-	-	-	4,011,057	4,011,057
Total assets	**177,773,379**	**21,780,692**	**85,016,624**	**168,742,475**	**45,167,493**	**(10,681,495)**	**487,799,169**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	74,358	74,358
Deposits and other liabilities due to banks, other financial organizations and Central Bank	4,820,257	1,098,282	4,854,976	15,444,914	4,188,961	687,672	31,095,062
Deposits and other liabilities due to customers	216,289,639	24,982,302	70,198,030	16,622,291	1,131,905	2,106,501	331,330,668
Provisions						1,729,001	1,729,001
Tax liabilities	-	-	-	-	-	679,444	679,444
Other liabilities	4,686,266	13,331	13,331	1,362	-	3,530,647	8,292,692
TOTAL LIABILITIES	**225,796,162**	**26,093,915**	**75,114,093**	**32,068,566**	**5,320,866**	**8,807,623**	**373,201,226**
TOTAL EQUITY	-	-	-	-	-	**114,597,944**	**114,597,944**
TOTAL LIABILITIES AND EQUITY	**225,796,162**	**26,093,915**	**75,114,093**	**32,068,566**	**5,320,866**	**123,405,567**	**487,799,169**
MATURITY MISMATCH	**(48,022,783)**	**(4,313,222)**	**9,902,531**	**136,673,909**	**39,846,627**	**(134,087,062)**	
CUMULATIVE MATURITY MISMATCH	**(48,022,783)**	**(52,336,005)**	**(42,433,476)**	**94,240,435**	**134,087,062**		

29.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents the remaining maturity mismatch report as of 31 December 2014:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	78,528,567	-	-	-	-	24,894	78,553,461
Financial assets at fair value through profit and loss held for trading	-	-	-	-	-	174,934	174,934
Financial assets initially carried at fair value through profit and loss	78,970	-	-	-	-	-	78,970
Financial assets available for sale	1,280,741	7,926,090	18,178,230	30,319,907	-	-	57,704,967
Loans and receivables from banks and other financial organizations	64,669,051	530,122	5,176,313	162,557	22,775	(128,807)	70,432,011
Loans and receivables from customers	51,915,058	19,884,063	65,474,732	100,662,312	44,106,046	(28,695,963)	253,346,248
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	801,047	801,047
Property, plant and equipment	-	-	-	-	-	6,239,234	6,239,234
Investment property	-	-	-	-	-	230,628	230,628
Current tax assets	-	-	-	-	-	298,079	298,079
Deferred tax assets	-	-	-	-	-	224,804	224,804
Non-current assets held for sale and discontinued operations	-	-	-	-	-	256,058	256,058
Other assets	-	-	-	-	-	3,654,344	3,654,344
Total assets	**196,472,387**	**28,340,275**	**88,829,274**	**131,144,775**	**44,128,821**	**(15,958,251)**	**472,957,281**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	19,668	-	-	-	-	-	19,668
Deposits and other liabilities due to banks, other financial organizations and Central Bank	4,194,606	2,097,263	7,296,237	16,292,778	5,887,835	941,464	36,710,183
Deposits and other liabilities due to customers	176,682,846	25,276,189	77,240,617	23,823,399	1,226,252	2,314,108	306,563,411
Provisions	-	-	-	-		1,647,473	1,647,473
Other liabilities	19,544,975	7,905	54,864	276	-	3,199,122	22,807,141
TOTAL LIABILITIES	**200,442,095**	**27,381,357**	**84,591,718**	**40,116,453**	**7,114,088**	**8,102,166**	**367,747,876**
TOTAL EQUITY	-	-	-	-	-	**105,209,405**	**105,209,405**
TOTAL LIABILITIES AND EQUITY	**200,442,095**	**27,381,357**	**84,591,718**	**40,116,453**	**7,114,088**	**113,311,571**	**472,957,281**
MATURITY MISMATCH	**(3,969,708)**	**958,919**	**4,237,557**	**90,959,472**	**37,014,733**	**(129,200,973)**	
CUMULATIVE MATURITY MISMATCH	**(3,969,708)**	**(3,010,789)**	**1,226,768**	**92,186,240**	**129,200,973**		

The remaining maturity mismatch report table as of 31 December 2015, presents future cash flows based on the highly conservative assumptions, which are that total a vista deposits will mature at the same time within the following month. These assumptions do not provide realistic view on the Bank's liquidity, considering that by analyzing time series of a vista deposits it can be concluded that they have been very stable source of funds

29. RISK MANAGEMENT (continued)

29.3. Market Risk

In 20145, the Bank did acquire Trading book positions and therefore was exposed to interest rate risk, price risk which could be caused by the Trading book. However, banking book was exposed to foreign currency risk, but not above the limits set by the Decision of the Board of Directors.

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

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

First class limit is considered to be FX VaR limit, which is calculated and reported on daily basis. Calculation methodology is regulated by the ISP Group, which applies EWMA historical method, with 99% confidence interval and one day time period. Up to 2014, FX VaR included foreign currency positions in EUR, USD and CHF, while other currencies were considered immaterial and aggregated within EUR positions. Since 2014, FX VaR has been calculated on positions for each currency, because of the requirements of the Parent Bank, as well as for the increase of volatility of some currencies, which Bank has in its portfolio. However, the FX VaR is mostly determined by the volatility of EUR, since the portion of EUR of the total open FX position was 87% in average during 2015.

Second class limit is considered to be the limit of net open FX position, which represents difference between currency sensitive assets and currency sensitive liabilities. Second class limits exposure is calculated and reported on the daily basis.
During 2015, by the decision of the Parent Bank and the Board of Directors first order limit (FX VaR limit) has been decreased while second order limit, limit of net open FX position, remained unchanged.
During 2015, the Bank was complied with foreign currency risk indicator, required by the regulations, which represents 20% of the regulatory equity. As of 31 December 2015 regulatory indicator of foreign currency risk was 0.64%.
The following table shows the open foreign currency position as of 31 December 2015:

RSD thousand

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

29. RISK MANAGEMENT (continued)

29.3. Market Risk (continued)

The following table shows the open foreign currency position as of 31 December 2014:

RSD thousand

31 December 2014	Carrying amount	Trading book	Banking book
Assets complied with market risks	**321,906,175**	-	**321,906,175**
Cash and balances with Central Bank	42,982,630	-	42,982,630
Financial assets initially carried at fair value through profit and loss	78,970	-	78,970
Financial assets available for sale	9,766,721	-	9,766,721
Loans and receivables from banks and other financial organizations	68,486,342	-	68,486,342
Loans and receivables from customers	200,240,681	-	200,240,681
Other assets	350,831	-	350,831
Liabilities complied with market risks	**272,554,253**	-	**272,554,253**
Deposits and other liabilities due to banks, other financial organizations and Central Bank	29,885,328	-	29,885,328
Deposits and other liabilities due to customers	227,097,863	-	227,097,863
Other liabilities	15,571,063	-	15,571,063
Off-balance sheet financial derivatives which impact FX position	(29,962,944)	-	(29,962,944)
Allowances for impairment	(18,730,356)	-	(18,730,356)
Open net foreign currency position	**658,619**	**-**	**658,619**

Following table represents currency structure of open net foreign currency position as of 31 December 2015 and 31 December 2014:

RSD thousand

Net open foreign currency position	2015	2014
EUR	(276,230)	476,574
USD	33,677	23,500
CHF	9,291	(6,679)
Other currencies	101,119	113,645
Gold and other precious metals	51,685	51,579
Total	**(80,458)**	**658,619**

EUR

Foreign currency VaR	31 December	Average	Maximum	Minimum
2015	24,112	44,701	169,450	2,403
2014	96,454	14,778	127,203	739

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

RSD thousand

Scenario	Effect 2015	Effect 2014
10% depreciation of RSD	(8,046)	65,862
20% depreciation of RSD	(16,092)	131,704

29.4. Interest rate risk

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

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

29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

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

Further, during 2015 interest rate risk measuring system has also been changed. Namely, long term interest rate sensitivity sub - limit of net assets on the change in interest rate by 100 bps, has been increased by 25% compared to 2014, according to the proposal of the Parent Bank and by the decision of the Board of Directors. The sub-limits system assumes individual calculation of exposure to interest rate risk in short-term (up to 18 months), mid-term (from 18 months to 5 years) and long-term (over 5 years).

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

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

During 2015, by the decision of the Parent Bank and the Board of Directors interest rate risk VAR limit on Trading Book was established while the total interest rate risk exposure limit on Banking Book remained unchanged.

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

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

29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

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

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	98,921,611	-	-	-	-	17,709	98,939,321
Financial assets at fair value through profit and loss held for trading	-	-	974,228	193,317	-	264,237	1,431,783
Financial assets initially carried at fair value through profit and loss	70,974	-	-	-	-	-	70,974
Financial assets available for sale	43,067	5,616,057	21,240,902	51,170,609	-	(21,810)	78,048,825
Loans and receivables from banks and other financial organizations	35,270,919	118,928	793,097	16,430	-	(30,993)	36,168,381
Loans and receivables from customers	122,923,087	80,998,334	42,053,917	34,422,569	3,652,618	(26,201,916)	257,848,609
Investments in subsidiaries	-	-	-	-	-	962,496	962,496
Intangible assets	-	-	-	-	-	818,694	818,694
Property, plant and equipment	-	-	-	-	-	8,718,461	8,718,461
Investment property	-	-	-	-	-	224,358	224,358
Current tax assets	-	-	-	-	-	79,396	79,396
Deferred tax assets	-	-	-	-	-	220,561	220,561
Non-current assets held for sale and discontinued operations	-	-	-	-	-	256,254	256,254
Other assets	-	-	-	-	-	4,011,057	4,011,057
Total assets	**257,229,659**	**86,733,318**	**65,062,144**	**85,802,925**	**3,652,618**	**(10,681,496)**	**487,799,169**

29. RISK MANAGEMENT (continued)

29.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	74,358	74,358
Deposits and other liabilities due to banks, other financial organizations and Central Bank	4,839,444	12,917,149	9,984,542	2,666,254	-	687,672	31,095,062
Deposits and other liabilities due to customers	220,246,753	29,787,531	66,571,523	12,087,174	531,185	2,106,501	331,330,668
Provisions	-	-	-	-	-	1,729,001	1,729,001
Other liabilities	-	-	-	-	-	679,444	679,444
TOTAL LIABILITIES	**229,772,464**	**42,718,012**	**76,617,153**	**14,754,790**	**531,185**	**8,807,623**	**373,201,226**
TOTAL EQUITY	-	-	-	-	-	**114,597,944**	**114,597,944**
TOTAL LIABILITIES AND EQUITY	**229,772,464**	**42,718,012**	**76,617,153**	**14,754,790**	**531,185**	**123,405,567**	**487,799,169**
MATURITY MISMATCH	**27,457,195**	**44,015,307**	**(11,555,009)**	**71,048,135**	**3,121,433**	**(134,087,062)**	
CUMULATIVE MATURITY MISMATCH	**27,457,195**	**71,472,502**	**59,917,493**	**130,965,628**	**134,087,061**		

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2014:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS							
Financial assets available for sale	19,011,220	7,588,111	15,345,736	13,877,745	-	-	55,822,812
Demand loans to customers, banks and other financial organization	92,103,043	-	-	-	-	-	92,103,043
Loans to customers, banks and other financial organizations	8,180,803	157,381,366	46,054,869	43,283,673	15,520,741	31,334,585	301,756,037
Other assets	-	-	-	-	-	23,275,390	23,275,390
TOTAL ASSETS	**119,295,066**	**164,969,477**	**61,400,604**	**57,161,418**	**15,520,741**	**54,609,975**	**472,957,281**

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
LIABILITIES							
Arista deposits from customers, banks and other financial organizations	92,927,632	30,420,563	13,488,926	16,421,295	-	-	153,258,417
Term deposits from customers, banks and other financial organizations	15,534,205	59,297,274	89,109,287	23,837,488	1,149,268	1,087,656	190,015,178
Other liabilities	-	-	-	-	-	24,474,281	24,474,281
Equity	-	-	-	-	-	105,209,406	105,209,406
TOTAL LIABILITIES	**108,461,837**	**89,717,837**	**102,598,213**	**40,258,783**	**1,149,268**	**130,771,343**	**472,957,281**
PERIODICAL GAP	**10,833,229**	**75,251,641**	**(41,197,609)**	**16,902,635**	**14,371,473**	**(76,161,369)**	
CUMULATIVE GAP	**10,833,229**	**86,084,869**	**44,887,260**	**61,789,896**	**76,161,369**	**-**	

29. RISK MANAGEMENT (continued)

29.4. Interest rate risk (continued)

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

RSD thousand

	Increase by 100bps	Decrease by 100bps	Increase by 200bps	Decrease by 200bp
Sensitivity of the Bank's net income on the change in interest rates				
2015				
As of 31 December	(195,818)	195,818	(391,636)	391,636
Period average	(104,476)	104,476	(208,952)	208,952
Period maximum	191,054	512,025	382,107	1,024,050
Period minimum	(512,025)	(191,054)	(1,024,050)	(382,107)
2014				
As of 31 December	(111,990)	112,556	(223,980)	225,111
Period average	(162,717)	163,422	(325,434)	326,844
Period maximum	473,190	599,541	946,380	1,199,082
Period minimum	(598,518)	(472,599)	(1,197,037)	(945,197)
Sensitivity of the Bank's net assets on the change in interest rates				
2015				
As of 31 December	(971,530)	971,530	(1,817,094)	2,447,331
Period average	(786,846)	786,846	(1,440,785)	2,155,138
Period maximum	(599,305)	974,464	(1,066,595)	2,587,001
Period minimum	(974,464)	599,305	(1,817,094)	1,644,336
2014				
As of 31 December	(801,890)	801,890	(1,474,071)	2,054,593
Period average	(783,793)	783,793	(1,447,903)	1,827,307
Period maximum	12,752	1,056,889	42,892	2,587,759
Period minimum	(1,056,889)	(12,752)	(2,055,225)	(20,866)

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

EUR

IRR AFS VaR	31. December	Average	Maximum	Minimum
2015	505,374	859,737	1,312,175	446,897
2014	1,178,994	304,786	1,235,543	156,292

29.5. Operational Risk

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

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

The Bank has developed and implemented specific standards of operational risk management in the following areas:
- Operational risk identification, which comprises:
- Collecting data on operational risks and losses – identification, registration and classification of data on Bank's losses,
- Integrated process of assessment of exposure to operational risk;
- Assessment of operational risk when implementing new product, process or system;
- Operational risk measuring;
- Monitoring and reporting on operational risk;
- Reducing operational risk.

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

29. RISK MANAGEMENT (continued)

29.5. Operational Risk (continued)

For the purposes of capital requirements for operational risk calculation, the Bank applies standardized approach. The capital requirement for operational risk calculated by applying standardized approach as of 31 December 2015 is RSD 4,327,257 thousand (31 December 2014: RSD 4,143,295 thousand).

29.6. Exposure Risk

The Risk Management Department monitors, measures and reports to the Bank's boards on the Bank's exposure to a single client or to group of clients, risk of investment in other legal entities, as well as in fixed assets, country risk to which the Bank is exposed, as well as operational risk. In 2014, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia as well as the investment limits prescribed by the Bank.

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

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

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

29.7. Investment Risks

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

29.8. Country Risk

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

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

29.9. Capital management

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

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

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

29. RISK MANAGEMENT (continued)

29.9. Capital management (continued)

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

Regulatory capital by years:

RSD thousand

Position	31 December 2015	31 December 2014
CAPITAL	**57,038,090**	**49,837,271**
Tier 1	**57,237,647**	**50,203,182**
Share capital from ordinary shares, excluding cumulative preference shares	21,315,900	21,315,900
Share premium	20,432,569	20,432,569
Reserves from profit	47,484,121	47,484,121
Current year profit	-	-
Intangible assets	(818,694)	(801,047)
Regulatory value adjustment	**(31,176,249)**	**(38,228,361)**
Unrealized losses from securities available for sale	(103,312)	(152,435)
Required reserves from profit for potential losses from balance and off-balance sheet items	(31,072,937)	(38,075,926)
Tier 2	**762,939**	**596,585**
Part of revaluation reserves	762,939	596,585
DEDUCTIBLE ITEMS	**(962,496)**	**(962,496)**
Deduction from Tier 1	(481,248)	(365,911)
Deduction from Tier 2	(481,248)	(596,585)
Direct or indirect equity investments in banks or other financial organization exceeding 10% of its capital	(962,496)	(962,496)
Required reserves from profit for potential losses in accordance with point 427 paragraph 1 of Decision on capital adequacy of banks	-	-
TOTAL Tier 1	**56,756,399**	**49,837,271**
TOTAL Tier 2	**281,691**	**-**

29.10. Fair value of financial assets and liabilities

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

Determining fair value of the financial instruments, which are not carried at amortized cost must follow the principles, criteria and hierarchy prescribed by the Fair value policy, which is in accordance with ISP Group's requirements for determining fair value. Determining fair value of the financial instruments not carried at amortized cost respects the following hierarchy, which reflects credibility of the inputs used in determination of fair value:
- Level 1: inputs are the quoted market prices (without corrections) on active markets;
- Level 2: inputs other than quoted prices from level 1, but directly or indirectly (derived from prices) quoted on market. This category includes: market interest rates, CDS (credit default swap) market quotations, market prices of primary bonds issue or market exchange rates when determining value of the instrument.
- Level 3: inputs that are not information available on the market. This category includes each instrument, for which information on value is not directly or indirectly available on the market.

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

29. RISK MANAGEMENT (continued)

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

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

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

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

Fair value as of 31 December 2015:

RSD thousand	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets available for sale	974,228	457,555	-	1,431,783
Financial assets initially carried at fair value through profit and loss and Financial liabilities initially carried at fair value through profit and loss	70,974	-	-	70,974
Financial assets initially carried at fair value through profit and loss and Investments in subsidiaries	14,704,690	63,322,878	21,257	78,048,825
Total	**15,749,891**	**63,780,433**	**21,257**	**79,551,581**
Liabilities				
Financial liabilities held for trading	**-**	74,358	-	74,358
Total	**-**	**74,358**	**-**	**74,358**

Fair value as of 31 December 2014:

RSD thousands				
Assets				
Financial assets available for sale	-	174,934	-	174,934
Financial assets initially carried at fair value through profit and loss and Financial liabilities initially carried at fair value through profit and loss	78,970	-	-	78,970
Financial assets initially carried at fair value through profit and loss and Investments in subsidiaries	599,794	54,887,180	22,655	55,509,629
Total	**678,763**	**55,062,115**	**22,655**	**55,763,533**
Liabilities				
Financial liabilities held for trading	**-**	96,912	-	96,912
Total	**-**	**96,912**	**-**	**96,912**

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

29. RISK MANAGEMENT (continued)

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

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

Fair value as of 31 December 2015:

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

Fair value as of 31 December 2014:

RSD thousand	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with Central Bank	-	78,553,461	-	78,553,461	78,553,461
Loans and receivables from banks and other financial organizations		70,432,011	-	70,432,011	70,432,011
Loans and receivables from customers		-	287,012,291	287,012,291	253,346,248
Total	-	148,985,472	287,012,291	435,997,763	402,331,720
Liabilities			-		
Deposits and other liabilities due to banks, other financial organizations and Central Bank	-	36,710,183	-	36,710,183	36,710,183
Deposits and other liabilities due to customers	-	-	310,483,974	310,483,974	306,563,411
Other liabilities	-	22,807,141	-	22,807,141	22,807,141
Total		59,517,324	310,483,974	370,001,298	366,080,735

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

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

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

30. CONTINGENT LIABILITIES

(a) Court cases

As of 31 December 2015, the Bank is a defendant in a certain number of legal proceedings. Total estimated amount of claims is RSD 411,054 thousand (31 December 2014: RSD 586.289 thousand), including penalty interests and fees.

The final outcome of the ongoing legal proceedings is uncertain. As disclosed in Note 24 to the financial statements as of 31 December 2015, the Bank recognized provisions for potential losses that could arise from the aforementioned litigations in the total amount of RSD 272,480 thousand (31 December 2014: RSD 269,245 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

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

(b) Tax Risks

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

31. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 18 of the Law on Accounting, the Bank performed reconciliation of liabilities and receivables with its debtors and creditors as of 31 November 2015, and maintained reliable documentation.

From a total of 2,644 submitted confirmations of balances, 34 were disputed.

The balance of unreconciled outstanding receivables and liabilities is RSD 891,133. The largest amount refers to receivables from legal entities in bankruptcy and with statutory change (82,86% of the total unreconciled balance).

32. EXCHANGE RATES

The official foreign exchange rates of the National Bank of Serbia determined on the Interbank Foreign Currency Market, used for translation of balance sheet items denominated in foreign currencies as of 31 December 2015 and 2014 into Serbian Dinars (RSD) were as follows:

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

33. SUBSEQUENT EVENTS

There have been no significant events subsequent to the balance sheet date, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2015.

Rada Radović Head of Accounting Department	Alessio Cioni Deputy President of the Executive Board	Draginja Đurić President of the Executive Board

BANCA INTESA BEOGRAD

2015 Annual Report

Content:

1. Key Financial Indicators

in thousand RSD

Banca Intesa Beograd	2015	2014
INCOME STATEMENT		
Net interest income	20,210,428	21,063,563
Net fee and commission income	5,443,802	5,649,062
Profit before tax	9,682,628	7,096,306
Income tax	1,093,806	433,284
Net profit from deferred tax assets and liabilities	(4,243)	145,681
Profit after tax	8,584,579	6,808,703
BALANCESHEET		
Cash and balances with Central Bank	98,939,321	78,553,461
Financial assets at fair value through profit and loss held for trading and financial assets designated upon initial recognition at fair value through profit and loss	1,502,757	253,904
Financial assets available for sale	78,048,825	57,704,967
Loans and receivables from banks, other financial organisations and customers	294,016,989	323,778,259
Investments in subsidiaries	962,496	962,496
Intangible assets, property, plants and equipment, investment property and non-current assets held for sale and discontinued operations	10,017,767	7,526,967
Other assets, current and deferred tax assets	4,311,014	4,177,227
Total assets	**487,799,169**	**472,957,281**
Financial liabilities at fair value through profit and loss held for trading	74,358	19,668
Deposits and other liabilities due to banks, other financial organisations, Central Bank and other customers	382,426,730	343,273,594
Provisions	1,729,001	1,647,473
Other liabilities	8,971,136	22,807,141
Total liabilities	**373,201,225**	**367,747,876**
Equity	**114,597,944**	**105,209,405**
Total liabilities and equity	**487,799,169**	**472,957,281**

Banca Intesa Beograd	2015	2014
INDICATORS		
Profit before tax/ Total assets	1.98%	1.50%
Profit before tax / Total equity	8.45%	6.74%
Interest income / Total assets	5.21%	5.89%
Interest expenses / Total liabilities	1.07%	1.43%
Capital adequacy ratio	20.72%	19.40%
Total assets per employee	162,060	156,350
Number of employees	3,010	3,025

2. Letter from the Chairman of the Board of Directors

Ladies and gentlemen,

It is my great pleasure to present you with the business results that Banca Intesa delivered in 2015, reflecting our firm focus on customers, our deeply embedded risk culture and disciplined cost management, supported by stable liquidity and capital positions. These prerequisites enabled us to successfully navigate the demanding business environment last year and once again confirm our leadership market position while continuously creating value for our customers, employees, shareholders and community in general.

Looking from a broader perspective, Serbia's economy emerged from recession in 2015, mainly as a result of decisive reform measures taken by the Government, coupled with more favourable situation in the global market, with GDP projected to grow 0.8 per cent. (for the full year.) The Government made strong fiscal tightening efforts that yielded good results, with the consolidated budget deficit in the first three quarters of 2015 at 1.8 per cent of GDP, well below the 5.3 per cent target, while also taking important steps towards implementing structural reforms, predominantly by adopting key systemic laws. This was confirmed in the latest revision of Serbia's stand-by arrangement with the International Monetary Fund (IMF) as well as the country's advancement on the World Bank's Doing Business report. At the same time, the improved fiscal and macroeconomic positions enabled local currency to maintain relative stability against the euro, depreciating by a mere 0.5 per cent year-on-year. Also on the positive side, foreign direct investment climbed 30 per cent in the first three quarters of the year against the same period of 2014 to 1.2 billion euros and the inflation rate remained below the lower end of the target band, at 1.5 per cent, largely due to weak demand, low prices of primary products and slow rise in regulated prices.

The low inflation setting enabled the National Bank of Serbia to press ahead with monetary policy easing which started in mid-2013, with the key policy rate slashed to an all-time low at the end of 2015. Last year alone, the Central bank cut the rate on seven occasions, from 8 to 4.5 per cent, which allowed banks to resume the trend of lowering interest rates on dinar loans which fell by 4.4 percentage points in the retail and by 4.2 percentage points in the corporate segment in January-November. This, coupled with more favourable interest rates on euro-tied lending based on all-time low EURIBOR levels, paved the way for the recovery of credit activity. With banks gradually relaxing credit standards and demand slowly picking up, total loans at the level of the banking market at the end of 2015 reached 1.9 trillion dinars, growing 3.1 per cent from the same period of 2014, largely on the back of retail lending expansion. On the other hand, total deposits of 1.8 trillion dinars, which rose 6.5 per cent year-on-year, once again confirmed that customers, both the retail and corporate ones, have confidence in the domestic banking sector. At the same time, special diagnostic studies of Serbia's largest banks conducted as part of the arrangement with the IMF, confirmed the strong capitalisation of the domestic financial sector with capital adequacy ratio in none of the 14 surveyed banks below the regulatory minimum of 12 per cent. Amid the difficult economic environment, the NPL rate remained high, at 22 per cent at the end of the third quarter, however, being fully covered by loan loss provisions. Moreover, such high NPL share is expected to decrease in the following period, in light of the adopted action plan for the NPL resolution strategy as well as tax policy improvements.

In such circumstances, the drivers of our success remain consistent – we continued to rely on our comfortable liquidity and a strong capital base, which coupled with a sharp focus on prudent risk management and operational excellence enabled us to record stable results in all key segments of operation and preserve our leadership market position. On lending front, we remained committed to providing high quality service to our customers and improved financial solutions tailored to their specific needs. Such behaviour, together with the continuous trend of reducing interest rates, allowed us to confirm our position at the forefront of the banking sector. The deposit side of our balance sheet also kept the upward trend despite declining interest rates, mirroring the loyalty of our customers and reaffirming our number one market position in this segment as well. Along with keeping a continued focus on cost control and efficiency, as evident in our favourable cost-to-income ratio, we put additional efforts in strengthening our risk management practices and policies, which is confirmed by a drop in our NPL rate. Our strong performance across all our businesses, cost optimisation measures and robust risk management are also reflected in our financial results, with net profit at the end of 2015 improving to 8.6 billion dinars from 6.8 billion dinars in 2014.

Our last year achievements rest on the devoted work of our professional team, which is why in closing I would like to extend my gratitude to the Managing and the Executive Boards, as well as to all employees, whose energy, dedication and diligence enabled us to once again end the year with strong results despite challenging market conditions and a highly competitive operating environment. I would also like to congratulate them all on the successful ten years of operations, expressing my conviction that our good performance, underpinned by our customer-centred culture and support from our parent Group, will give us a stable platform for further development in the period ahead, while backing the expected continuation of economic growth and making positive difference in the lives of our customers and community at large.

Sincerely,

Giovanni Boccolini
President of the Board of Directors

3. Foreword by the President of the Executive Board

Dear reader,

Guided in its operation by the principles of corporate social responsibility resting on high ethical norms protecting the interests of customers, employees, shareholders and social community, Banca Intesa marks a decade of its operation in the Serbian market with another successful business year. The results we recorded in 2015 confirm the effectiveness of the strategy oriented towards the needs of our customers, sustainable growth and operational efficiency. Operating on this basis in a highly demanding business environment, we succeeded in maintaining the leading market position, while providing full support to the recovery of the domestic economy and improvement of the citizens' quality of life.

During 2015, the economy of Serbia exited recession, with the economic upturn being primarily a result of rising external demand based on a gradual Eurozone recovery, higher investment inflow, as well as reform activities which improved the business environment. The Serbian Government's fiscal consolidation measures led to a fiscal deficit reduction, while the structural reform process was initiated by amending key legislation and restructuring public enterprises. The inflation rate fluctuated below the lower end of the target band, predominantly due to the low contribution of administered price growth and decline of primary product prices. Apart from the price stability, with its timely actions in the domestic market, the National Bank of Serbia ensured the stability of the domestic currency, aided by the more favourable trend of economic recovery and export growth.

Trends prevailing in the domestic and foreign market directed the activities of the Central Bank towards further monetary easing, so the key policy rate was at a historic low at the end of the year. Consequently, the key policy rate decrease created scope for the banks to continue lowering interest rates on loans in order to make the borrowing terms for private individuals and businesses as favourable as possible, which, together with the recovery of demand, led to a moderate lending growth in the banking market. Total deposits posted further growth despite the deposit interest rates falling to a historic low. During 2015 diagnostic studies of Serbia's banking sector were conducted, confirming the high level of capitalisation and stability of leading banks, despite the continuing presence of the issue of high NPL rate. An important step towards the NPL resolution was the adoption of the national NPL Resolution Strategy, providing a solid framework for future activities in this area.

Adjusting to the operating conditions and market trends, Banca Intesa resumed efficient implementation of its business strategy focusing on three key areas – customer satisfaction, innovation and operating efficiency. The emphasis was placed on the enhancement of positive experience of our customers in their dealing with the bank, development of new products and strengthening of digital distribution channels, with constant efforts aimed at business process improvement. Exceptional results were posted in the retail segment, in particular with regard to cash credit growth. We remained the market leader in mortgage loans, we are the leaders in the number of issued payment cards and transaction volume. We continued to work on improving the quality of our services to all customer categories, so a significant rise in business volume both with private individuals and registered farms and small businesses was recorded. The newly-introduced concept of pre-approved loans in the SME and small business segment contributed to the growth of portfolio and customer numbers. Moreover, credit lines were signed with international financial institutions, based on which funds will be lent under favourable terms in order to promote further development of women's entrepreneurship, as well support the sector of agriculture and micro, small and medium-sized enterprises that have the potential to be the driver of sustainable growth of the domestic economy. In the corporate segment, the upward lending trend was preserved, reaffirming the leading position of the bank. We gave a unique contribution to the promotion of domestic economy, as well as our bank, by organising a business forum as part of EXPO Milano 2015, which brought together high officials of the governments and diplomatic representative offices of Serbia and Italy, as well as representatives of business associations and companies from the two countries, with the aim of promoting economic cooperation based on the potential of food processing industry and agribusiness.

All the activities undertaken enabled us to record a growth of key performance indicators. With total assets of RSD 488 billion we confirmed our long-standing leading position in the banking sector, while the quality of products and services, coupled with the high customer satisfaction level, resulted in a growth of our customer base to over 1.7 million. With its total loans of RSD 258 billion and total deposits of RSD 331 billion, Banca Intesa emerged as the market leader both in total loans and total deposits. Additionally, our systemic approach to NPL resolution enabled us to improve additionally our asset quality. The results of the special diagnostic studies conducted at the initiative of the National Bank of Serbia and the IMF in 14 banks in Serbia confirm that the Bank has a quality credit portfolio risk management system, as well as a high and stable capital level.

Corporate social responsibility remained an important strategic determinant of our overall business operation in 2015 as well, which is demonstrated by awards and recognitions we received in this area. We continued strengthening our corporate volunteering programme, assisting the vulnerable segments of the society, in particular children and the elderly, with constant focus on financial inclusion through the development of new products, direct philanthropic investments, as well as the satisfaction of our customers and employees. By launching the project of corporate culture survey, we started working on further reinforcement of mutual cooperation and efficiency improvement, in which we shall be supported by all functions coming together in the new headquarters, improving the conditions for our employees' work. The new headquarters create at the same time a good foundation for further development of our operation, confirming at the same time the strategic commitment of our parent Group to building its long-term presence in the Serbian market.

At the end, I would like to thank our shareholders, all employees for high-level professionalism and contribution to good results, customers who motivate us to keep overcoming challenges, as well as members of the Board of Directors for valuable guidance. In the following year we shall remain on the envisioned path of development and success, relying on our traditional strengths reflected in strong capitalisation and liquidity, professional risk management and building long-term relations with our customers. I am certain that in this way we shall provide meaningful support to the expected continuation of economic growth and improvement of quality of life of the citizens and the community, while ensuring consistent results for our shareholders.

Respectfully,

Draginja Đurić
President of the Executive Board

4. Macroeconomic Environment and the Banking Sector

Serbia's economy in 2015 was marked by recovery from recession, an extremely low inflation rate which remained below the target band throughout the year and relative stability of the dinar-euro exchange rate as a result of the improved macroeconomic and fiscal outlook of the country.

Serbia achieved extraordinary progress in the sphere of macroeconomic stability and fiscal consolidation and initiated structural reforms by amending some of the key laws, which was confirmed by three successfully completed IMF reviews. However, at the same time there was a certain delay, particularly in the sphere of general government streamlining, payroll system reform as well as the finalisation of the process of public enterprise privatisation.

The World Bank recognised the process of structural reforms by ranking Serbia 59th on the Doing Business list, composed according to the criteria of ease of doing business, with the most important reforms carried out in the areas of issuing construction permits and facilitated tax payment.

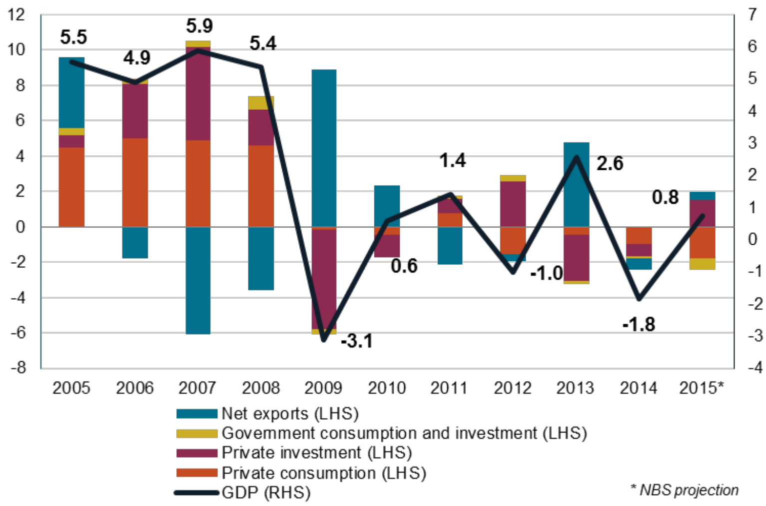
Next year the economic recovery is expected to continue and the basic economic policy goals will be directed towards continuing the implementation of fiscal consolidation and maintenance of macroeconomic stability, with the interruption of further public debt growth, strengthening the stability of the financial sector through bad debt resolution as well as towards removing obstacles to sustainable economic growth and increasing competitiveness by further implementation of structural reforms.

Macroeconomic Environment

Economic Activity

In the second and third quarter of 2015 Serbia posted positive growth rates and exited recession, while according to the latest projections of the National Bank and the IMF, the headline economic growth is expected to reach 0.8% in 2015. From the production perspective, fiscal adjustment had a negative effect on the activity of service sectors, while the agricultural sector also had a negative contribution to GDP due to the drought. On the other hand, industrial production, owing to the positive manufacturing results and the energy sector recovery, as well as construction activity, positively contributed to the growth of economic activity.

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



In 2016 the National Bank of Serbia expects a GDP growth of 1.8% which will be driven by investments and exports, while household consumption will also give a positive contribution for the first time in four years. From the production perspective, the main driver of growth in 2016 will be industrial production, as well as agriculture, after its recovery from the drought.

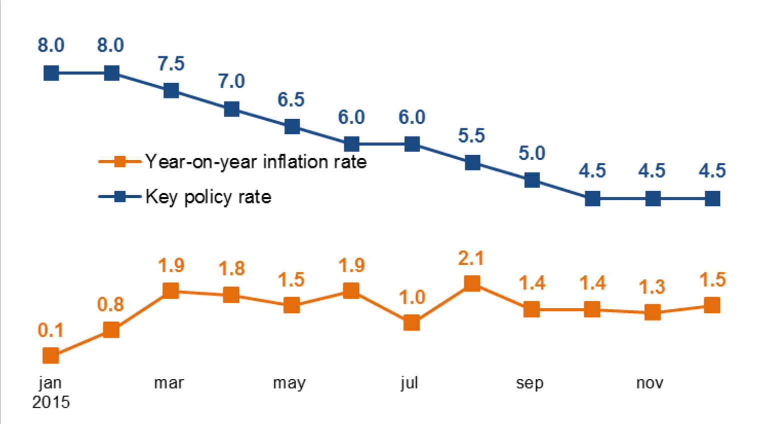
Inflation

Since March 2014, the year-on-year inflation rate remained below the lower end of the target band (4% ± 1.5%) and in December 2015 stood at 1.5%. Undershooting the target is largely a consequence of an unusually low contribution of the growth in administered prices and a strong decline in prices of primary products.

According to the projections of the National Bank of Serbia, a return of inflation within the target band is expected in the second half of 2016. The year-on-year inflation growth will be a result of higher prices of primary products (oil and primary agricultural products), with a growth of non-food product and service prices also expected starting from the mid-2016. On the other hand, aggregate demand and low inflation in the international environment will continue to have a disinflationary effect.

In its Memorandum on Inflation Targets until 2018, the National Bank of Serbia committed to targeting an inflation rate of 4.0% with a 1.5% tolerance band until the end of 2018.

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



Source: NBS

Monetary Policy

The low inflation rate during 2015 left room for monetary easing, so the National Bank of Serbia reduced the key policy rate by 350 basis points to a historical low of 4.5% at the end of 2015. In the current cycle of monetary easing, which began in May 2013, the key policy rate was reduced by a total of 725 basis points.

The National Bank of Serbia initiated additional monetary easing in mid-September 2015, with the reduction of the foreign currency required reserve rate by one percentage point in the period September 2015-February 2016. It means that from February 2016 the foreign currency required reserve rates will be 20% for funds with maturity of up to 2 years and 13% for funds with longer maturity. The dinar required reserve rates remained unchanged (5% for funds with maturity of up to 2 years and 0% for funds with longer maturity).

The above-mentioned monetary policy measures, reduction of the key policy rate and gradual reduction of the required reserve rate should contribute to further decrease in interest rates on loans and increase in bank lending potential and, consequently, to the recovery of lending activity.

The nature of monetary policy in 2016 will depend on external risks associated with developments in the international financial and commodity market, while consistent fiscal consolidation, supported by the IMF arrangement, and implementation of structural reforms will increase the scope for further monetary easing.

Dinar Exchange Rate

In 2015, the dinar nominally depreciated against the euro by 0.5% and against the dollar by 10.6%, while the NBS intervened in the foreign exchange market by selling EUR 450 million and buying EUR 970 million in order to prevent large daily fluctuations of the dinar.

Relative stability of the dinar-euro exchange rate was a result of the recovery of economic activity, the current account deficit reduction, higher exports and a greater demand for domestic securities due to the favourable risk perception having in mind the agreement with the IMF, restrictive fiscal policy and a better external position of the country. On the other hand, dinar depreciation in the last three months of the year was a consequence of anticipation of the Fed decision as well as seasonal factors (corporate transactions and higher demand for foreign currency in the energy sector).

Chart 3 - Dinar exchange rate trend

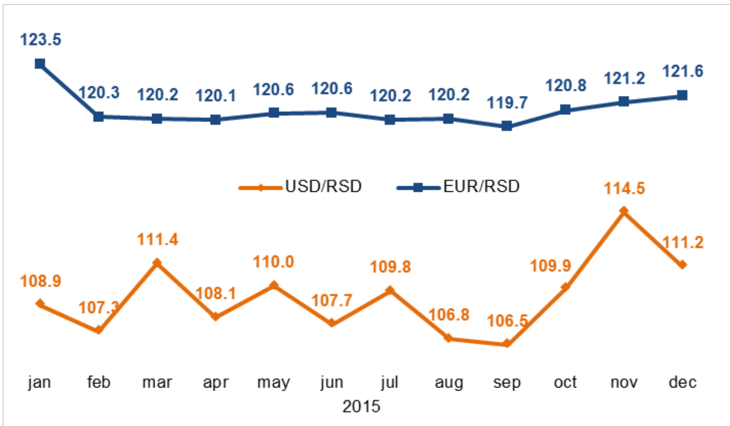
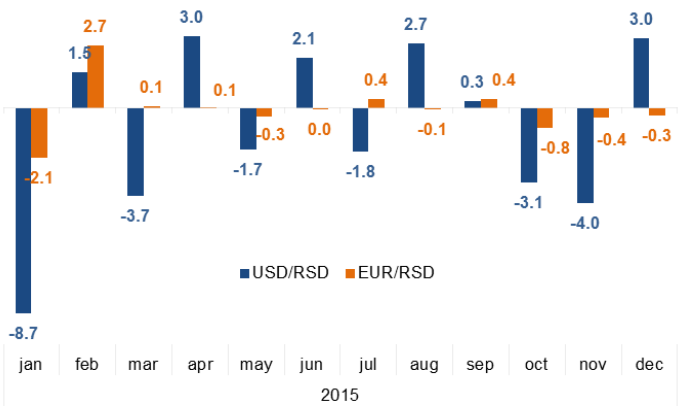


Chart 4 - Monthly exchange rate changes in %



Source: NBS

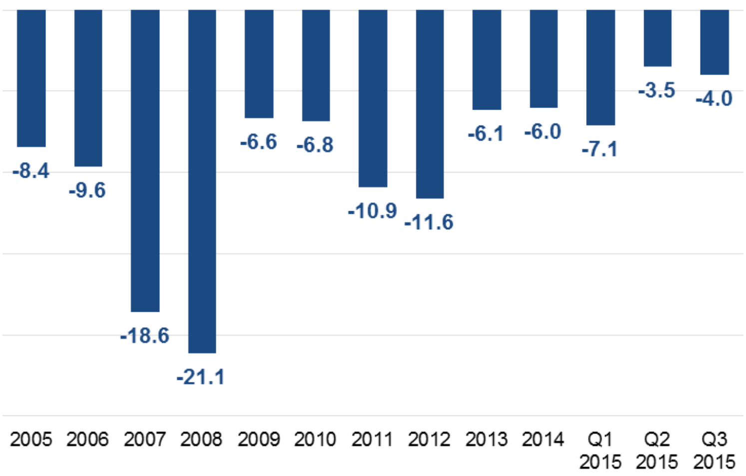
Current Account Deficit and External Debt

The trend of the current account deficit reduction and substantial improvement of external imbalance continued during 2015 as well. The country's improved balance of payment position was influenced by a higher inflow of remittances, positive effects of fiscal consolidation as well as very low prices of oil and external demand recovery, which had a favourable effect on foreign trade.

According to the projections of the National Bank of Serbia, the current account deficit will amount to around 4.6% of GDP at the end of 2015, which will be a substantial reduction compared to 2014, when it amounted to 6% of GDP. The current account deficit will be fully covered by the net inflow of foreign direct investments, which reduces the need for external financing.

The recovery of external demand, as well as continued implementation of structural reforms, will contribute to further current account improvement next year as well.

Chart 5 - Current account deficit (% of GDP)



Source: NBS

At the end of September 2015 Serbia's external debt amounted to EUR 26.3 billion, or 80.3% of GDP, which is close to the limit of high indebtedness according to the World Bank criteria (80% of GDP).

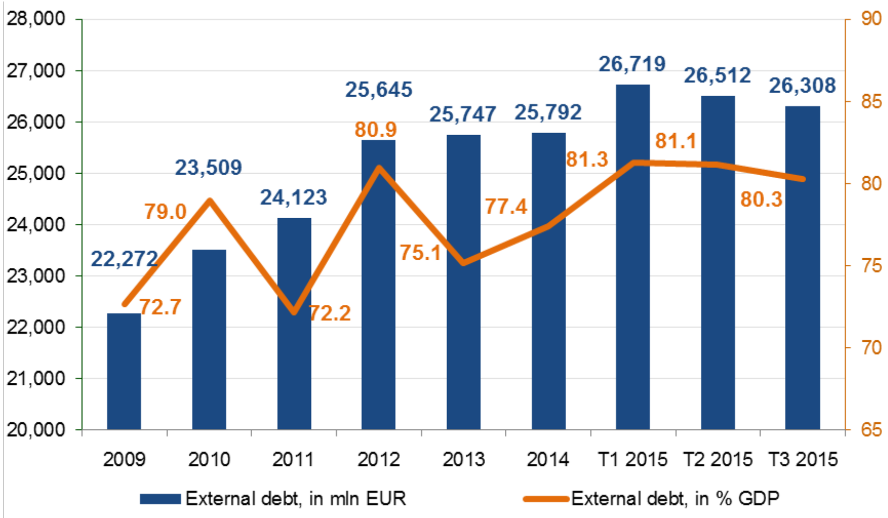
The increase in external debt by EUR 516 million since the beginning of the year is the result of the stronger dollar in relation to the euro as well as of the withdrawal of funds at the beginning of the year for relief from flood-caused damage.

Despite the increase in external debt, the external liquidity indicator (external debt/goods and services exports ratio) was somewhat improved through decrease from 178.5% in 2014 to 171.4% in Q3 of 2015 thanks to exports being increased more than external debt.

The external liquidity indicator marked an improved participation in debt repayment in goods and services exports through the decrease from 32.7% in 2014 to 24.5% in Q3 of 2015.

According to the Fiscal Strategy, Serbia’s total external debt should be on the decline from the end of 2017 mostly because of the stabilisation and reduction of the public external debt.

Chart 6 - External debt



Source: NBS

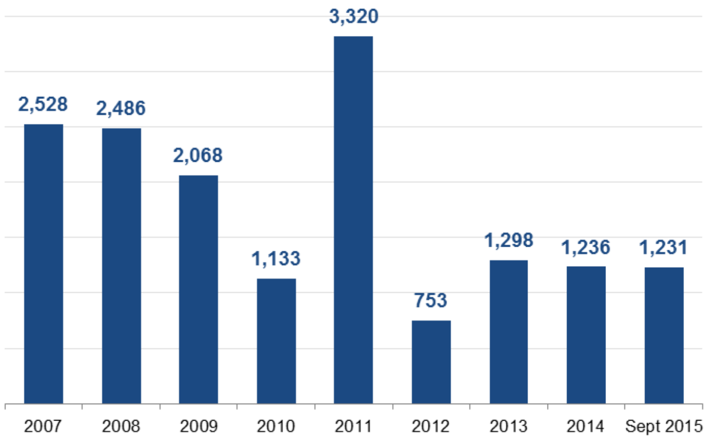
Foreign Direct Investment

In the first nine months of 2015 there was a net inflow of foreign direct investments in the amount of EUR 1.2 billion, which is around 30% more than in the same period last year, while at the annual level an inflow of EUR 1.7 billion is projected.

From the sector perspective, the inflow of foreign direct investments was well diversified within the manufacturing industry, which is in line with the trend present in the past few years regarding the growth in the share of foreign direct investments in tradable sectors, which will contribute in medium term to further growth in exports and improved sustainability of the country's external position.

According to the projection of the National Bank of Serbia, the expected level of foreign direct investments in 2016 will be at a similar level as in 2015, and supported by further progress in the EU integration process, improved risk perception by investors, continued fiscal consolidation and acceleration of structural reform implementation.

Chart 7 - Foreign direct investment (in EUR million)



Source: NBS

Foreign Trade

The drop in oil prices and mild economic recovery of Serbia's main foreign trade partners had a favourable impact on foreign trade and reduction of the deficit during 2015.

Serbia's total foreign trade stood at EUR 28.42 billion in 2015, up by 6.6% year-on-year. Exports of goods were worth EUR 12.03 billion (+7.8%), while imports were at a level of EUR 16.39 billion (+5.8%), resulting in a total trade deficit of EUR 4.36 billion (-0.6%).

Road vehicles were the most important export product in 2015 despite a drop in exports of 8.2%, accounting for 11.7% of total exports. The Fiat company remained the largest exporter in Serbia with a total value of exported goods amounting to EUR 1.18 billion, while the total value of exports of the 15 largest exporters amounted to around EUR 3.5 billion.

Furthermore, re-launching production in Smederevo Steel Mill resulted in an increase in exports, with the exports of chemical and pharmaceutical products and rubber and plastic products continuing to contribute positively.

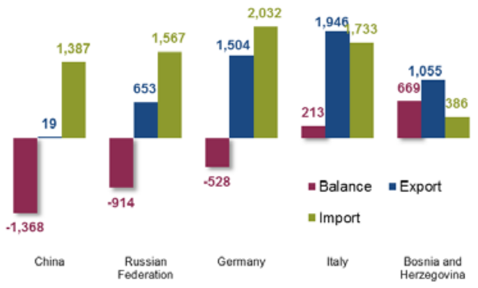
At the same time, growing investments also led to higher imports throughout the year, primarily of capital equipment, having in mind that Serbia is an import-dependent economy.

Around two-thirds of Serbia's foreign trade was oriented towards EU countries, so exports to these countries accounted for 65.7% of total Serbian exports, while the share of imports from these countries in total imports stood at 62.4%.

Major foreign trade partners in exports were Italy (EUR 1.95 billion), Germany (EUR 1.50 billion), and Bosnia and Herzegovina (EUR 1.06 million), while the largest imports came from Germany (EUR 2.03 billion), Italy (EUR 1.73 billion), and the Russian Federation (EUR 1.57 billion).

Chart 8 - Foreign trade partners (EUR million)

Chart 9 - Foreign trade with major (EUR million)



Source: Statistical Office of the Republic of Serbia

Fiscal Policy

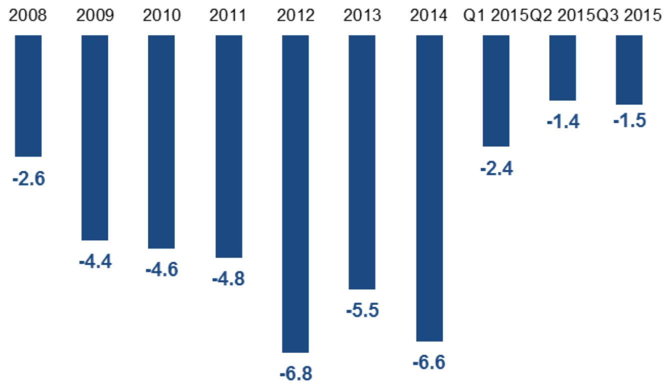
In 2015 the implementation of fiscal consolidation measures continued and improvement of public finances was significantly supported by the conclusion of the three-year arrangement with the IMF, which additionally enforced credibility of the policy implemented by the Government in the domain of public finances and ensured a more favourable status and perception of investors in the international financial market.

Fiscal adjustments on the expenditure side of the budget included a reduction of pensions and public sector wages, a reduction of financial aid to state-owned enterprises through subsidy decreases and stricter control of issuance of new guarantees as well as public sector rightsizing and reorganisation of large state-owned business systems.

On the revenue side, continued combating of the informal economy produced visible results, particularly in the area of personal income tax collection and contributions, control of excise product trade and trade in general.

The consolidated deficit in the period January-September 2015 amounted to 1.8% of GDP, which was substantially below the performance criterion of 5.3% of GDP as agreed with the IMF. Taking into account favourable trends, the share of consolidated fiscal deficit in GDP will be by around 2.5 percentage points lower than in 2014, amounting to around 4% at the end of 2015.

Chart 10 - Consolidated budget deficit (% of GDP)



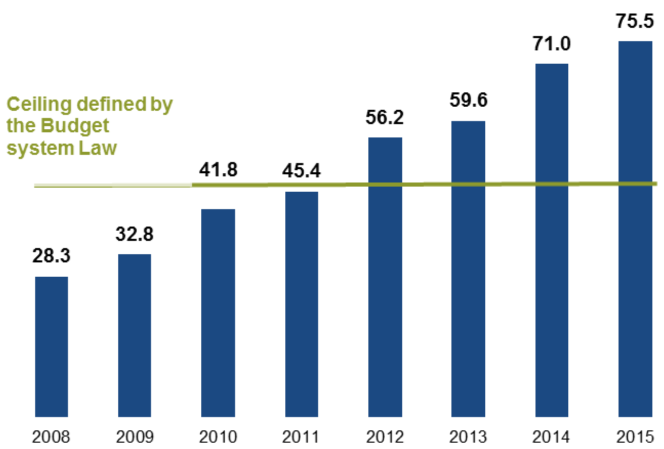
Source: NBS

This trend of public debt growth continued in 2015 when, at the end of the year, public debt amounted to EUR 24.81 billion, or 75.5% of GDP, which is far above the legally prescribed ceiling of 45% of GDP and Maastricht ceiling of 60% of GDP. Public debt increased by EUR 2.05 billion compared to the previous year, while the public debt/GDP ratio rose by 4.5 percentage points, which was largely contributed to by a strong depreciation of the dinar against the US dollar, while the remaining increase in public debt is a consequence of the government borrowing for the purpose of financing the deficit.

The level of indebtedness of the Republic of Serbia is extremely sensitive to changes in exchange rates because of the poor currency structure of public debt, since around 78% is denominated in foreign currency, with liabilities in US dollars amounting to 33%.

The fiscal strategy envisions that public debt will remain below 80% of GDP in the period until 2018 with a clear downward trend after 2016. However, the unfavourable currency structure will be the largest risk for Serbia's public debt trend in the coming period as well.

Chart 11 – Public debt (% of GDP)



Source: Public Debt Administration

As regards expectations for 2016, continued recovery of economic activity will be supported by further growth of investments and recovery of external demand. Fiscal consolidation and implementation of structural reforms are set to continue, while the main challenges will be further fiscal deficit reduction, public sector rightsizing and resolution of the status of enterprises undergoing restructuring.

Moreover, at the end of 2015 Serbia opened the first negotiation chapters with the EU, which will bring new dynamics and expedite the EU integration process of the country in the coming years.

Banking Sector

The banking sector in Serbia comprised 30 banks in 2015, of which 23 banks were majority-owned by foreign entities, accounting for around three quarters of total assets, while 7 banks were in domestic ownership, mostly majority-owned by the state.

The total assets of the banking sector in Serbia exceeded the level of RSD 3.4 trillion (EUR 28 billion), posting a nominal increase of 3.7% compared to the previous year.

Lending activity recovered in the course of the year, which led to a 3.1% increase in total loans, thus reaching the level of RSD 1.9 trillion (EUR 16.0 billion) at the end of 2014. The main drivers of this increase are still loans to private individuals, which grew by 4.8%, while the corporate sector posted a growth of 2.0%, despite the gradual maturity of subsidised loans granted in the course of 2014.

Owing to the monetary easing due to low inflationary pressures, the National Bank of Serbia successfully promoted lending growth by reducing the key policy rate and relaxing the required reserve rates. Consequently, the recovery of corporate lending activity occurred in the middle of the year and continued in the following months as well. The increased indebtedness was primarily noticeable in the sectors of energy and agriculture, mainly referring to working capital loans. However, a positive signal is the increasing share of investment loans in newly-approved loans, which had a favourable effect on extending the credit portfolio maturity. The subsidised programme proved to have a short-term impact on the process of dinarisation of the Serbian economy and its completion substantially reduced the share of newly-approved dinar loans. An additional reason for such a trend is also reflected in a relatively stable exchange rate and a substantially low level of interest rates on Euro-indexed loans caused by EURIBOR decrease as well as the reduced foreign currency required reserve rate.

Despite the existing risk associated with receivables collection and collateral enforcement, in 2015 the banks worked to a certain extent on the relaxation of corporate credit standards, primarily because of severe competition and lower funding costs. On the other hand, increasing demand was mainly caused by the need for debt restructuring and working capital financing, which is a trend to be expected in the coming period as well.

Loans to private individuals posted relatively stable growth throughout the year. As in the previous period, there was increased demand for cash loans due to the need for financing existing liabilities under more favourable conditions. Unlike businesses, for a long period of time private individuals have been borrowing mainly in dinars, while loans indexed to foreign currency are primarily housing loans. In 2015 there was an evident relaxation of credit standards by some banks both for dinar and foreign currency loans, with a reduction in interest margins and accompanying costs, primarily as a consequence of stronger competition. Cash loans and refinancing loans are expected to continue to be in the greatest demand, while a mild recovery of demand for housing loans is also possible, which is a trend that is evident in the second half of 2015 as well.

When investing funds, the banks mainly relied on domestic funding, primarily on dinar and foreign currency deposits of private individuals and corporate customers. Total bank deposits continued to grow in the previous year, reaching the level of around RSD 1.8 trillion (EUR 14.8 billion), which is an increase of 6.5%. Although the sector of private individuals recorded a stable growth of 3.5%, corporate deposits were the main driver of the total increase with a nominal growth of 12.4%. Although interest rates on foreign currency deposits are at a historical low and the exchange rate is quite stable during 2015, private individuals still choose mainly to keep their assets in foreign currency.

One of the factors with a negative impact on lending activity is still a relatively high level of bad loans (22.0% at the end of Q3 2015), which largely refers to the corporate sector. In order to contribute to resolving this major constraint for Serbia's banking sector, in the second half of the year the Government of the Republic of Serbia adopted the Strategy for NPL Resolution, which, apart from the Action Plan of the Government defining activities of all government institutions, also resulted in the Action Plan of the National Bank of Serbia for implementing this Strategy. Key activities refer to improvements in the area of bank supervision and application of international accounting standards, bank reporting as well as support for adequate collateral appraisal.

Despite the relatively high share of NPL in total loans, the stability of Serbia's banking sector is not at risk, which is also demonstrated by the very high level of capital adequacy reaching 21.2% at the sector level (9.2 pp more than the legally prescribed minimum). Under the precautionary arrangement with the International Monetary Fund, special diagnostic studies were conducted in 14 banks which were determined to be of systemic importance for Serbia's financial sector and whose total assets account for 88% of total assets of the banking market. No bank was found to have a capital adequacy ratio below 12%, yet again confirming the high capitalisation and solvency of Serbia's banking sector.

In 2015 Banca Intesa reaffirmed its leading position with the largest market share in total assets (16.0%), loans (15.6%) and customer deposits (17.0%) at the end of Q3. Moreover, the Bank ranks first in card and payment operations, with a base of almost 1.7 million customers. The Bank operates through an extensive network consisting of 170 branches, supported by the largest network of ATMs and POS terminals in the market.

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

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

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

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

I Realisation of Untapped Potential for Revenue Growth

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

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

II Maintaining High Cost Effectiveness through Continuous Cost Management

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

III Dynamic Lending and Risk Management

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

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

6. Retail Banking

Despite the fact that 2015 was characterised by adverse level of primary demand, caused by the rising cost of living and uncertainty in the domestic labour market, Banca Intesa was able to improve its operations with private individuals.

Private Individuals

The year 2015 was characterised by noticeable reduction of funding costs. The substantial decrease in key policy rates, as well as the evident decline in the borrowing capacity of private individuals, caused intense competition activity in the banking market of Serbia, which was mostly reflected in the market of cash and refinancing loans, primarily through significant price cuts and extension of maturity of this type of loans.

In an effort to continue to build with its customers a relationship based on mutual trust and transparency, Banca Intesa remained loyal to the concept of transparent offer in respect of all price and non-price aspects as well as protection of its customers through assuming the interest risk. Namely, in 2015 Banca Intesa kept its concept of offering cash loans with a fixed interest rate in the challenging market environment where its competition offered attractive loan terms with a variable interest rate. Record placements in 2015 strengthened the leading position of the Bank, confirming that customers recognised Banca Intesa as a real partner for realising their financial goals.

Total loans granted to private individuals grew by 7.4% in 2015, while the total amount of newly-approved loans to private individuals exceeded EUR 200 million. Through adequate response to the dynamic business environment, as well as continued efforts to offer the best-quality service to its customers, Banca Intesa achieved year-on-year growth of cash loans production of 37%, with the total loans exceeding EUR 150 million.

Owing to good results of the concept of pre-approved loans in the previous period, this practice was also continued successfully in the course of 2015. More specifically, pre-approved cash loans with a defined repayment period and loan amount were offered to customers with good credit history and adequate creditworthiness.

Despite the decline in the primary demand for mortgage loans, caused by the stagnation of construction industry on the one hand and the decline in living standard on the other hand, in 2015 Banca Intesa once again proved to be the leader in the area of mortgage loans in Serbia's banking market, with EUR 49 million and increased market share from 15.4% to 25% at the year-on-year level. Bearing in mind the leading position in the area of mortgage loans as well as the extensive network of branches and strong potential in the customer base, in 2015 Banca Intesa received significant support from the European Bank for Reconstruction and Development in the form of exceptionally favourable funds intended for financing residential mortgages for private individuals, which made possible further substantial reduction in interest rates on this type of loans.

Chart 12 - Loans to private individuals (RSD million)

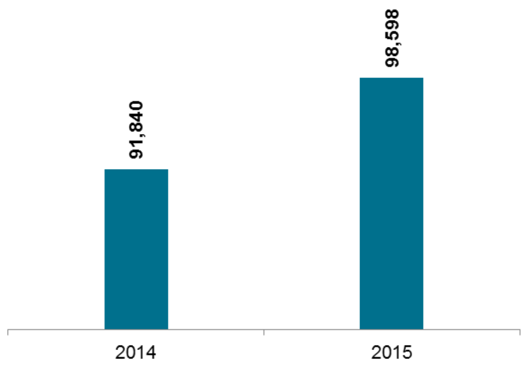
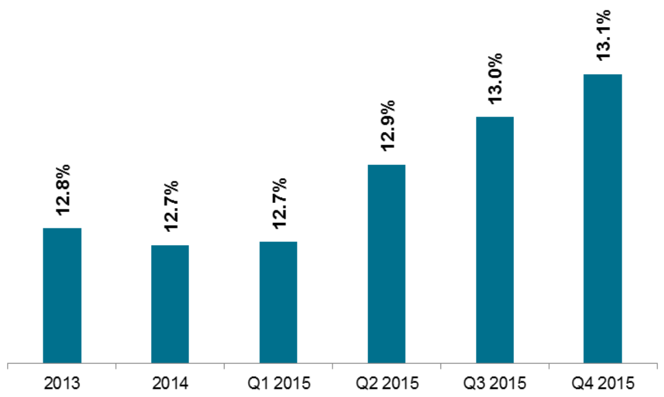


Chart 13 – Market share in loans to private individuals



As a result of the downward trend in funding costs, in the course of 2015 interest rates on deposits of private individuals continued to decrease. Nevertheless, owing to long standing trust of the Bank's customers, total deposits increased by almost 8.2% in 2015 compared to the previous year.

Private individuals' deposits grew at a higher rate than the market, while the market share of the Bank increased at the same time from 16.6% in December 2014 to 17.4% in December 2015.

Chart 14 - Deposits of private individuals (RSD million)

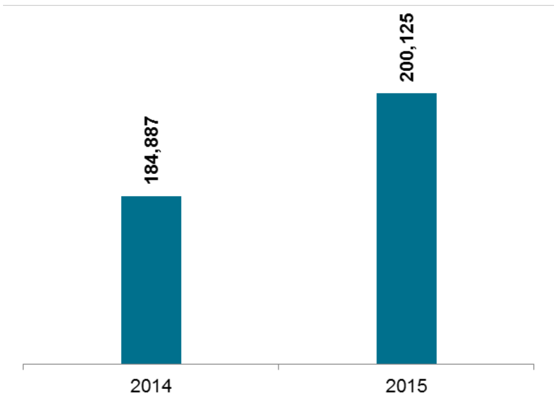
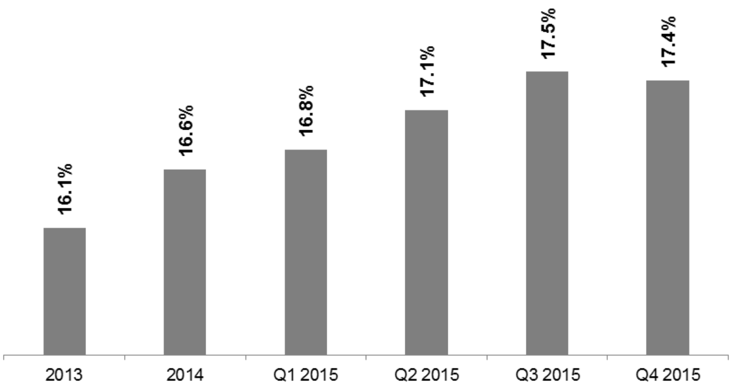


Chart 15 - Market share in deposits of private individuals



Banca Intesa confirmed its leading position in the field of private banking for affluent customers through the long-term approach raising the standard of its personalised business model Magnifica and increase in the customer base of this segment by 6% year-on-year. Improvement of investment offer, namely life insurance products, through introduction of premium health insurance products, insurance with an investment component, as well as brokerage services and advice aimed at investment in government securities, significantly contributed to further enhancement of the quality of services to this customer category.

Small Business and Agriculture

After the protracted economic crisis which caused entrepreneurs and small enterprise deleveraging, the market showed signs of recovery in the second half of the year. Despite new business challenges due to increased competition, some of the most important goals of the Bank were to retain the key leading position and to increase lending activity in the micro-segment as well as the number of loan customers. In the small business segment Banca Intesa substantially enhanced its role, primarily through innovations in the loan offer and improvement of business processes, thus reaching a share of almost 18% in the number of users of short-term and long-term loans to entrepreneurs and small business clients. The Bank also participates in financing almost 20% of the total customer base of this segment. The total number of active customers makes up one third of the entire market for both segments (small business and registered farms).

The second half of the year was also marked by a more prominent fall in average interest rates caused primarily by regulatory reasons and impact of market competition. Upgrading the processes and offer, as well as the mild recovery of demand, resulted in a volume increase by 40% in the second half compared to the first half of the year.

In the segment of loans to registered farms, from the beginning of the year Banca Intesa reached a growth of 5% with a constantly growing number of customers, focusing primarily on small individual producers and receiving a large number of loan applications (over 8 thousand). Moreover, the Bank took an active part in the government subsidised lending programme for this segment.

The absence of the subsidised lending programme of the Government of the Republic of Serbia for legal persons was compensated in 2015 by innovating the loan offer of Banca Intesa through special offers intended both for existing and new customers of the Bank.

An additionally facilitated access to financing for businesses was achieved by the introduction of pre-approved loan amounts for all customers in the small business segment, which includes entrepreneurs, legal persons as well as registered farms. Since this concept was very well received by customers, Bank plans to continue with it in the upcoming period as well.

Progress was also made in the area of improving business processes, with primary impact on shorter time needed for processing loan applications.

The beginning of the year was marked by successful implementation of the Law on the Protection of Financial Service Consumers for the segment of entrepreneurs and registered farms and the second part of implementation of the new Law on Payment Services.

In the course of 2015, successful and active cooperation continued with the renowned international and government institutions, such as the following:

- Kreditanstalt für Wiederaufbau (KfW) – a credit line agreement was signed enabling access to loans for financing projects in rural regions of the Republic of Serbia, covering the entire territory excluding the City of Belgrade and the City of Novi Sad. The plan is to finance all types of investment projects as well as working capital. Moreover, an agreement was signed on a credit line intended for financing working capital in crop farming production with crops insurance as an additional benefit provided through cooperation with the Generali insurance company, which is a complete novelty in our market.
- European Bank for Reconstruction and Development (EBRD) – in the second half of the year an agreement was signed with EBRD enabling access to loans for financing working capital and investments intended exclusively for businesswomen or sole proprietorships owned by women as well as legal persons if a woman is one of the members of senior management.
- The Guarantee Fund of Vojvodina – through the continuation of the project of financing women entrepreneurs and providing access to long-term loans for the purchase of agricultural land and equipment by agricultural producers from the territory of Vojvodina.
- The Ministry of Agriculture – subsidised lending programme.
- Local governments and corporate customers – implementation of loans on the basis of subsidised interest and joint financing through cooperation programmes with local governments and municipalities, involving lending for working capital and fixed assets at favourable terms.

Apart from commercial achievements, in the course of 2014 Banca Intesa achieved outstanding results in the following activities:

- Intesa Farmer of the Year Award – the best farmers had an opportunity to visit the World Exhibition EXPO in Milan
- Participation at the Agricultural Fair
- Programme of training seminars for women entrepreneurs in cooperation with EBRD and Frankfurt School of Management

Success in the small business segment was additionally confirmed by the continued growth of the deposit portfolio by 22.7% compared to the previous year as well as improved offer and results in other services (primarily regarding the offer of current accounts for entrepreneurs and agricultural producers).

Payment Cards

Throughout the previous year Banca Intesa retained its leading position in both the number of issued payment cards and the volume of performed transactions, which is demonstrated by the fact that in 2015 the Bank issued its millionth debit card.

Apart from the substantial reduction in interest rates on loans via payment cards, the year of 2015 was characterised by substantial improvement of technical support in respect of payment card acceptance, providing new functionalities in payment cards processing, thus creating preconditions for providing even higher-quality service in payment card acceptance.

In keeping up with the latest technological trends in payment processes, a unique Wave2Pay service was launched for contactless payment by mobile phones based on HCE (Host Card Emulation) technology as the latest payment technology in the global market, providing users with quick, efficient and safe payment by merely placing their mobile phones over to the contactless reader at the point of sale.

In order to standardise and increase the quality of services at points of sale, the network of POS terminals for payment cards was significantly optimised and unified. Moreover, as part of the implementation of this new technology significant efforts were invested in additional training of sales staff at points of sale.

The number of transactions by Banca Intesa payment cards was again on the constant rise in 2015 with a growth of 9.5% for transactions in the country and a growth of 19% for transactions abroad, including Internet transactions.

Looking at the volume of operations on POS terminals, the number of transactions grew by 1.8%, while the transaction volume rose by 5.8% compared to the previous year. Moreover, the share of instalment sales in the entire transaction volume increased: the number of transactions grew by almost 10%, while the transaction volume rose by 12.3% compared to the previous year.

The year 2015 witnessed a series of activities directed towards the joint activities of the Bank and respectable merchants that provided significant discounts and benefits to the holders of Banca Intesa payment cards. Such activities resulted in a substantial increase in the volume of transactions conducted via Banca Intesa credit cards with selected partners by 30% to even over 100%, compared to the same period in 2014. The volume of transactions via BIB credit cards at BIB points of sale in the country grew by the total of 5.3% compared to 2014.

Direct Channels and E-services

Continued focus on modern and innovative technologies and sales channels resulted in a strong trend of customer migration from branches to e-banking channels (Internet and Mobile banking, ATM and E-banking terminals), through which around 1.65 million transactions more compared to the previous year were performed. Today 65% of total payments in Banca Intesa are performed electronically, in comparison to 20% in the previous year, while the total amount of transactions performed electronically increased by 76%.

Mobile banking is still posting the strongest growth, with the number of transactions through this channel increasing by 191% year-on-year in 2015.

Business Network

In 2015 Banca Intesa continued to listen to the needs of its customers and accordingly improved its branches and organisation of the business network.

At the end of 2015, the business network of the Bank consisted of 177 branches and eight specialised mortgage centres/offices Intesa Casa in 99 towns throughout Serbia.

With the aim of enhancing the level of services and customer satisfaction, a new branch was opened in Belgrade, while in 2015 16 branches in 10 cities were improved.

The Queue Management System (QMS) was rolled out to another 33 branches. It enabled a better analysis of customer needs and enhanced the organisation of operations in 48% of branches serving almost 63% of active customers.

In order to enhance its recognisability, the Bank introduced new uniforms in line with modern corporate clothing trends and wishes of both our customers and employees. The new design of the uniform which is in line with trends and the spirit of Banca Intesa is the result of the competition organised for young Serbian designers at the end of 2014.

Aiming to respond to customers' growing needs in the most appropriate way, Banca Intesa continued to improve its business network in 2015 through branch allocation and refurbishment as well as improved work organisation and adjusted working hours. Such an approach that was accompanied with an innovative offer and staff expertise enabled Banca Intesa to remain recognisable for its top-quality service.

In addition to extending the working hours of branches outside the capital city, continued equipment modernisation also ensured increased staff productivity, particularly with regard to transaction services, thus additionally reducing the average waiting time. In 2015 large branches also offered free Internet access and daily newspapers to their customers.

7. Corporate Banking

Although announced as a year of reforms during which foundations should be laid for economic growth after protracted stagnation, 2015 was marked by low economic growth, government budget deficit, public debt increase and a high unemployment rate. On the other hand, positive developments include stable inflation, initiation of restructuring of state-owned enterprises and creation of conditions for relative stability of the foreign exchange market. Investments and export activity also increased, while the foreign visible trade deficit was reduced.

In 2015 Banca Intesa put an emphasis on improving the quality of its portfolio, upgrading its relationship with customers, high quality of services and process efficiency, as well as the possibility of adjusting the existing and designing new products in line with the market requirements. The corporate segment was successful in 2015, despite a decrease in the overall business and lending activity in the market, which is mostly a result of successful marketing campaigns, cross-selling increase, attractive products on offer and optimisation of processes adjusted to customers' business requirements. Taking into account trends in the market and reduced creditworthiness of businesses, the scope for loan growth decreased so special attention was devoted to improving non-credit products and services.

Since the customer and meeting his requirements is the continued focus of the Bank, the organisational structure of the Corporate and SME Division was improved accordingly. The Multinational Client Office was set up, which continued and improved successful business cooperation with large multinational companies and foreign investors. Moreover, CRM and Network Support Office was set up as support to sales segments as well as the Team for Transaction Banking which provides support to customers in non-sale activities.

Chart 16 – Corporate loans (RSD million)

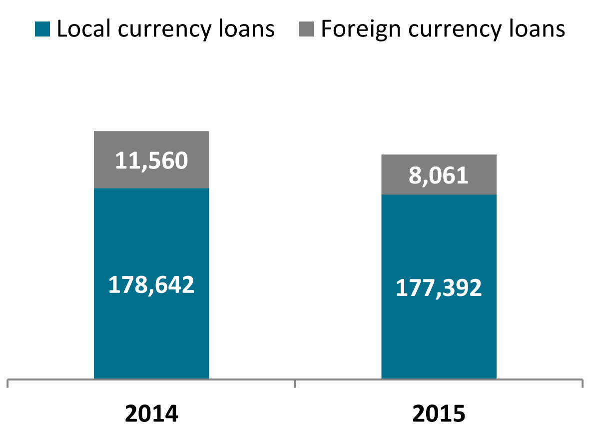
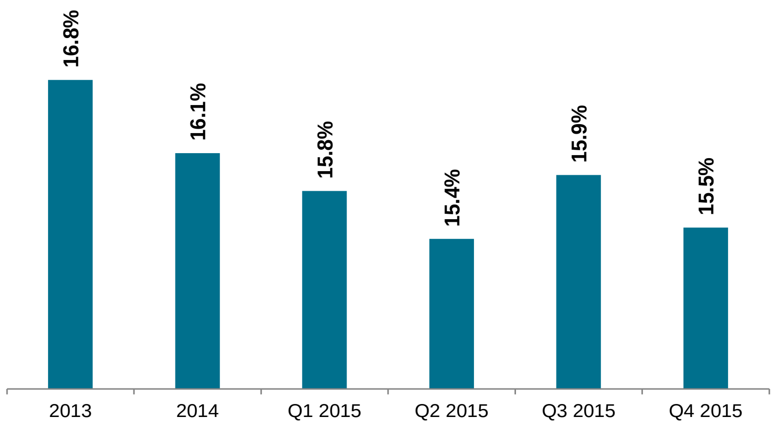


Chart 17 – Bank's market share in corporate loans



In the deposit segment, there was no decrease in the volume of deposits, despite the drop in interest rates, which confirms that, for customers, safety, quality of cooperation and access to other banking products and services in their bank come before price.

Chart 18 – Corporate deposits (RSD million)

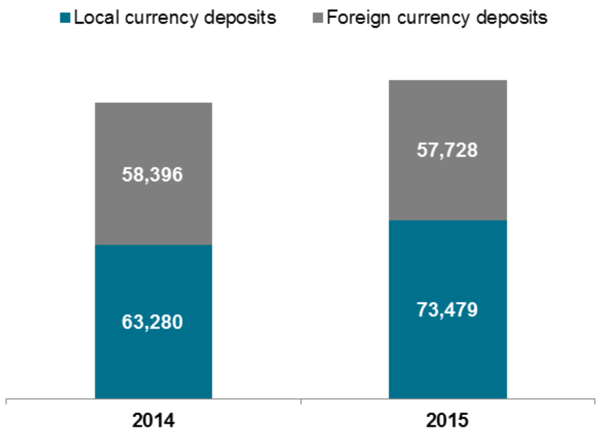
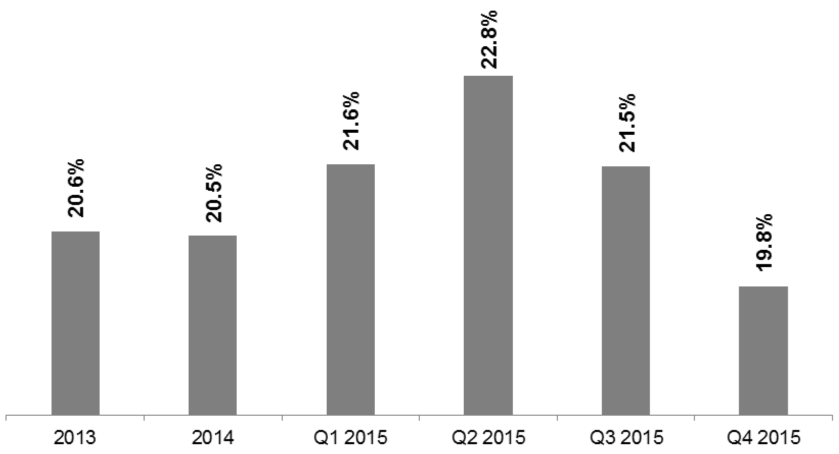


Chart 19 – Bank's market share in corporate deposits



KfW Credit Line for the Public Sector

The Bank continued with its tradition of providing active support and lending to public enterprises and local governments from the KfW credit line for the purpose of implementing infrastructure and other investment projects.

Since the beginning of cooperation with this financial institution, the Bank has approved loans in amount of over EUR 88 million intended for over 370 projects for funding capital investment by local governments, aimed at improving the living conditions of the local population.

KfW Credit Line for Energy Efficiency and Environmental Protection for the Public Sector

In accordance with the commitment to contribute continuously to the local community, the Bank signed a loan agreement with KfW securing EUR 10 million for public sector financing, principally in the area of improving energy efficiency and environmental protection. The loans are approved for a term of 9 years, with a grace period of up to 3 years and a fixed interest rate. The peculiarity of this credit line is that the projects proven to provide energy savings or environmental protection improvement are eligible for a potential EU grant of up to 20% of the loan amount. Using the possibility for the projects funded in 2012 also to participate in this programme, the Bank applied with a total of 11 projects, for 7 local governments and 4 public enterprises, whose verification would secure grants amounting to approximately EUR 580 thousand for the customers. Over EUR 6 million has been onlent from this credit line so far.

EBRD Credit Line for Energy Efficiency

Banca Intesa and the European Bank for Reconstruction and Development signed an agreement on an energy efficiency credit line in the amount of EUR 10 million, intended for private companies regardless of their size as well as local governments and public utility companies.

The credit line funds are intended for financing investments in fixed assets that result in energy savings of minimum 20%, with a repayment period of up to 5 years and maximum loan amount of EUR 2 million for private companies and EUR 2.5 million for public sector customers. The peculiarity of this credit line is the grant equalling 5-15% of the loan amount that the end-user receives after the investment implementation. Over EUR 6.5 million has been onlent from this credit line so far.

TRANSACTION BANKING

The year 2015 also witnessed the improvement of business and activities in the area of transaction banking so apart from already standard support to sales in the field of guarantee and documentary operations, additional attention was paid to increasing the quality of non-sale services intended for customers within the Corporate and SME Division.

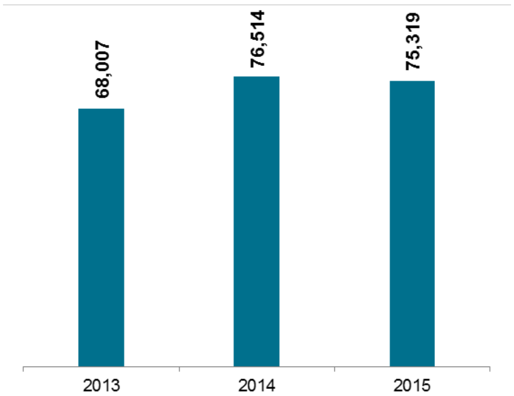
Having in mind that in 2016 increased competition is expected in the area of providing payment services, one of the basic tasks of the Team for Transaction Banking is a continuous improvement and upgrading of these services aimed at retaining the leading position in the market.

Documentary and guarantee products contributed to the expansion and development of international trade, representing products of vital importance for the global economy. On the one hand, these products contribute to risk mitigation, liquidity improvement, while providing small and medium-sized companies easier access to finance. On the other hand, these products provide more safety and less risk for the banks, which altogether may contribute to the development of higher-quality market economy and faster economic progress.

As the market leader, Banca Intesa is constantly involved in the development of innovations and improvement of its offer, aiming to provide its customers with the most advanced products and services.

Tendencies which can be seen in respect of the methods of payment as a consequence of reduced financial potential of businesses show that a growing number of importers opt for alternative and cheaper payment instruments (e.g. open account), thus assuming a higher risk and reducing the use of documentary and guarantee products. There is also an increase in the frequency of requests for consulting services regarding commercial issues, or provision of complete services regarding customers' business with their foreign partners. In this respect, in 2015 Banca Intesa was devoted to customer training and promotion of all the advantages of using these products for the customers' operations, which will be continued in the forthcoming period as well. On the other hand, in order to provide the highest quality service possible, the Bank will carry on with continuous staff development in order to be ready to respond to market requirements at any moment.

Chart 20 – Guarantees and other commitments (RSD million)



STRUCTURAL FINANCING

In 2015 Banca Intesa continued supporting the development of various projects with the focus on financing the construction of residential buildings. In addition to financing the construction of residential and commercial properties intended for sale or rent, the Bank devoted special attention to projects associated with renewable energy sources.

Apart from project financing, in the course of 2015 the Bank also took active part in special arrangements between banks, syndicated lending, as well as the so-called club deal programmes, which will be continued in the forthcoming period as well.

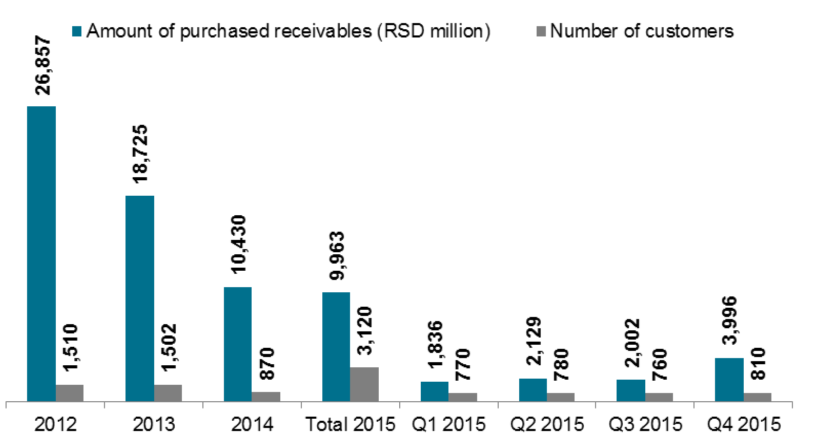
FACTORING

The volume of activities related to factoring transactions in 2015 was significantly influenced by the overall economic activity, but also the application of the Law on Payment Deadlines, so almost RSD 10 billion in receivables were purchased in the course of the year, while the turnover remained at the previous year's level.

Due to shorter time limits for the collection of invoices provided by the law, the turnover cycle by purchased accelerated, which resulted in the increase of income from factoring fees.

In 2015 there was a growth in turnover related to instalment discounting on BIB payment cards in the amount of 11% compared to the previous year. As was the case in previous years, the Bank devoted special attention to the professional development of its employees and training of its customers, aiming to raise the awareness of the characteristics and all advantages associated with factoring products.

Chart 21– Factoring



8. Asset Management and Investment Banking

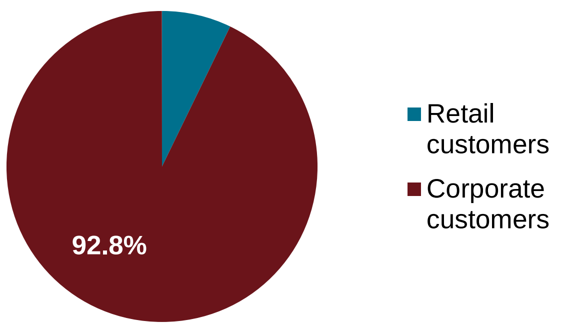
In 2015 Banca Intesa retained its leadership position in the foreign exchange trading operations, with a market share of 14.8%. In addition to the standard product offer, there was continued promotion and training of customers on modern products that facilitate their financial risk management, primarily with regard to foreign exchange risk.

In cooperation with the Retail Division a new product EUR-NET Exchange Rate was developed to be applied in foreign exchange trading transactions through e-banking and Intesa Mobi application. EUR-NET Exchange Rate is the most favourable market rate which follows trends in the interbank foreign exchange market in real time.

Table 1 – Foreign exchange trading (EUR million)

	2010	2011	2012	2013	2014	2015
Corporates	2,769	4,217	3,066	3,058	2,772	2,915
Private individuals	298	355	299	242	229	226
Other banks	1,584	2,659	2,789	1,510	899	1,313
NBS	218	10	117	73	157	94

Chart 22 – Retail and corporate share in foreign exchange trading



In 2015 Banca Intesa regularly participated in primary and secondary auctions of debt securities of the Republic of Serbia, actively supporting the development of this key segment of the capital market and government fiscal policy. Against the backdrop of declining interest rates on foreign currency deposits throughout the banking sector, the local public showed an increased interest in investing in securities as an alternative to deposits. In this regard, Banca Intesa proactively informed its customers on the possibilities to invest in government bonds and made its brokerage and custody services available to all interested institutional and individual investors. As a result of promotion of these services, private individuals continued their active investments in debt securities of the Republic of Serbia, posting a positive trend in 2015 as well.

In the second half of 2015 the ownership structure was changed through the sale of the 7% share of International Financial Cooperation (IFC) to Intesa Sanpaolo Group, so as of the last day of 2015 Banca Intesa is 100% owned by Intesa Sanpaolo, of which Intesa Sanpaolo Holding International S.A. owns 84.79% and Intesa Sanpaolo SPA 15.21%.

The securities portfolio is diversified and apart from the debt securities issued in the domestic market in the Republic of Serbia, the portfolio also includes bonds from the international market, such as Italian euro-denominated and Serbian Eurobond 2017 denominated in US dollars.

In 2015 Banca Intesa was also the leading bank regarding the offer of financial instruments for dinar and foreign currency liquidity management (currency swap contracts), primarily intended for investors in RSD denominated bonds of the Republic of Serbia who want to completely or partially hedge the foreign exchange risk. Compared to 2014, the Bank increased the volume of concluded currency swap contracts by 120.7%, proving that it is by far ahead of other domestic banks in these operations.

9. Corporate Social Responsibility

By integrating the concept of corporate social responsibility into its long-term business strategy, in the course of 2015 Banca Intesa continued to monitor closely and respond to requirements of all its stakeholders – its employees, customers, shareholders and social community at large, at the same time seeking to reduce its negative impact on the environment. Last year corporate social responsibility of the Bank was again primarily directed towards providing support to the community through further reinforcement of corporate volunteering culture and allocation of direct financial aid, while constantly putting emphasis on financial inclusion of specific social and economic groups, increasing customer satisfaction as well as creating stimulating working environment for its employees.

Moreover, work was continued on further improvement of the Bank's governance model in the area of sustainability. The Procedure for Managing the Process of Preparing Annual Sustainability Reports was adopted in line with the Global Reporting Initiative (GRI) methodology which has been applied by the Bank for three years, while work on producing a new donation strategy was initiated as well.

The validity of such a comprehensive approach to corporate social responsibility was confirmed by numerous prizes and awards Banka Intesa received in this area during 2015.

COMMUNITY

Corporate Volunteering

Recognising volunteering as an important expression of its corporate responsibility and effort to initiate positive social changes, during the previous year Banca Intesa continued to incorporate new activities in the corporate volunteering programme Intesa from the Heart. A major campaign in support of the gerontological centres in all Regional Centres of the Bank – Belgrade, Kragujevac, Niš and Novi Sad. Almost 100 volunteers donated their energy, good mood and more than 400 hours of their free time in order to help improve living conditions for around 1,500 residents of the retirement homes in these four cities.

Within the Intesa from the Heart programme, the Bank's most extensive volunteering project Wrap a Gift and Make a Child Smile was organised for the seventh consecutive year, with the employees preparing New Year's gifts for children with disabilities and children without parental care. The employees took more than 800 New Year's gifts with toys, sweets, school supplies and toiletries to the children in 10 schools and kindergartens in 5 cities and invested almost 3,000 volunteering hours in the project during their working hours.

As in previous years, in 2015 the employees of Banca Intesa participated for the fifth consecutive in a large volunteering campaign Our Belgrade, within which they participated in refurbishing the Gerontological Centre Bežanijska Kosa, with almost 600 residents, which makes it the largest in the country and one of the largest in Europe.

Furthermore, the Bank also encouraged its employees to get involved in social initiatives as individual volunteers. Therefore, in 2015 the employees of Banca Intesa took part in several seminars and workshops dedicated to finance management and improvement of business intended for women within the traditional Bank Employee project, aimed at educating students and teachers in secondary schools with this education profile, and they held lectures at the Secondary School of Economics in Čačak about financial analysis.

The importance of volunteer contribution of Banca Intesa in 2015 is additionally validated by the awards the Bank received in this sphere of corporate social responsibility. The Business Leaders Forum and Smart Kolektiv pronounced the corporate volunteering programme Intesa from the Heart the best in Serbia in the previous year, while the Serbian Marketing Communications

Association granted this programme an award in the category of the best socially responsible campaigns in Serbia in the profit sector during 2015.

Corporate Philanthropy

Last year Banca Intesa sought to contribute actively to resolving current social issues by providing direct financial aid as well, which earned it the Planet Business award from the Ekonometar and Magazin Biznis business magazines as the bank which invested the largest amount of funds in the development of society and local community. Constantly monitoring the needs of the community in which it operates, in 2015 the Bank allocated over RSD 10.3 million as aid for philanthropic purposes, which it used for promotion of art and culture as well as support to the implementation of projects in the field of sports, education and health.

Among numerous financial support projects, some of the most prominent include the refurbishment of the Children Theatre Boško Buha and reconstruction of the kindergarten Bubamara from Novi Sad for Roma children and underprivileged children, which was initiated at the end of the year in cooperation with Novak Đoković Foundation. Moreover, the Bank allocated substantial funds for supplying numerous education and pre-school institutions with modern teaching aids and provided support to Studenica General Hospital from Kraljevo, as well as the Association for Cerebral Palsy from Priboj, in order to raise the level and availability of health services at the local level.

Devotion of Banca Intesa to the area of corporate philanthropy was recognised by relevant institutions, which is demonstrated by the award for its contribution to local community granted by My Serbia, a non-profit and non-government association, in cooperation with the Chamber of Commerce of Belgrade and with support of the City of Belgrade.

RESEARCH AND DEVELOPMENT ACTIVITIES

Customer Satisfaction Management

In terms of customer satisfaction, 2015 may be characterised as a year of stability. Good relations and cooperation with customers from the previous years were also maintained during this year. As in previous years, goals set high, aiming to remove causes of customer dissatisfaction, accompanied by the introduction of constant innovations, and to listen to customers' suggestions and requests, contributed to further strengthening of mutual cooperation. Customer care and acting upon each request or appeal contributed to maintaining a high level of customer loyalty.

In line with the trend of accelerated technological development, the Bank focused on improving e-banking tools in order to provide its customers with a greater simplicity and availability of service. Keeping up with this trend, the Customer Satisfaction Office used advanced and innovative tools of neuromarketing technology in conducting a survey of customer satisfaction with e-banking services, comparing Intesa Online and Intesa Mobi with competitors' applications. Using this technology, which is rapidly attracting the interest of the largest global companies and finding room for application in different spheres of business, Banca Intesa wanted to compare customers' opinions about different e-banking platforms and establish to which extent they are simple to use, but also to define the direction for future improvements. The results which measured, inter alia, emotions, showed that customers very calmly approached the use of e-banking applications. The neuromarketing methods which were used measured, inter alia, the cognitive load in customers while using functionalities contained in the applications. Therefore, a smaller cognitive load means faster and easier understanding and using of functionality options of the application itself. These comparative results show a medium level of cognitive load in Intesa Online application in comparison to the competitors. On the other hand, Intesa Mobi proved to be the easiest application to use in comparison to the competitors' applications.

Chart 23 - Online banking

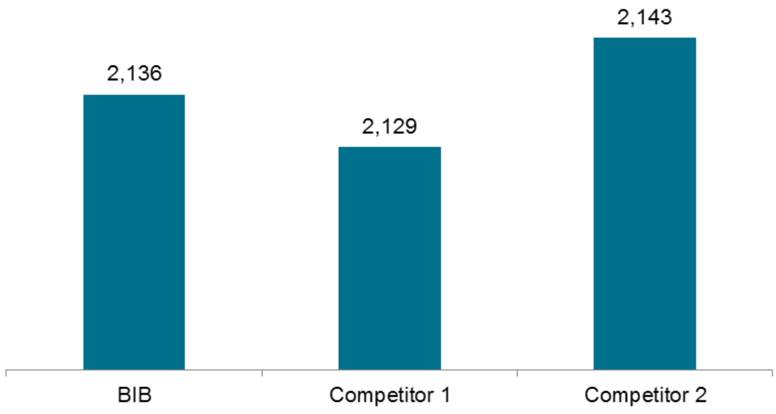
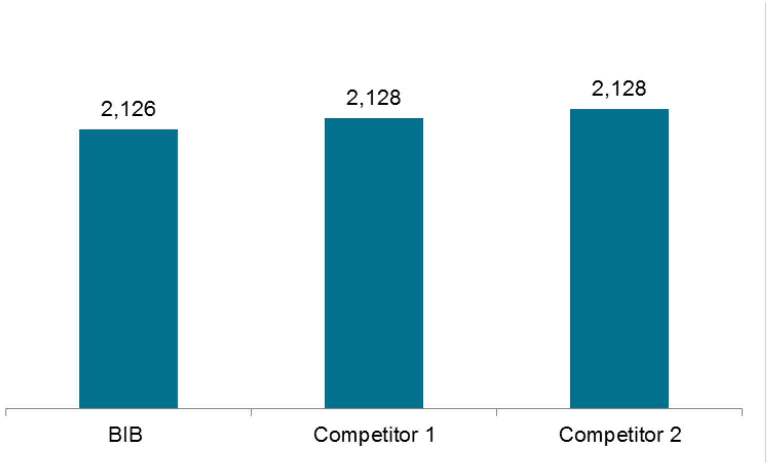


Chart 24 - Mobile banking



Just as before, by putting the customer first, the Bank committed to additional improvement of satisfaction of customers who use the Bank's services through the branch network. In that respect, tablet devices were placed in several branches with the aim of daily collection of customers' opinions about their various experiences in the branch. By using this tool almost sixty thousand customers shared their experiences in real time during their stay in the branch and pointed to further directions of development. The results clearly show that the efforts made were recognised by customers, taking into consideration that 85% of them said that they were very or mostly satisfied with the service in the branch.

Chart 25 - Overall experience

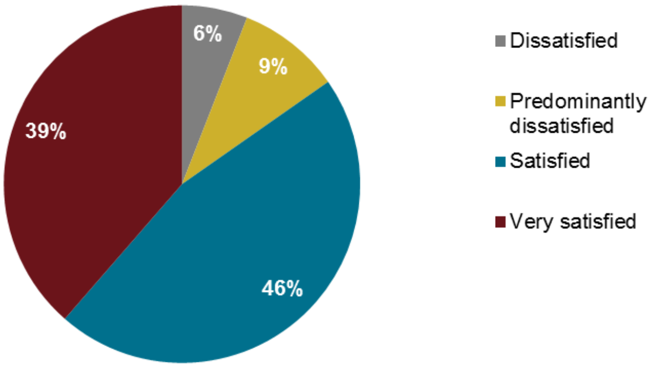


Chart 26 - Products and services

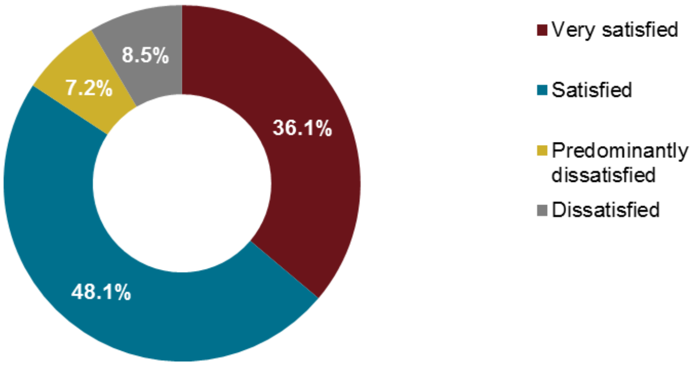
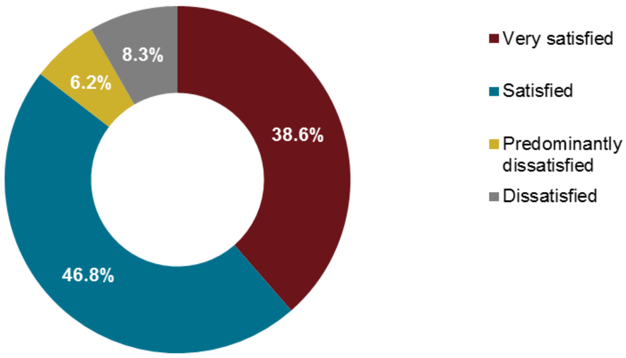


Chart 27 – Employees' attitude towards clients



Development of Products and Services

The focus of the Bank's development activities in 2015 was aimed at the alignment of its operations with the new financial laws. The Bank's processes, products and services are adjusted to the new laws and the accompanying documentation and corresponding application solutions were also amended.

Last year also brought a detailed analysis of alternatives for improving the core banking applications in the Bank with the aim of long-term provision of the IT infrastructure which will support faster development of new products in response to market changes and retaining the leading position of the Bank.

In order to increase the efficiency of its business processes, the Bank continued to work on the improvement of payment card operations. The credit card issuance process was fully automated. The implementation was initiated of the upgraded model of automated loan approval to private individuals. Moreover, the centralization of the procurement process was completed together with the harmonization of the integrated procurement process at the Group level.

By following the global trend of increased use of e-banking and mobile devices, the Bank continued developing new functionalities in the area of digital channels and communications as part of new versions of Intesa Online and Intesa MOBI applications. New applications brought an upgraded user interface, integration with CRM solution as well as the safest way of customer authentication in the course of payment.

It is also important to point out that in the previous year there was a substantial improvement of credit processes, which led to shorter time from loan application to its disbursement, while the loan offer was improved and interest rates on a large number of products were reduced in both retail and corporate segments.

Ian the previous year significant efforts were also invested in the improvement of the early warning system for corporate customers and small business customers with a high credit exposure based on a proactive approach to reducing exposure risk.

Support to Agriculture

In order to promote the importance of agriculture as a significant comparative advantage of Serbia and one of significant sources of its long-term economic growth, in 2015 Banca Intesa organised the third cycle of Intesa Farmer, the annual competition for the best agricultural producers in Serbia. The Bank awarded the best producers in the categories of vegetable cultivation, crop farming, fruit growing and livestock breeding by sending them to the World Exhibition EXPO Milan 2015 dedicated to innovation and sustainable food production as well as by vouchers of RSD 100,000 for purchasing fodder and intermediates. The visit to the World Exhibition was an opportunity for Serbian agricultural producers to become familiar with the most advanced global technologies and sustainable practices in food production and thus improve the operation of their own farms.

Financial Inclusion

Financial inclusion is an important strategic element of socially responsible operations of Banca Intesa, which is the reason the Bank keeps developing products intended for specific segments of the society and economy.

During 2015 an agreement was signed with the EBRD about initiating a programme for supporting women entrepreneurs entitled Women in Business, within which Banca Intesa approves favourable loans from the credit line of this financial institution for financing investment and working capital to small and medium-sized enterprises run by women. The project also included seminars for women entrepreneurs where the representatives of Banca Intesa and EBRD, eminent lecturers and experts in the area of finance and banking instructed the participants how to improve the management of their own finances as well as how to obtain adequate support from the banks for further business development. Aware of the importance of women's entrepreneurship for further growth of the national economy, Banca Intesa also continued the programme of credit support to unemployed women and women entrepreneurs in the territory of Vojvodina in the form of loans for the purchase of equipment and loans for start-up financing.

Through Senior Cash loans the Bank continued to support the financial empowerment of senior population and its integration in social flows, while citizens also had Intermezzo cash loans at their disposal, which offer a postponement of monthly instalment repayment, favourable loans for refinancing financial liabilities, both with insurance in the event of unemployment or disability, as well as Intesa Vita loans for financing healthcare services.

In the card business segment, students were offered payment cards Intesa Visa Electron Easy Travel Card (ETC) and Maestro ISIC with free-of-charge opening and maintenance of the account, with continued issuance of Visa Classic Paralympic card, as the first charity payment card in the country, which was presented by Banca Intesa in 2008 in cooperation with the Paralympic Committee of Serbia with the aim of establishing an independent and strong mechanism for long-term support to sportspeople with disabilities.

In line with its strategic commitment to provide support to economic growth, in 2015 Banca Intesa continued contributing to strengthening economic activities through favourable loans intended for various segments of the economy. Thus, small businesses had at their disposal subsidised loans for financing liquidity and working capital and agricultural producers could access loans with a subsidised interest rate for investments in livestock breeding, crop farming, fruit and vegetable growing. Agricultural producers could also access favourable loans for investments in purchasing equipment, agricultural machinery and arable land in cooperation with Banca Intesa and the Guarantee Fund of Vojvodina, as well as funds from the EFSE credit line for financing the purchase of new equipment and agricultural machinery, including farm consolidation for individual agricultural producers.

Small and medium-sized enterprises in the regions of Niš, Pčinja, Toplica and Pirot could access loans for financing investment projects and working capital from the LEDIB (Local Economic Development in the Balkans) programme, while at the end of the year an agreement was signed with German KfW development bank on three credit lines whose funds will be onlent by Banca Intesa in the form of favourable loans for micro, small and medium-sized enterprises, registered farms and local governments for financing investment projects and working capital.

Environmental Impact

Banca Intesa invests continuous efforts with the aim of optimising the use of resources and improvement of the waste management system in order to minimise its impact on the environment. As a result, over 150 tons of paper waste was sent for recycling. In 2015 the Bank continued its application of the automatic remote shutdown of computers after working hours, which led to savings in electricity consumption of 31.6% or 224,106.48 Kwh. The Bank also continued with the initiative to reduce the consumption of paper by consolidating the printing system that involves both-side printing in all business processes.

The Bank’s firm commitment to contribute to environmental protection is demonstrated by its developed portfolio of financial products intended for energy efficiency improvement and use of renewable energy sources. For these purposes Banca Intesa in cooperation with the EBRD and KfW approves long-term loans to small and medium-sized enterprises and the public sector, while it uses the credit line The Green for Growth Fund Southeast Europe for loans to households, customers in the small business segment and agricultural producers. Apart from that, last year a new agreement was signed with the Guarantee Fund of Vojvodina, which provides to registered farms, entrepreneurs as well as micro, small and medium-sized enterprises access to long-term loans for energy efficiency improvement and use of renewable energy sources.

Working Environment

Being the market leader demands readiness for continuous improvement and change. In order to find out how we cooperate, our approach to work and what we could change to become better, the project of corporate culture research was initiated in the Bank in October 2015.

We decided to investigate our own identity, to establish both our strengths and weaknesses and in that way identify the scope and possibilities for new development and affirmation of recognised values.

The measurement results will point to the direction we should strive for in everyday work in order to improve our business operations and further organisational development in the forthcoming years.

Numerous activities conceived and realised in the course of 2015 with the aim of further professional and personal development of people were a result of listening to the needs of our employees. Banca Intesa team consists of committed, professional and well-educated people who improve the Bank's business operations with their knowledge, experience and ideas.

In our everyday business activities we respect diligence, loyalty, commitment, orientation to results and achievement of goals, but we are primarily focused on people and care for our employees. We have opted for transparency and all colleagues are guaranteed equal opportunities with regard to appraisal and remuneration. The employees in the business network are included in the incentive system as part of the Global Performance system, through which they are assigned quarterly targets. The Bank monitors achievements of its employees, recognises merits and in that manner strengthens motivation and rewards good results.

The year of 2015 was characterised by upgrading and expanding our employees' knowledge. Project "Knowledge Network" was initiated in 2014 and it involved and activated the best people both from the business network and from the Head Office through three cycles attended by over 160 colleagues. There were almost 2,400 training days in the classroom as well as around 3,200 days of mentorship. Education through the e-learning system was enhanced through 26 various e-learning programmes for approximately 20.000 employees. Each employee spent over 7 days in training on average.

The focus on development of the leading people in branches, with the participation of segment managers, was reflected in regional communication workshops attended by all branch managers. Two training projects entitled "InCorporated" were launched for the colleagues in the Corporate Business Network as well as a series of trainings entitled "Credit Risk Management Academy" for the colleagues in the Credit Management Department. A programme was developed for new colleagues in the business network which involves active communication with mentors, support through manuals and meetings with new employees. This year the newly-appointed branch managers attended for the first time the training programme "New BIB BM - Skills, Knowledge and Motivation".

Being part of the large international Sanpaolo group, throughout 2015 the Bank encouraged international career development, gaining new professional knowledge, through the exchange of experience with the colleagues from ISP Group and those from other banks in our Group.

Projects for Children of Employees

In 2015, for the eleventh consecutive year, Banca Intesa provided the children of its employees with an opportunity to spend a two-week summer holiday in a small town of Follonica, Tuscany. This was also an opportunity for the children from Serbia to meet their peers from Italy and Egypt, spend time with them and build their independence. In August, 56 children of the Bank's employees visited this part of Italy.

Through cooperation with the Foundation for International Educational Exchange, Intercultura, Banca Intesa supported the programme of one-year schooling abroad in 2015 as well. The programme is intended for secondary school students aged 15 to 18 years, who are easily adaptable to changes, curious and openly accept cultural and other diversity. Two children of

Banca Intesa employees completed the previous school year in Italy and used the opportunity to learn Italian, live in a different cultural environment and gain important new experiences.

Qualification, Age and Gender Structure

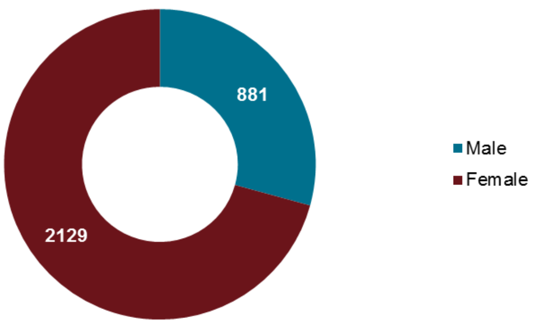
Employees of Banca Intesa make up a combination of enthusiasm and energy of newly-employed young colleagues, on the one side, as well as of experience and stability in the work of older colleagues. It is a combination which guarantees business success.

Table 2 – Employee qualifications

December 2015

Qualification level	up to 30 years	30-40 years	40-50 years	50-60 years	over 60 years	TOTAL
I	-	-	-	1	-	1
II	-	-	-	1	-	1
III	1	16	12	5	-	34
IV	49	278	245	221	11	804
V	-	2	3	1	-	6
VI	68	363	139	75	3	648
VII/1	206	873	285	127	7	1498
VII/2	-	6	8	2	-	16
VIII	-	-	1	1	-	2
Total	**324**	**1538**	**693**	**434**	**21**	**3010**

Chart 28 – Gender structure



10. Risk Management System

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

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

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

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

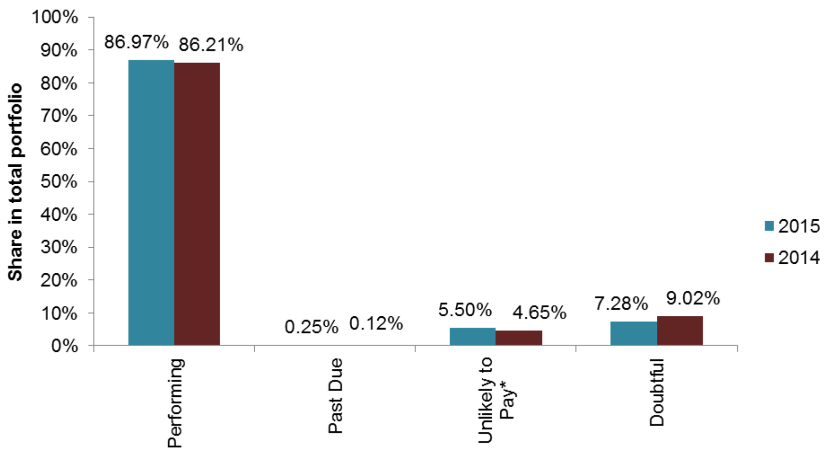
In the course of 2015, the Bank continued to improve its risk management system. Policies and procedures were revised and updated for the purpose of their harmonization with the amended guidelines and policies of the Parent Bank as well as with the amendments of the domestic and international (EU) regulations, recommendations of the Internal Audit and findings of the National Bank of Serbia Supervision. Also, the work on the AIRB project was continued for the purpose of implementation of the advanced approach to credit risk measurement, while the new Collateral Management System (COLMS) contributed to the enhanced loan collateral management. The Bank also improved the organisation and methodology of the Increased Credit Risk Early Warning System. A separate organisational part was established with the aim of proactively identifying and managing customers with increased risk (Proactive Credit Exposure Management). Its aim is to identify potentially problematic debtors in a timely manner and undertake adequate actions for prevention of the problem and credit risk reduction. In relation to liquidity risk management, in 2014 CRR/CRD IV regulations were implemented as amended by EU Delegated Act rules during 2015 and fully harmonised with the rules of ISP Group by relaxing the calculation of LCR indicators. Moreover, the amended regulations from January 2014 were also applied in the calculation of NSFR indicators. By the set of limits related to the capital adequacy, the liquidity and the credit risk, the Bank formally defined the Risk Appetite Framework and established a regular system of reporting to its management and the Parent Bank on compliance with such defined limits.

Credit Risks

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

Despite the continued adverse economic environment in 2015, the level of credit risks recorded a substantial decrease compared to the previous year, both in absolute and relative terms. By active implementation of its credit strategy, the Bank managed to reduce significantly the level of non-performing loans (NPL). The credit portfolio quality was rigorously examined in the process of Special Diagnostic Studies implemented by the National Bank of Serbia in cooperation with external auditors in the course of 2015. The results of these diagnostic studies confirmed the quality of processes and procedures in the area of credit risk and showed that even with conservative assumptions in evaluating assets and capital the Bank has a substantially higher capital adequacy than the required level. The Bank continued to pursue a conservative policy of classification and provisioning, by increasing the loan loss provisioning levels in order to cover adequately the credit risk of NPL customers. In cooperation with other creditors, the Bank remained very active in seeking reasonable and sustainable solutions for the largest non-performing customers, through restructuring and financial consolidation plans. The concentration risk did not change significantly and remained within the regulatory ceiling as well as within the internal limits defined by the Board of Directors. The cautious policy of loan loss provisioning, collateral taken and the high level of capital provide an adequate protection of the creditors and the depositors of the Bank.

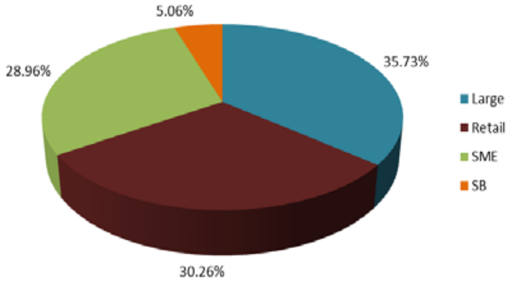
Chart 29 – Quality of the credit portfolio by classes



*In the course of 2015 a new Unlikely to Pay category was introduced and includes Substandard and Restructured categories.

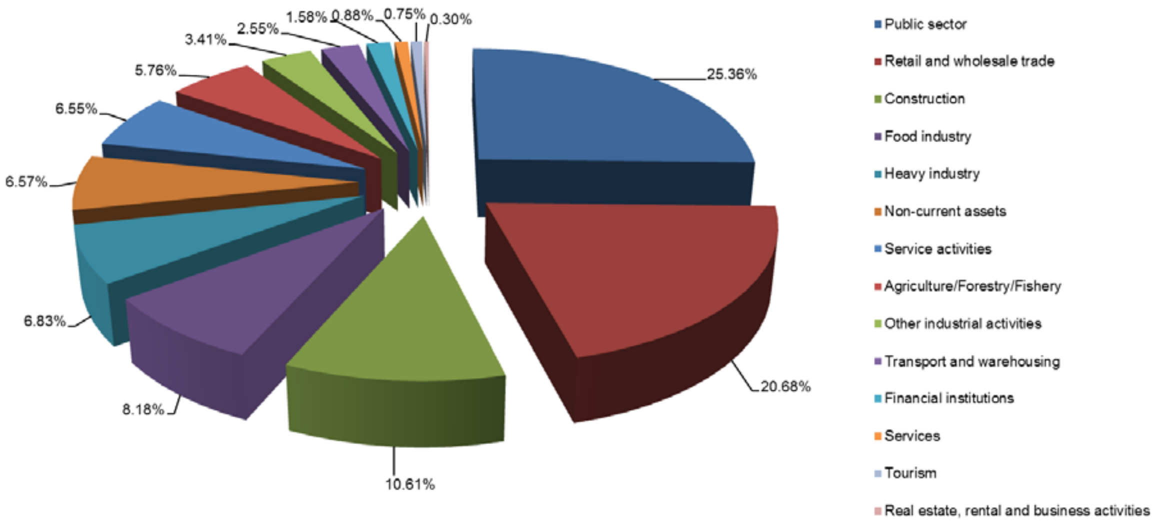
Large companies and SMEs have the biggest share in the credit portfolio of the Bank, accounting for around two thirds of the total credit portfolio. On the other hand, loans to private individuals and small businesses account for around one third of the total credit portfolio.

Chart 30 – Distribution of the portfolio by segments



Distribution of the credit portfolio by industry indicates a relatively good diversification of the portfolio. The biggest share in the credit portfolio is held by the government and public enterprises, followed by construction and food industry.

Chart 31 – Distribution of the portfolio by industry



In the course of 2015, the Bank continued developing internal credit rating models for the purpose of approximation to the standards of advanced approaches to credit risk measurement. The Bank developed PD models (Probability of Default) for all the segments of business customers, project financing and banks. The development of the PD model for the private individual segment and LGD (Loss Given default) models is in progress.

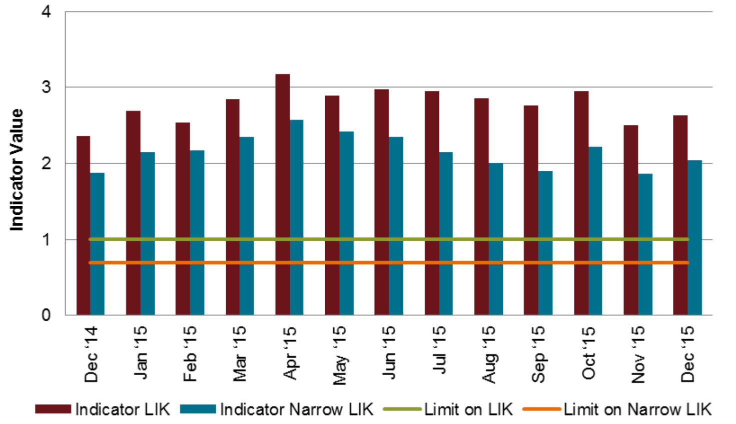
In the first half of the year, the Bank implemented the Internal Capital Adequacy Assessment Process (ICAAP) and through the ICAAP reporting (the ICAAP book) presented the results of the assessment to the regulator and to the Parent Bank. The ICAAP was implemented according to the methodology of the Parent Bank and the internally developed procedure.

Market Risks

The liquidity risk, the interest rate risk, the foreign exchange risk and the counterparty risk are monitored on a daily basis in compliance with the best practice and standards of the National Bank of Serbia, the Basel Committee, EBA and the Intesa Sanpaolo Group. The Risk Management Department measures market risks and the counterparty risk on a daily basis, monitors compliance with the set limits and reports to the relevant management bodies and the organisational units of the Bank on the level of the assumed risk. On a monthly level and, as required, even more frequently, the Assets and Liabilities Committee (the ALCO) monitors the levels of the liquidity risk, the foreign exchange risk and the interest rate risk and provides guidelines for current activities focused on the management of such risks, as well as on the overall management of the balance sheet structure of the Bank.

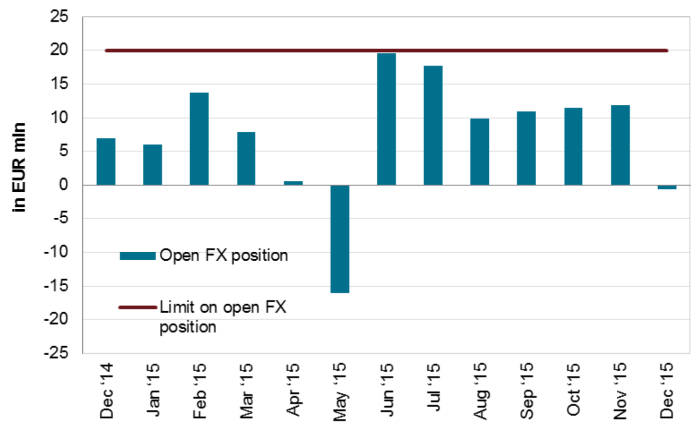
In the course of 2015, the liquidity level of the Bank was significantly above the minimum required level. The Bank invested its excess liquidity into debt securities of the Republic of Serbia and the Republic of Italy. All the liquidity indicators, regulatory ones and those defined by the Group were constantly within the set limits.

Chart 32 – Trend of regulatory liquidity indicators



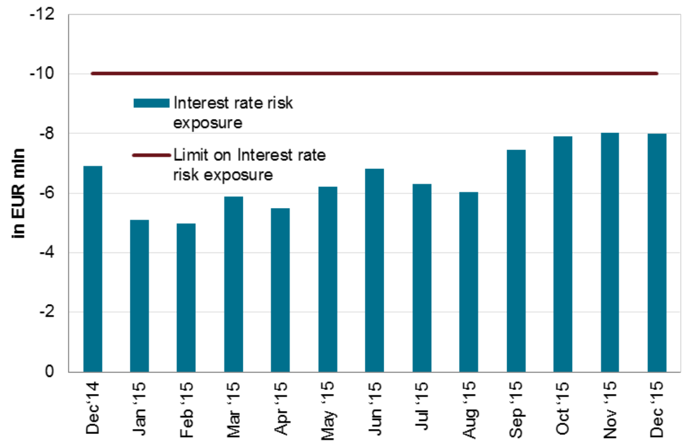
The open foreign exchange position, in compliance with the strategy of the Bank, was on a level significantly below the maximum level prescribed by the regulator.

Chart 33 – Trend of exposure to the foreign exchange risk



The level of the interest rate risk, in terms of sensitivity of net income and economic capital to variations of market rates of return, was also in compliance with the defined limits.

Chart 34 – Trend of exposure to the interest rate risk



Operational Risks

Operational risk management is conducted in compliance with the methodology of the Parent Bank, according to the model supported by adequate IT solutions, which enables regular monitoring, assessment and reporting on operational risks.

Identification, assessment and monitoring of the operational risk is undertaken through the process of collection of data on operational risks/losses and the process of assessment of the exposure to the operational risk. The data on operational risks/losses are analysed on a monthly basis, while the process of assessment of the exposure to the operational risk is undertaken once a year, including a subjective assessment of operational risks for the period of 12 months. Various operational risk scenarios are analysed and the possibility and frequency of occurrence of the operational risk are assessed, as well as the average and the worst possible loss in case of occurrence of each scenario. The process of the operational risk exposure assessment also includes the assessment of the business environment through the analysis of the importance of different factors of the operational risk as well as the internal control quality assessment and the method of established risk factor management.

Based on the database on operational risks/losses and results of such assessment, the Parent Bank calculates, by applying an advanced measurement model, the level of expected and unexpected operational losses, i.e. the level of capital required to cover operational risks.

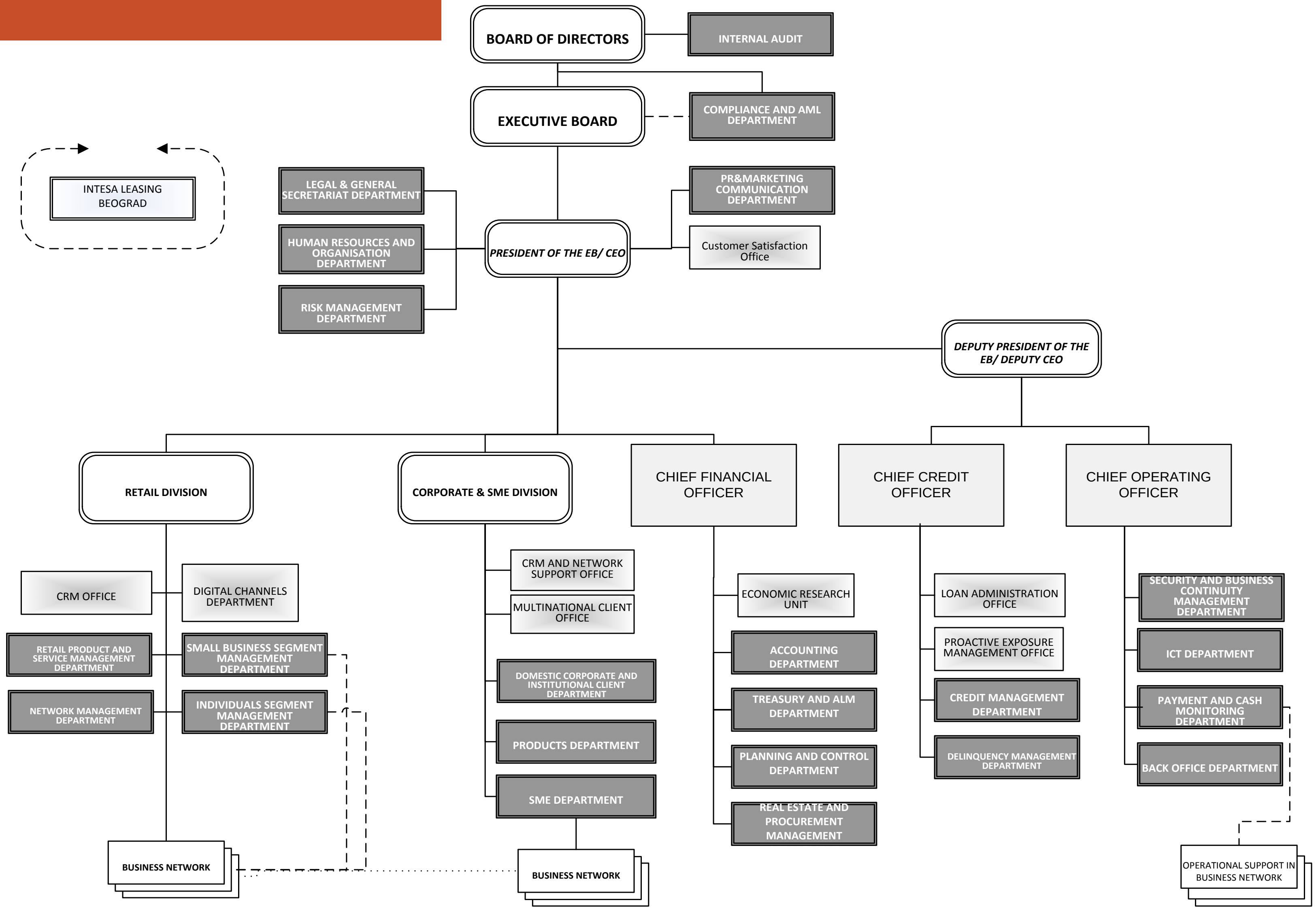
The Bank applies a standardised approach to the measurement of capital requirement for the operational risk. The Risk Management Department regularly reports to the Executive Board, the Board of Directors and the Parent Bank on operational risks and measures for their mitigation.

The level of operational risks in 2015 was somewhat higher than in the previous year. The biggest operational risks appear as a result of errors in the processes of execution and management, but also due to external frauds and abuses. In the assessment of the exposure to the operational risk for 2016, it was determined that the expected and unexpected losses in relation to operational risks are somewhat higher compared to the previous year, but still in line with the Bank size and its business model type.

11. Subsequent Events

There have been no significant events subsequent to the balance sheet date, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2015.

12. Organisational Chart



*In its business operations so far, the Bank has neither established nor has been engaged in business activities through affiliates

13. Branch Network

Location	Name of the branch office	Regional centre	Address
Ada	Ada, Vuka Karadžića 18	Novi Sad	Vuka Karadžića 18
Aleksandrovac	Aleksandrovac, Trg oslobođenja bb	Niš	Trg oslobođenja bb
Aleksinac	Aleksinac, Knjaza Miloša 115	Niš	Knjaza Miloša 115
Apatin	Apatin, Petefi Šandora 2	Novi Sad	Petefi Šandora 2
Aranđelovac,	Aranđelovac, Knjaza Miloša 192	Kragujevac	Knjaza Miloša 192
Arilje	Arilje, Stevana Čolovića 2	Kragujevac	Stevana Čolovića 2
Bačka Palanka	Bačka Palanka, Žarka Zrenjanina 43	Novi Sad	Žarka Zrenjanina 43
Bačka Topola	Bačka Topola, Glavna 29	Novi Sad	Glavna 29
Bački Petrovac	Bački Petrovac, Maršala Tita 4	Novi Sad	Maršala Tita 4
Batajnica	Zemun, Batajnica, Majke Jugovića 1	Beograd	Majke Jugovića 1
Bajina Bašta	Bajina Bašta, Kneza Milana Obrenovića 22	Kragujevac	Kneza Milana Obrenovića 22
Bečej	Bečej, Novosadska 2	Novi Sad	Novosadska 2
Beočin	Beočin, Trg Cara Lazara 8	Novi Sad, Fruškogorska 10	Trg Cara Lazara 8
Beograd	Novi Beograd, Otona Župančića 1	Beograd	Otona Župančića 1
Beograd	Čukarica, Požeška 128	Beograd	Požeška 128
Beograd	Čukarica, Požeška 45	Beograd	Požeška 45
Beograd	Novi Beograd, Milutina Milankovića 134g	Beograd	Milutina Milankovića 134g
Beograd	Novi Beograd, Bulevar Zorana Đinđića 2a	Beograd	Bul. Zorana Đinđića 2a
Beograd	Novi Beograd, Nedeljka Gvozdenovića 24a	Beograd	Nedeljka Gvozdenovića 24a
Beograd	Novi Beograd, Jurija Gagarina 149	Beograd	Jurija Gagarina 149
Beograd	Novi Beograd, Bulevar Arsenija Čarnojevića 54	Beograd	Bul. Arsenija Čarnojevića 54
Beograd	Novi Beograd, Milentija Popovića 7v	Beograd	Milentija Popovića 7v
Beograd	Zvezdara, Bulevar Kralja Aleksandra 240	Beograd	Bulevar Kralja Aleksandra 240
Beograd	Palilula, Marjane Gregoran 60	Beograd	Marjane Gregoran 60
Beograd	Voždovac, Ustanička 69	Beograd	Ustanička 69
Beograd	Zvezdara, Mirijevski venac 23	Beograd	Mirijevski venac 23
Beograd	Voždovac, Kumodraška 174	Beograd	Kumodraška 174
Beograd	Zvezdara, Bulevar Kralja Aleksandra 156	Beograd	Bulevar Kralja Aleksandra 156
Beograd	Vračar, Resavska 1-3	Beograd	Resavska 1-3
Beograd	Stari Grad, Knez Mihailova 30	Beograd	Knez Mihailova 30
Beograd	Stari Grad, Kolarčeva 5	Beograd	Kolarčeva 5
Beograd	Stari Grad, Studentski trg 7	Beograd	Studentski trg 7
Beograd	Stari Grad, Karađorđeva 67	Beograd	Karađorđeva 67
Beograd	Vračar, Bulevar oslobođenja 3	Beograd	Bulevar oslobođenja 3
Beograd	Voždovac, Vojvode Stepe 77	Beograd	Vojvode Stepe 77
Beograd	Vračar, Cara Nikolaja 82-84	Beograd	Cara Nikolaja 82-84
Beograd	Palilula, Ruzveltova 8	Beograd	Ruzveltova 8
Beograd	Rakovica, Vukasovićeva 50a	Beograd	Vukasovićeva 50a
Beograd	Savski Venac, Sarajevska 31	Beograd	Sarajevska 31

Beograd	Savski Venac, Vase Pelagića 48b	Beograd	Vase Pelagića 48b
Beograd	Rakovica, Vidikovački venac 80b	Beograd	Vidikovački venac 80b
Beograd	Novi Beograd, Goce Delčeva 34	Beograd	Goce Delčeva 34
Beograd	Novi Beograd, Partizanske avijacije 14	Beograd	Partizanske avijacije 14
Beograd	Novi Beograd, Omladinskih brigada 90	Beograd	Omladinskih brigada 90
Beograd	Palilula, 27. marta 23	Beograd	27. marta 23
Beograd	Stari Grad, Džordža Vašingtona 8	Beograd	Džordža Vašingtona 8
Beograd	Voždovac, Braće Jerković 137b	Beograd	Braće Jerković 137b
Beograd	Čukarica, Trgovačka 15	Beograd	Trgovačka 15
Beograd	Savski Venac, Nemanjina 4	Beograd	Nemanjina 4
Beograd	Surčin, Vojvođanska 85	Beograd	Vojvođanska 85
Beograd	Novi Beograd, Jurija Gagarina 32	Beograd	Jurija Gagarina 32
Beograd	Palilula, Borča, Ivana Milutinovića 73	Beograd	Ivana Milutinovića 73
Beograd	Stari Grad, Cara Dušana 50	Beograd	Cara Dušana 50
Beograd	Vračar, Kralja Milana 18	Beograd	Kralja Milana 18
Beograd	Voždovac, Banjica, Crnotravska 7-9	Beograd	Crnotravska 7-9
Beograd	Rakovica, Miška Kranjca br.	Beograd	Miška Kranjca br.
Beograd	Novi Beograd, Jurija Gagarina 14	Beograd	Jurija Gagarina 14
Beograd	Savski Venac, Neznanog Junaka 7	Beograd	Neznanog Junaka 7
Beograd	Vračar, Južni Bulevar 84	Beograd	Južni Bulevar 84
Beograd	Vračar, Kursulina 41	Beograd	Kursulina 41
Beograd	Mortgage Office, Goce Delčeva 34	Beograd	Goce Delčeva 34
Beograd	Mortgage Centre, Resavska 1-3	Beograd	Resavska 1-3
Beograd	Mortgage Office, Požeška 128	Beograd	Požeška 128
Beograd	Mortgage Office, Knez Mihajlova 30	Beograd	Knez Mihailova 30
Beograd	Mortgage Office, Studentski Trg 7	Beograd	Studentski trg 7
Bor	Bor, Đorđa Vajferta 3	Niš	Đorđa Vajferta 3
Bogatić	Bogatić, Vojvode Stepe 35	Kragujevac	Vojvode Stepe 35
Brus	Brus, Kralja Petra I bb	Niš	Kralja Petra I bb
Bujanovac	Bujanovac, Karađorđa Petrovića 111	Niš	Karađorđa Petrovića 111
Čačak	Čačak, Kuželjeva 1	Kragujevac	Kuželjeva 1
Ćićevac	Ćićevac, Karađorđeva bb	Niš	Karađorđeva bb
Ćuprija	Ćuprija, Karađorđeva 36	Niš	Karađorđeva 36
Despotovac	Despotovac, Despota Stefana Lazarevića 2	Niš	Despota Stefana Lazarevića 2
Gornji Milanovac	Gornji Milanovac, Karađorđeva 1	Kragujevac	Karađorđeva 1
Inđija	Inđija, Novosadska 21	Novi Sad	Novosadska 21
Ivanjica	Ivanjica, Majora Ilića 1	Kragujevac	Majora Ilića 1
Jagodina	Jagodina, Maksima Gorkog 2	Niš	Maksima Gorkog 2
Kanjiža	Kanjiža, Glavna 3	Novi Sad	Glavna 3
Kikinda	Kikinda, Braće Tatića 16	Novi Sad	Braće Tatića 16
Kladovo	Kladovo, 22. septembra 9	Niš	22.septembra 9
Kostolac	Kostolac, Nikole Tesle 5-7	Niš	Nikole Tesle 5-7
Kovačica	Kovačica, Maršala Tita 31a	Novi Sad	Maršala Tita 31a
Kovin	Kovin, Cara Lazara 73	Novi Sad	Cara Lazara 73
Kragujevac	Kragujevac, Save Kovačevića 12 b	Kragujevac	Save Kovačevića 12 b

Kragujevac	Kragujevac, Kralja Petra I 19	Kragujevac	Kralja Petra I 19
Kragujevac	Kragujevac, Kralja Aleksandra I Karađorđevića 120	Kragujevac	Kralja Aleksandra I Karađorđevića 120
Kraljevo	Kraljevo, Trg Jovana Sarića 8	Kragujevac	Trg Jovana Sarića 8
Kruševac	Kruševac, Mirka Tomića 4	Kragujevac	Mirka Tomića 4
Kruševac	Kruševac, Vece Korčagina 18	Kragujevac	Vece Korčagina 18
Kučevo	Kučevo, Trg Veljka Dugoševića 2	Niš	Trg Veljka Dugoševića 2
Kula	Kula, Maršala Tita 242	Novi Sad	Maršala Tita 242
Lajkovac	Lajkovac, Kralja Petra I 2	Kragujevac	Kralja Petra I 2
Lazarevac	Lazarevac, Karađorđeva 41	Kragujevac	Karađorđeva 41
Leskovac	Leskovac, Trg Revolucije 7	Niš	Trg Revolucije 7
Leskovac	Leskovac, Bulevar oslobođenja 170	Niš	Bulevar oslobođenja 170
Loznica	Loznica, Trg Vuka Karadžića bb	Kragujevac	Trg Vuka Karadžića bb
Ljig	Ljig, Vojvode Mišića 12	Kragujevac	Vojvode Mišića 12
Ljubovija	Ljubovija, Vojvode Mišića 44	Kragujevac	Vojvode Mišića 44
Mionica	Mionica, Dr. Jove Aleksića bb	Kragujevac	Dr. Jove Aleksića bb
Mladenovac	Mladenovac, Kralja Petra I 217	Kragujevac	Kralja Petra I 217
Negotin	Negotin, Trg Đorđa Stanojevića 70/II	Niš	Trg Đorđa Stanojevića 70/II
Niš	Mortgage Centre, Niš, Obrenovićeva 13	Niš	Obrenovićeva br.13
Niš	Niš, Nade Tomić 8a	Niš	Nade Tomić 8a
Niš	Niš, Sinđelićev trg 18	Niš	Sinđelićev trg 18
Niš	Niš, Vizantijski bulevar 78	Niš	Vizantijski bulevar 78
Niš	Niš, Obrenovićeva 82 (Fontana)	Niš	Obrenovićeva 82 (Fontana)
Niš	Niš, Obrenovićeva 13 (Obrenovićeva)	Niš	Obrenovićeva 13 (Obrenovićeva)
Niš	Niš, Bulevar Nemanjića 28-32	Niš	Bulevar Nemanjića 28-32
Novi Kneževac	Novi Kneževac, Kralja Petra I Karađorđevića 29	Novi Sad	Kralja Petra I Karađorđevića 29
Novi Bečej	Novi Bečej, Trg Oslobođenja 5	Novi Sad	Trg Oslobođenja 5
Novi Pazar	Novi Pazar, AVNOJ-a 6	Kragujevac	AVNOJ-a 6
Novi Sad	Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihaila Pupina 4
Novi Sad	Novi Sad, Bulevar Oslobođenja 32	Novi Sad	Bulevar Oslobođenja 32
Novi Sad	Novi Sad, Bulevar Jovana Dučića 1	Novi Sad	Bulevar Jovana Dučića 1
Novi Sad	Novi Sad, Bulevar Cara Lazara 79a	Novi Sad	Bulevar cara Lazara 79a
Novi Sad	Novi Sad, Bulevar Oslobođenja 76a	Novi Sad	Bulevar Oslobođenja 76a
Novi Sad	Novi Sad, Fruškogorska 10	Novi Sad	Fruškogorska 10
Novi Sad	Novi Sad, Rumenačka 33	Novi Sad	Rumenačka 33
Novi Sad	Novi Sad, Zmaj Jovina 15	Novi Sad	Zmaj Jovina 15
Novi Sad	Novi Sad, Narodnog fronta 34	Novi Sad	Narodnog fronta 34
Novi Sad	Novi Sad, Franje Štefanovića 1	Novi Sad	Franje Štefanovića 1
Novi Sad	Novi Sad, Bulevar Oslobođenja 8	Novi Sad	Buleva Oslobođenja 8
Novi Sad	Mortgage Centre,Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihajla Pupina 4
Obrenovac	Obrenovac, Miloša Obrenovića 133-135	Kragujevac	Miloša Obrenovića 133-135
Pančevo	Pančevo, Štrosmajerova 1	Novi Sad	Štrosmajerova 1
Pančevo	Pančevo, Karađorđeva 2-4	Novi Sad	Karađorđeva 2-4
Pančevo	Mortgage Office, Pančevo, Štrosmajerova 1	Novi Sad	Štrosmajerova 1

Paraćin	Paraćin, Kralja Petra I 4	Niš	Kralja Petra I 4
Petrovac na Mlavi	Petrovac na Mlavi, Bate Bulića 37	Niš	Bate Bulića 37
Plandište	Plandište, Hajduk Veljka 16a	Novi Sad	Hajduk Veljka 16a
Pirot	Pirot, Branka Radičevića 18	Niš	Branka Radičevića 18
Požarevac	Požarevac, Trg Radomira Vujovića 8	Niš	Trg Radomira Vujovića 8
Požega	Požega, Knjaza Miloša 6	Kragujevac	Knjaza Miloša 6
Priboj	Priboj, Nemanjina 48-50	Kragujevac	Nemanjina 48-50
Prijepolje	Prijepolje, Sandžačkih brigada 39	Kragujevac	Sandžačkih brigada 39
Prokuplje	Prokuplje, 9. oktobra 6	Niš	9. oktobra 6
Raška	Raška, Miluna Ivanovića 8	Kragujevac	Miluna Ivanovića 8
Ruma	Ruma, Glavna 170	Novi Sad	Glavna 170
Ruma	Ruma, 15. maja 143	Novi Sad	15. maja 143
Sjenica	Sjenica, Milorada Jovanovića bb	Kragujevac	Milorada Jovanovića bb
Smederevo	Smederevo, Cvijićeva 3	Niš	Cvijićeva 3
Smederevska Palanka	Smederevska Palanka, Svetog Save 19	Kragujevac	Svetog Save 19
Sombor	Sombor, Venac Stepe Stepanovića 32	Novi Sad	Venac Stepe Stepanovića 32
Sremska Mitrovica	Sremska Mitrovica, Kralja Petra I 6	Novi Sad	Kralja Petra I 6
Sremska Mitrovica	Sremska Mitrovica, Svetog Dimitrija 2	Novi Sad	Svetog Dimitrija 2
Srbobran	Srbobran, Zmaj Jovina 18	Novi Sad	Zmaj Jovina 18
Senta	Senta, Zlatne grede 6	Novi Sad	Zladne grede 6
Stara Pazova	Stara Pazova, Ćirila i Metodija 2	Novi Sad	Ćirila i Metodija 2
Subotica	Subotica, Dimitrija Tucovića 2	Novi Sad	Dimitrija Tucovića 2
Subotica	Subotica, Štrosmajerova 6	Novi Sad	Štrosmajerova 6
Surdulica	Surdulica, Ulica Kralja Petra I bb	Niš	Kralja Petra I bb
Svilajnac	Svilajnac, Svetog Save 52	Niš	Svetog Save 52
Šabac	Šabac, Gospodar Jevremova 44	Kragujevac	Gospodar Jevremova 44
Šid	Šid, Karađorđeva 11-13	Novi Sad	Karađorđeva 11-13
Temerin	Temerin, Novosadska 403	Novi Sad	Novosadska 403
Titel	Titel, Mihajla Krestića 8a	Novi Sad	Mihaila Krestića 8a
Topola	Topola, Tomislava Karađorđevića 3	Kragujevac	Tomislava Karađorđevića 3
Trstenik	Trstenik, Cara Dušana bb	Kragujevac	Cara Dušana bb
Ub	Ub, Kralja Petra I 44	Kragujevac	Kralja Petra I 44
Užice	Užice, Dimitrija Tucovića 129	Kragujevac	Dimitrija Tucovića 129
Valjevo	Valjevo, Karađorđeva 71	Kragujevac	Karađorđeva 71
Valjevo	Valjevo, Železnička 7	Kragujevac	Železnička 7
Velika Plana	Velika Plana, Momira Gajića br 2	Kragujevac	Momira Gajića br 2
Veliko Gradište	Veliko Gradište, Kneza Lazara 35	Niš	Kneza Lazara 35
Veternik	Veternik, Kralja Petra I 7a	Novi Sad	Kralja Petra I 7a
Vladičin Han	Vladičin Han, Svetosavska 16a	Niš	Svetosavska 16a
Vlasotince	Vlasotince, Nemanjina 2	Niš	Nemanjina 2
Vranje	Vranje, Lenjinova bb	Niš	Lenjinova bb
Vrbas	Vrbas, Maršala Tita 66	Novi Sad	Maršala Tita 66
Vrnjačka Banja	Vrnjačka Banja, Kruševačka 1	Kragujevac	Kruševačka 1
Vršac	Vršac, Sterijina 19a	Novi Sad	Sterijina 19a

Zaječar	Zaječar, Nikole Pašića 70	Niš	Nikole Pašića 70
Zemun	Zemun, Glavna 30	Beograd	Glavna 30
Zemun	Zemun, Gornjogradska 38	Beograd	Gornjogradska 38
Zlatibor	Zlatibor, Jezero bb	Kragujevac	Jezero bb
Zrenjanin	Zrenjanin, Kralja Aleksandra I Karađorđevića bb	Novi Sad	Kralja Aleksandra I Karađorđevića bb
Zrenjanin	Zrenjanin, Bulevar Veljka Vlahovića bb	Novi Sad	Bul. Veljka Vlahovića bb, TC "Bagljaš" lok.12
Žabalj	Žabalj, Nikole Tesle 47	Novi Sad	Nikole Tesle 47